Luenthai

Luen Thai Holdings Limited

聯泰控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

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

Annual Report 2007

CONTENTS

CORPORATE INFORMATION	2
BUSINESS PROFILE	3
KEY FINANCIAL HIGHLIGHTS	4
2007 EVENTS HIGHLIGHTS	6
CHAIRMAN'S STATEMENT	7
MANAGEMENT DISCUSSION AND ANALYSIS	9
MANAGEMENT EXECUTIVES	13
REPORT OF THE DIRECTORS	17
CORPORATE GOVERNANCE REPORT	29
INDEPENDENT AUDITOR'S REPORT	35
CONSOLIDATED BALANCE SHEET	37
BALANCE SHEET	39
CONSOLIDATED INCOME STATEMENT	40
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	41
CONSOLIDATED CASH FLOW STATEMENT	43
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	44
FINANCIAL SUMMARY	104

CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Dr. TAN Siu Lin, *Chairman*
TAN Henry, *Chief Executive Officer and President*
TAN Cho Lung Raymond, *Chief Manufacturing Officer*
MOK Siu Wan Anne, *Chief Merchandizing Officer*
TAN Sunny, *Chief Financial Officer*

NON-EXECUTIVE DIRECTORS

TAN Willie
LU Chin Chu

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie

COMPANY SECRETARY

CHIU Chi Cheung

REGISTERED OFFICE

Cricket Square, Hutchins Drive,
P.O. Box 2681, Grand Cayman
KY1–1111, Cayman Islands

PRINCIPAL PLACE OF BUSINESS

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

WEBSITE

http://www.luenthai.com

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

PRINCIPAL BANKERS

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

AUDITOR

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

LEGAL ADVISORS

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

BUSINESS PROFILE

Luen Thai Holdings Limited (the "Company") together with its subsidiaries (collectively, "Luen Thai" or the "Group") is one of the leading apparel manufacturing and supply chain services providers worldwide. We have close partnership with brands and retailers globally, which include adidas, Dillard's, Espirit, Fast Retailing, Limited Brands and Polo Ralph Lauren among others. We produce approximately 77 million pieces of garments annually with products ranging from casual wear, ladies' wear (career, intimate and fashion wear), sports and activewear, sweaters, outerwear, denimwear and children's wear.

As a total apparel manufacturing and services group, Luen Thai has developed a business model "design-to-store" ("D2S") providing a one-stop shop supply chain platform for partnership, including design and development, materials management, production and logistics. D2S answers our customers' needs for a wide range of products and services, and faster response at a competitive cost, making it the right business model in today's apparel industry. Through D2S, Luen Thai can offer speed-to-market solutions that will help our customers improve their supply chain through shortening total lead time, lowering of total sourcing costs and reducing retail mark-down.

In 2007, Luen Thai has launched its lean initiative in the Dongguan Supply Chain City through Project Add+. This project aims to implement the concept of lean manufacturing in the organization and extending it beyond the production floor to include all levels of the business operation. Ultimately, Project Add+ will enable Luen Thai to build a lean supply chain with its customers.

Unlike traditional apparel manufacturers focusing mostly on production, Luen Thai offers a hybrid model of multi-product manufacturing and outsourcing. First of its kind in the industry, Luen Thai set up its first Supply Chain City in Dongguan, People's Republic of China ("China") with dedicated development centers allowing customers to work with our team in all phases of the supply chain process. Along with our customers, Luen Thai has been committed to compliance to corporate social responsibilities.

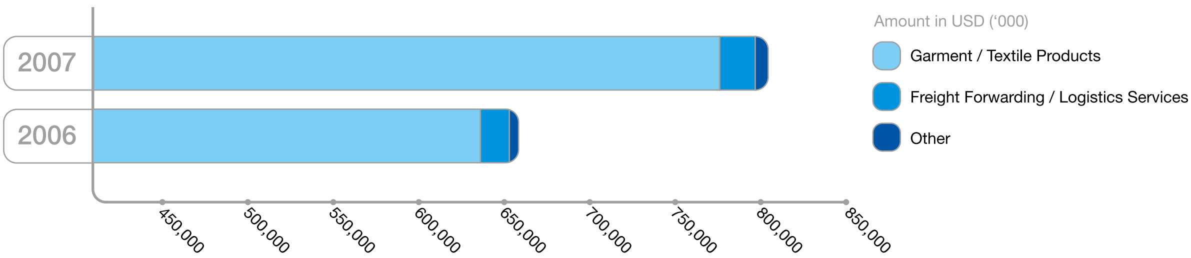
Headquartered in Hong Kong, Luen Thai has production and outsourcing partner facilities in China, the Philippines, Indonesia, India and Bangladesh. Our sales, design and logistics offices are located in Asia Pacific, the United States and Europe. With annual revenue of approximately US$801 million, Luen Thai employs over 20,000 people worldwide.

KEY FINANCIAL HIGHLIGHTS

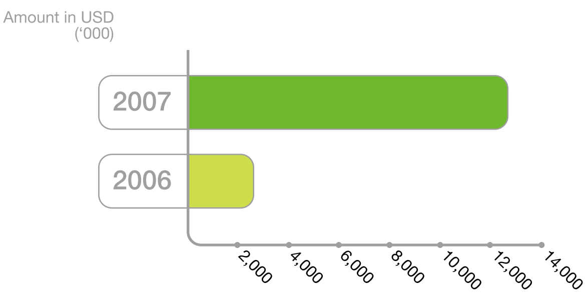
	2007 US$'000	2006 US$'000
Revenue	**800,877**	661,836
Gross Profit	**154,895**	124,271
As a percentage of revenue	**19.3%**	18.8%
Operating Profit	**23,995**	13,533
As a percentage of revenue	**3%**	2.0%
Profit Attributable to the Equity Holders of the Company	**12,515**	2,509
As a percentage of revenue	**1.6%**	0.4%
Earnings Per Share	**US1.3 cent**	US0.3 cent
Dividend Per Share		
— Final	**US0.174 cent**	Nil
— Interim	**US0.205 cent**	US0.186 cent
Capital and Reserves Attributable to the Equity Holders of the Company	**220,286**	198,731

KEY FINANCIAL HIGHLIGHTS

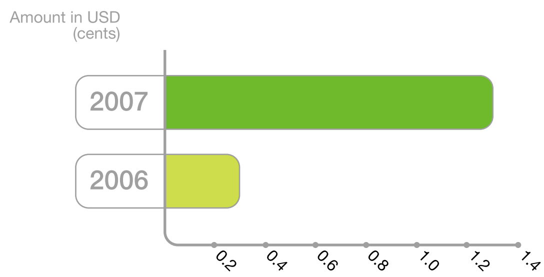
REVENUE



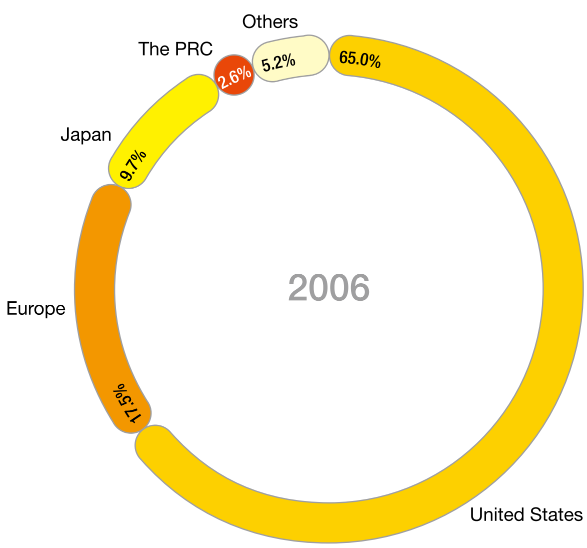
PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

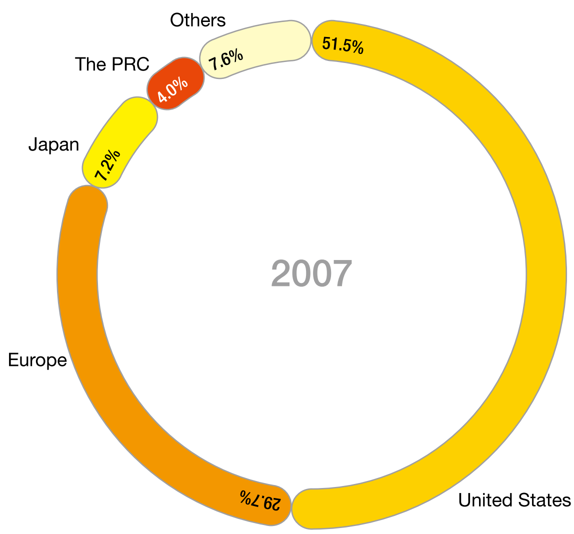


EARNINGS PER SHARE



SALES BY GEOGRAPHICAL SEGMENTS





2007 EVENTS HIGHLIGHTS

January

- L&T International Group Phils., Inc has been named Employer of the Year during the Clark Investors and Locators Association's (CILA) 11th anniversary and induction ceremony. The award aims to recognize the CILA member which has the best practices on employee care. This award also recognizes outstanding people management initiatives that made a difference to the business.

March

- Launched the lean initiative in Dongguan Supply Chain City through Project Add+. The project aims to implement the concept of lean manufacturing in the organization and extending it beyond the production floor to include all levels of the business operation. Ultimately, Project Add+ will enable Luen Thai to build a lean supply chain with its customer.

April

- Luen Thai exercised the option to purchase additional 10% equity interest in On Time International Limited which, through its subsidiaries, is principally engaged in the design, sourcing and distribution of garments and other textile products worldwide. The acquisition is expected to further enhance Luen Thai's design capabilities and bring in more European business to the Group.

June

- Kicked off "green" priority via a World Environment Day Celebration in Dongguan Supply Chain City. Two more green activities followed during the year with "Clean Our Park Day" held in September and formation of employees' "Green Club" in December. Through these events, the Company is reaffirming its commitment to responsible environmental practices. As a recognized leader in the apparel industry, the Company also wants to set the pace in promoting environmental awareness and protection.

September

- Luen Thai's model facility for lean manufacturing in Dongguan, China formally opened on 19 September 2007. Serving as the model lean manufacturing facility is the Yuen Thai Industrial Company Ltd. (YTI), a sports-activewear manufacturing division of Luen Thai, and it will become the pioneer of the lean manufacturing of the Company in future.

CHAIRMAN'S STATEMENT

I am pleased to report that the Group achieved another year of record high revenue in 2007 of approximately US$800,877,000. This represents a compound growth rate of 13.1% since the Group was listed on the main board of the Hong Kong Stock Exchange on 15 July 2004. The Company achieved a profit attributable to equity holders of approximately US$12,515,000 in 2007 representing a 399% increase from 2006 despite the increasing operating costs due to the appreciation of Chinese Yuan (or "RMB") and Philippine Peso, reduction of VAT refund rate and the implementation of minimum wage in the mainland China. The Group believes, however, that these increasing operating costs will speed up the industry consolidation and Luen Thai will become one of the ultimate beneficiaries.

We saw the growth in revenue and profit due mainly to the businesses acquired in the past few years as the performance of our Fashion Division, Sweater Division and On Time Group were very good in 2007. This also shows that the Group's value-enhancing merger and acquisition ("M&A") strategy is in the right direction. Our core business which has been under various external and internal pressure is regaining momentum as it is being integrated into the performing businesses for better management and synergy.

With the increasing operation costs in mind, the Group downsized certain operations through the elimination of non-performing accounts and facilities, breaking down of businesses with better leveraging of resources and greater accountability and transparency. In addition, the Group has been implementing certain cost-cutting initiatives, including lean manufacturing concepts to reduce wastage and increase efficiency at production level.

Luen Thai's business model is a comprehensive apparel supply chain process, embracing both upstream and downstream elements to provide customers with an end-to-end value proposition — from design support all the way to logistics and distribution. It aids the Group in achieving its ultimate goal to better serve its customers through shorter lead time and value-added services in all aspects of the supply chain. The overall supply chain efficiency, product diversity and outsourcing capabilities are the critical success factors in the industry where customers continue to consolidate vendor numbers as well as countries of sourcing. We shall continue to broaden our product categories and strengthen our production and sourcing capabilities in different countries to become the best diversified OEM manufacturer.

FUTURE PLANS AND PROSPECTS

Looking ahead, the Group shall continue its M&A strategies as one of our core competencies while strengthening the operational efficiency of our existing business units. With the success of our M&As in the past, the Group will continue to look for value-enhancing M&A opportunities with a view to further diversifying its geographical risk among the USA, Europe and Asia and expanding its product range.

On 28 March 2008, the Company sent to all its shareholders a circular in relation to the conversion of land use of a piece of land in Qingyuan, the PRC from industrial to commercial/residential. After such conversion, the Company has engaged external professional consultants to actively work on various feasibility studies as to the potential development of this piece of land with a view to maximizing our shareholders' value.

CORPORATE GOVERNANCE

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

APPRECIATION

On behalf of the Group, I would like to express my sincere appreciation to all our customers, vendor partners, and shareholders for their support. Also, I would like to thank all our employees for their commitment and hard work. None of the Group's achievements could have been possible without them. Finally, I am grateful to my fellow Board members and the senior management for their cooperation and countless contributions to the Group.

TAN Siu Lin
Chairman
Hong Kong, 17 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS REVIEW

Revenue of the Group recorded for the year ended 31 December 2007 increased by 21% to approximately US$800,877,000 when compared to US$661,836,000 for the previous year. The increase was mainly attributable to the good performance of the Group's businesses acquired in the past few years. Acquisition and customer partnerships with the right business model have proven to be the important growth driver for the Group. The Group has gained certain important customers in the past two years and the Group's top ten customers in 2007 (in alphabetical order) include adidas, Ann Taylor, Dillard's, Espirit, Fast Retailing, GAP, Limited Brands, Liz Claiborne, Nike and Polo Ralph Lauren.

Luen Thai's overall gross profit for 2007 was approximately US$154,895,000 as compared to US$124,271,000 in 2006. The overall gross profit margin in 2007 was approximately 19.3% as compared to approximately 18.8% in 2006. The Group's operating profit for 2007 was approximately US$23,995,000, representing an increase of approximately 77.3% over the Group's operating profit for 2006. The profit before tax in 2007 also increased from approximately US$10,044,000 to approximately US$24,613,000. These results were attributable to the Group's success in certain costs-cutting initiatives and the downsizing through elimination of non-profitable accounts and non-performing facilities.

The profit attributable to the equity holders of the Company for the year ended 31 December 2007 was US$12,515,000 representing a 399% increase over that recorded for 2006.

The Group's freight forwarding and logistics services recorded a revenue of approximately US$17,261,000 in 2007, representing an increase of 25.2% over that recorded for 2006.

The Fashion Division, comprising GJM/Tellas and Tomwell continues to be the key profit driver for Luen Thai with record revenue and profit in 2007. It has consistently increased its market share on existing and new customers, with particular success in the department store sector in both the USA and UK markets.

The Sweater Division, Tien-Hu, continued its good performance in 2007 with record revenue. The integration process has been very smooth and it has been able to leverage the Group's other outsourcing platforms to reduce its reliance on mainland China.

The Sports Active Wear Division had its first profitable year in 2007. This also shows the end of the start-up period for this Division. The Group expects that this Division will further benefit from the Beijing Olympics in 2008.

On Time Group is another division with good performance in 2007. With its success in the European market, the On Time Group will actively pursue opportunities in other countries to leverage the cross-selling opportunities.

GEOGRAPHICAL REVIEW

The US market was still the Group's key export market in 2007 which accounted for approximately 51.5% of the Group's total revenue. This percentage, however, has been gradually reducing from 74.3% since the Group's listing on the Stock Exchange in 2004. This reflects our success in geographical diversification to reduce the Group's over reliance on one single market.

Europe continued to be the second largest export market of the Group in 2007 but it was also the fastest growing market in the same year. Europe accounted for approximately 29.7% of the Group's total revenue in 2007 representing an approximately 105.4% growth over that recorded for 2006. This strong performance was attributable to our organic growth into the market together with our success in acquisitions.

The PRC market is another fast growing market which accounted for approximately 4% of the Group's total revenue. This growth was mainly attributable to the Group's active participation in the mainland China's retail market in 2007.

On the production side, the Group had also diversified its production bases/outsourcing platforms to reduce its over reliance on mainland China. The mainland China, the Philippines, Indonesia, India and Bangladesh were the Group's major production bases/outsourcing platforms in 2007.

The Group shall continue to further diversify its customer and production bases/outsourcing platforms through organic growth and value-enhancing acquisitions.

ACQUISITIONS AND JOINT VENTURES

It is the Group's strategy to strengthen its apparel manufacturing and supply chain capabilities by way of selective value-enhancing acquisitions and joint ventures, which have proven to be an important part of the Group's growth strategy.

As disclosed in the 2006 annual report, the Group entered into a 50%-50% joint venture agreement with Guangzhou Huasheng Garment Company Limited on 5 January 2007, to establish Guangzhou Thai Ying Garment Company Limited ("Thai Ying"). Thai Ying has enhanced Luen Thai's manufacturing capabilities for active wear, more particularly for outerwear jackets, and provided lower cost sample-making support to the Group.

In May 2007, Luen Thai acquired a further 10% equity stake in On Time together with its subsidiaries (the "Acquisition"), which made On Time a 60% subsidiary of the Group. Details of the Acquisition were more particularly described in the Company's circular dated 14 May 2007. On Time, through its subsidiaries, is principally engaged in the design, sourcing and distribution of garments and other textile products on a worldwide basis. The acquisition of On Time has further enhanced Luen Thai's design capabilities, which along with its outsourcing production scale, has proven to be a value enhancing acquisition to the Group.

In August 2007, Luen Thai acquired a further 19% equity stake in Partner Joy together with its subsidiaries which made Partner Joy a 90% subsidiary of the Group. Details of this increase in equity stake were more particularly described in the Company's circular dated 24 August 2007.

The Group will continue to identify other acquisition and joint venture opportunities in other relatively low cost countries/regions including some remote provinces of mainland China.

INVESTOR RELATIONS AND COMMUNICATIONS

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

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

FINANCIAL RESULTS AND LIQUIDITY

As at 31 December 2007, the total amount of cash and bank balances of the Group was approximately US$96,668,000, representing a decrease of approximately US$10,408,000 as compared to 31 December 2006. The Group's total bank borrowings at 31 December 2007 was approximately US$52,158,000, representing a decrease of approximately 24.9% as compared to approximately US$69,434,000 at 31 December 2006.

As at 31 December 2007, the maturity profile of the Group's bank borrowings spread over five years with approximately US$18,408,000 repayable within one year or on demand, approximately US$4,500,000 in the second year, approximately US$13,500,000 in the third to fifth year, and approximately US$15,750,000 in more than five years.

Gearing ratio is defined as net debt (represented by bank borrowings net of cash and bank balances) divided by the capital and reserves attributable to the equity holders of the Company. As at 31 December 2007, the Group is in a net cash position. Hence, no gearing ratio is presented.

FOREIGN EXCHANGE RISK MANAGEMENT

The Group adopts a prudent policy to hedge against the fluctuations in exchange rates. Most of the Group's operating activities are denominated in US dollar, Hong Kong dollar, Chinese Yuan, Philippine Peso and Euro. For those activities denominated in other currencies, the Group may enter into forward contracts to hedge its receivables and payables denominated in foreign currencies against the exchange rate fluctuations.

CONTINGENT LIABILITIES AND OFF-BALANCE SHEET OBLIGATIONS

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

HUMAN RESOURCES, SOCIAL RESPONSIBILITIES, AND CORPORATE CITIZENSHIP

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

Our corporate values, which center on meeting our customers' needs, help thousands of Luen Thai employees to move in one direction — to achieve our vision of becoming the best apparel supply chain services partner in the world. To do this, Luen Thai opens its communication channels and engages its employees.

With more than 20,000 employees around the world, Luen Thai continuously strives to provide the best employee care. In addition to providing a safe workplace, Luen Thai has established world class and convenient living environments, and places great emphasis on work-life balance and wellness.

Opportunities for growth and maximizing career potentials are also provided within the organization through regular and formal learning programs together with structured on-the-job trainings for all levels of the organization.

Luen Thai also has a long-standing commitment to diversity as demonstrated by its multi-cultural workforce. This commitment to fairness is also shown through equitable compensation and benefit schemes. Employees' contributions are valued, recognized and rewarded.

Corporate Social Responsibility

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

Luen Thai rallies its employees in caring for the environment through numerous "go green" programs and initiatives across its global operations.

Our management takes the lead in such initiatives through its support and donations to educational institutions such as Quanzhou Normal University in China and charitable organizations such as Po Leung Kuk and Community Chest of Hong Kong.

Awards

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

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

MANAGEMENT EXECUTIVES

EXECUTIVE DIRECTORS

Dr. TAN Siu Lin, aged 77, is the founder and Chairman of the Group. Dr. Tan is also the Chairman of Luen Thai Centre for Supply Chain System Research and Development at Peking University, the PRC, and the Chairman of TSL School of Business and Information Technology in Quanzhou Normal University (泉州師範學院陳守仁工商信息學院). Dr. Tan is a board member of the Shaw College at the Chinese University of Hong Kong and the Vice-Chairman of the Huaqiao University (華僑大學) as well as the honorable president of the Hong Kong General Chamber of Textiles Limited. Dr. Tan holds an honorary Doctoral of Laws degree from the University of Guam.

TAN Henry, BBS, aged 54, is the Chief Executive Officer and President of the Group and son of Dr. TAN Siu Lin. Mr. Tan is also a member of the Remuneration Committee and the Bank Facility Committee. Mr. Tan joined the Group in January 1985 and has over 23 years of experience in apparel and logistics industries. Mr. Tan is the Chairman of the Hong Kong General Chamber of Textiles Limited and is also an independent non-executive director of Kingboard Chemical Holdings Limited. Mr. Tan also acts as committee member of the Chinese People's Political Consultative Conference in Fujian (中國人民政治協商會議福建省委員會委員). Mr. Tan is a past Chairman of Po Leung Kuk, an authorized charity organization in Hong Kong. Mr. Tan also was recently elected as one of the members of the Election Committee in Hong Kong, who were given the mandate to choose the territory's new Chief Executive in March 2007. Mr. Tan obtained his Master's degree in Business Administration and Bachelor's degree in Business Administration from the University of Guam.

TAN Cho Lung, Raymond, aged 46, is the President and Chief Manufacturing Officer of Luen Thai International Group Limited and son of Dr. Tan Siu Lin. Mr. Tan joined the Group in 1989 and has over 18 years of experience in the industry. Mr. Tan is a member of the advisory board of the Textile Projects Vetting Committee for the Innovation and Technology Fund of Hong Kong. Mr. Tan was the recipient of the Young Industrialist Award of Hong Kong and the DHL/SCMP Owner-Operator award for 2003. Mr. Tan graduated with a Bachelor's degree in Business Administration from the University of Guam.

MOK Siu Wan, Anne, aged 55, is the President and Chief Merchandizing Officer of Luen Thai International Group Limited and the Managing Director of Fashion Division. Ms. Mok is an accomplished industry professional with years of experience in key executive and board member positions out of which over 21 years were spent within various management positions within the Swire Group Companies. Ms. Mok also held senior management positions with other large companies including Pentland Group plc, an international group which develops and owns some leading brands in the sports and fashion business, and Li & Fung Limited. Ms. Mok graduated with a Bachelor's degree in Arts from the University of Hong Kong and has attended the management programmes organized by Harvard University, Tsinghua University and INSEAD Euro-Asia Centre. Ms. Mok was a member of the Board of Governors for the American Chamber of Commerce in Hong Kong from 1998 to 2003 and the Chairman of the Textiles Committee for the American Chamber of Commerce in Hong Kong in 1996 and 1997. Ms. Mok joined the Group in 2003.

TAN Sunny, aged 34, is the Chief Financial Officer of the Group and son of Dr. TAN Siu Lin. Mr. Tan joined the Group in 1999. Prior to joining the Group, Mr. Tan worked at the investment banking division of Merill Lynch. In 2006, he was appointed as the Vice Chairman of the Hong Kong General Chamber of Textiles Limited and a special advisor to the Governor of Commonwealth of the Northern Mariana Islands. Mr. Tan obtained a Master of Science degree from Stanford University and Bachelor of Business Administration degree from the University of Wisconsin-Madison.

NON-EXECUTIVE DIRECTORS

TAN Willie, aged 52, is the Chief Executive Officer of the privately held businesses of the Tan Family namely Luen Thai Enterprises and Tan Holdings Corporation. Mr. Tan is the son of Dr. Tan Siu Lin and joined the apparel division in 1985 and has held the positions of Executive Vice President and later on Chief Operating Officer prior to his appointment to lead the privately held businesses. Mr. Tan has almost 25 years experience in business management in various disciplines including apparel and footwear manufacturing, fishing, logistics including cargo airline and shipping, wholesale and retail operations, hotel, travel and tours, insurance, financial and health care services. Mr. Tan obtained his Bachelor's Degree in Business Administration from the University of Guam. He is currently the External Vice President of the Philippine-China Business Council, Chairman of the Confederation of Garment Exporters of the Philippines, a member of China's Chinese People's Political Consultative Conference in Qingyuan, Guangdong (中國人民政治協商會議廣東省清遠市委員會委員) and a director for Quanzhou City Global Youth Federation. In November 2007, Mr. Tan was appointed Honorary Ambassador-at-Large for Guam, USA.

LU Chin Chu, aged 53, is an executive director and also the General Manager of one of the three manufacturing groups of Yue Yuen Industrial (Holdings) Limited, a company listed on The Stock Exchange of Hong Kong Limited and is considered a substantial shareholder of the Company under the Rules Governing the Listing of Securities on the Stock Exchange. Additionally, he is currently a director of San Fang Chemical Industry Co. Ltd., Global Brands Manufacture Limited and Evermore Chemical Industry Co. Ltd., companies being listed on the Taiwan Stock Exchange and the Gre Tai Securities Market in Taiwan respectively. Mr. Lu also holds several directorships in certain private companies established in Taiwan, Hong Kong, mainland China, the United States, Bermuda and the British Virgin Islands, which are engaged primarily in investment holding, production and marketing of non-apparel products, except for Yuen Thai Industrial Company Limited, a joint venture company established between Yue Yuen and the Group in 2004 to develop active wear business. Mr. Lu is an accomplished industry professional with over 30 years of experience in the manufacturing of footwear and related components. He joined the Group in 2007.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Henry, aged 42, is a member of both the Audit Committee and the Remuneration Committee. Mr. Chan has over 20 years of experience in the financial market and is the Managing Director of Sanfull Securities Limited. He was a Director of The Stock Exchange of Hong Kong Limited. Mr. Chan is currently a member of the Advisory Committee of the Securities and Futures Commission, the Permanent Honorary President of Hong Kong Stockbrokers Association Limited, an independent non-executive director of Hengan International Group Company Limited, a company listed on the Main Board of the Stock Exchange which engages in the manufacture and distribution of personal hygiene products. Mr. Chan is also a committee member of the Chinese People's Political Consultative Conference in Xiamen, Fujian Province, China. Mr. Chan obtained his Master's degree in Business Administration from Asia International Open University (Macau) and his Bachelor's degree in Arts from Carleton University in Canada. He joined the Group in 2004.

CHEUNG Siu Kee, aged 64, is a member of both the Audit Committee and the Remuneration Committee. Mr. Cheung has extensive experience in the financial industry. Mr. Cheung was the Group Treasurer of Nam Tai Electronics, Inc. from 2004 to 2005. Mr. Cheung had also worked for the Hongkong and Shanghai Banking Corporation Limited in Hong Kong for 37 years when he retired in 2003 as a Senior Executive in the Corporate and Institutional Banking division. Mr. Cheung obtained his Bachelor's degree in Arts from the University of Hong Kong. He joined the Group in 2004.

SEING Nea Yie, aged 60, is the Chairman of both the Audit Committee and the Remuneration Committee. Mr. Seing is the senior partner of both accounting firms Messrs. Chan, Seing & Co. and Messrs. Chen Yih Kuen & Co. Certified Public Accountants (Practising). Mr. Seing has over 33 years of audit experience and is currently holding CPA (Practising) at Hong Kong Institute of Certified Public Accountants. Mr. Seing is an active contributor to the charity activities in the community. He was the Director of Po Leung Kuk, an authorized charity organization in Hong Kong, from 1987 to 1990 and became the Vice Chairman in 1990 and 1991. Mr. Seing was also a member of audit committee of Po Leung Kuk from 1996 to 2000. Currently, Mr. Seing is the honorary president of The Fukienese Association Limited. He joined the Group in January 2005.

SENIOR MANAGEMENT

CHAN Wei Ben, Benny, aged 55, is the Senior Vice President of Textile Division. Mr. Chan is responsible for the overall management of the operation of the end-to-end process of the textile business. Mr. Chan joined the Group in 1980.

CHOI Suk Yan, Belinda, aged 59, is the Group Finance Controller and Treasurer. Ms. Choi has over 33 years of experience in various areas of the apparel manufacture industry with over 22 years of experience in financial management. She joined the Group in 1967.

DILCOCK, Victoria Anne Theresa, aged 53 is the Senior Vice President for Manufacturing for YTI and Luen Thai. Ms. Dilcock joined the Group in 2003 and has over 35 years of expertise in product development, technical process management and manufacturing gained from top garment and textile companies in the United Kingdom, Morocco, and China. Prior to joining the Group, she held key executive positions with Sara Lee Courtaulds, Claremont Garments Ltd. and Brentwood Clothing Ltd (Stirling Group) among other companies based in the United Kingdom, Morocco, and China. She attended courses on Engineering, GSD, Work Study and Ergonomics at Eriksson's Management Consultancy in the UK.

HELFENBEIN Richard A., aged 59, is the President of Luen Thai USA. Mr. Helfenbein has extensive experience in the industry in key executive positions with Crystal Brands Inc., as the President of Izod/Lacoste Youthwear and as the Managing Director of Apparel Services at Burlington Industries, Inc.. He has been with the Group since 1999. Mr. Helfenbein had served for many years on the Board of Trustees of Blythedale Children's Hospital in New York, and is currently a Board Member of American Apparel and Footwear Association, the highly prestigious national trade organization in the United States of apparel, footwear, and other sewn products companies, and their suppliers. Mr. Helfenbein received a degree in Bachelor of Science in Economics from the Wharton Business School at the University of Pennsylvania and often lectures at Industry Events and prestigious universities in the USA on the subjects of Supply Chain Management and International Trade.

Dr. ROMAGNA John, aged 62, is the Senior Vice President of Supply Chain Processes and Systems Division. Dr. Romagna joined the Group in 1997 and has over 27 years of business strategy, and process analysis and reengineering experience leveraging information technology. He has been a consultant on major projects for various organizations and companies including Huawei Technology; engineering divisions of Toshiba, Fujitec, and Mitsubishi; Macau Telephone; GTE; Adventis; Gammon Construction; the Hong Kong Department of Industry; the Hong Kong Construction Association; various divisions of U.S. government; and the World Bank, among others. Dr. Romagna holds a PhD from Columbia University and did post-doctoral work at Princeton University in systems analysis and policy analysis. He is the author of a book on Quality Management Systems published by the Chinese Manufacturer's Association of Hong Kong, and co-editor and author of a book on Supply Chain Management Practices published by Peking University Press.

SAUCEDA JR Francisco, aged 49, is the Executive Vice President of Corporate Services and Development for Luen Thai International Group and President of Luen Thai Philippines. He has been with the Group since 1994. Prior to joining the Group, Mr. Sauceda was an executive in a top fine jewellery retailer in the United States. Mr. Sauceda obtained his Bachelor's degree in Business Administration from Texas Southmost College, University of Texas. He is a member of Worldwide ERC and Asia-Pacific Committee for global workforce and mobility; Hong Kong Chamber of Commerce Manpower Committee; and The American Chamber of Commerce.

MANAGEMENT EXECUTIVES

TAN Cho Yee, Jerry, aged 46, is the Chief Executive Officer of CTSI Logistics, responsible for the worldwide logistics business of the Group. Mr. Tan is the son of Dr. TAN Siu Lin and he joined the Group in 1989. Mr. Tan has over 18 years of experience in logistics operations. Mr. Tan is the Chairman of the Mariana Visitor's Authority of CNMI and the President of the Northern Mariana Islands Football Association. Also, Mr. Tan currently sits on the board of the American Red Cross Northern Mariana Islands Chapter, Strategic Economic Development Council of the Commonwealth of Northern Mariana Islands and Northern Marianas College Foundation. In 2003, Mr. Tan was awarded Business Person of the Year by Saipan Chamber of Commerce. In 2004, Mr. Tan was named Employer of the Year by the CNMI Chapter of the Society for Human Resources Management. Mr. Tan obtained a degree in Bachelor of Business Administration from the University of Guam.

WONG, Sammy, aged 51, is the Managing Director of Tien-Hu Trading (Hong Kong) Limited and Tien-Hu Knitting Factory (Hong Kong) Limited. Mr. Wong joined Tien-Hu in 1981 and has over 27 years of experience in sweater business. Mr. Wong obtained a Diploma in Architectural and Environmental Design and is an Associate of the Ontario College of Arts in Canada.

WONG, Wallace, aged 49, is the Managing Director of Tien-Hu Knitters Limited. Mr. Wong joined Tien-Hu in 1983 and has over 25 years of solid business expertise in the sweater knitting and trading areas. Mr. Wong holds a Bachelor's degree in Marketing from the University of Texas, USA.

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

CHIU Chi Cheung, aged 44, is the Corporate Finance Director, Company Secretary and Qualified Accountant of the Company. Mr. Chiu has over 15 years of experience in the field of auditing and accounting. He joined the Group in 2002. He was an auditing manager of an international auditing firm. Mr. Chiu is a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants. Mr. Chiu holds a Bachelor of Business Administration degree from the University of Hong Kong.

REPORT OF THE DIRECTORS

The board of directors of Luen Thai Holdings Limited (the “Directors”) has the pleasure in presenting to the shareholders this annual report together with the audited financial statements of Luen Thai Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

GROUP PROFIT

The consolidated income statement is set out on page 40 and shows the Group’s profit for the year ended 31 December 2007. A discussion and analysis of the Group’s performance during the year and the material factors underlying its results and financial position are provided on pages 9 to 12 of the annual report.

DIVIDENDS

An interim dividend of US0.205 cent per share was paid to the shareholders during the year totaling to approximately US$2,035,000 and the Directors recommend the payment of a final dividend of US0.174 cent per share to the shareholders on the register of members of 28 May 2008 totaling to approximately US$1,727,000.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Company and the Group as at 31 December 2007 are set out in notes 9 to 11 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 16 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the financial statements.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company available for distribution as dividends amounted to approximately US$191,030,000 as at 31 December 2007, comprising retained earnings of approximately US$2,468,000, a share premium of approximately US$116,998,000 and a capital reserve amounting to approximately US$71,564,000. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the capital reserve account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 104 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately US$13,695,000. Details of the movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in note 19 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately US$298,000.

SHARE OPTIONS

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

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

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

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

Eligible Participants:	At the Board's discretion include — (i) any Director, employee or officer employed by any Group company ("Employee"), consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or subsidiary of such company ("Affiliate"); or (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Group or an Affiliate; or (iii) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, advisor of or contractor to the Group or an Affiliate.
Minimum period for which an option must be held before it can be exercised:	An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.
Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:	HK$10 within 21 days of offer

Basis of determining the exercise price: The exercise price shall be determined by the Board and not less than the highest of —

(i) the closing price of a share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant option, which must be a business day;

(ii) an amount equivalent to the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and

(iii) the nominal value of share on the date of grant.

Remaining life of the Share Option Scheme: The Share Option Scheme will remain in force until 26 June 2014, unless otherwise determined in accordance with its term.

The following is a summary of options granted and outstanding during the year ended 31 December 2007:

					No. of share options			
	Note	**Date of grant (dd/mm/yyyy)**	**Exercisable Period (dd/mm/yyyy)**	**Exercise Price Per Share**	**As at 1 January 2007**	**Granted during the year**	**Cancelled/ Lapsed during the year**	**As at 31 December 2007**
TAN Henry	4	28/12/2004	28/12/2004–27/12/2007	HK$4.10	200,000	—	(200,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	200,000	—	—	200,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	250,000	—	—	250,000
					650,000	**—**	**(200,000)**	**450,000**
TAN Cho Lung, Raymond	4	28/12/2004	28/12/2004–27/12/2007	HK$4.10	150,000	—	(150,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	150,000	—	—	150,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	150,000	—	—	150,000
					450,000	**—**	**(150,000)**	**300,000**

REPORT OF THE DIRECTORS

	Note	Date of grant (dd/mm/yyyy)	Exercisable Period (dd/mm/yyyy)	Exercise Price Per Share	No. of share options As at 1 January 2007	Granted during the year	Cancelled/ Lapsed during the year	As at 31 December 2007
Mok Siu Wan, Anne	6	28/12/2004	28/12/2004–27/12/2007	HK$4.10	250,000	—	(250,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	500,000	—	—	500,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	700,000	—	—	700,000
					1,450,000	**—**	**(250,000)**	**1,200,000**
TAN Sunny	4,7	28/12/2004	28/12/2004–27/12/2007	HK$4.10	150,000	—	(150,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	300,000	—	—	300,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	400,000	—	—	400,000
					850,000	**—**	**(150,000)**	**700,000**
TAN Willie	5	28/12/2004	28/12/2004–27/12/2007	HK$4.10	200,000	—	(200,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	300,000	—	—	300,000
					500,000	**—**	**(200,000)**	**300,000**
Other Employees		28/12/2004	28/12/2004–27/12/2007	HK$4.10	6,670,000	—	(6,670,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	6,970,000	—	(1,135,000)	5,835,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	7,530,500	—	(1,115,000)	6,415,500
					21,170,500	**—**	**(8,920,000)**	**12,250,500**
Total		28/12/2004	28/12/2004–27/12/2007	HK$4.10	7,620,000	—	(7,620,000)	—
		26/01/2006	26/01/2007–25/01/2011	HK$2.52	8,420,000	—	(1,135,000)	7,285,000
		10/11/2006	10/11/2007–09/11/2011	HK$1.28	9,030,500	—	(1,115,000)	7,915,500
					25,070,500	**—**	**(9,870,000)**	**15,200,500**

Notes:

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

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

3. Up to the date of approval of the Company's 2007 Annual Report and accounts, the share options granted on 28 December 2004 have been lapsed, and none of the share options granted on 26 January and 10 November 2006 has been exercised.

4. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny are executive Directors of the Company.

5. Mr. Tan Willie is a non-executive Director of the Company and also the brother of the Directors mentioned in note 4 above.

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

7. Mr. Tan Sunny is the Chief Financial Officer of the Group and was appointed as an executive Director of the Company with effect from 26 May 2006.

Share option expenses charged are based on valuation determined using the Binomial Lattice Model. Share options granted after 1 January 2005 were valued based on the following assumptions:

Date of grant	**Option value** (Note (i))	**Share price at date of grant**	**Subscription price**	**Expected volatility** (Note (ii))	**Annual risk-free interest rate** (Note (iii))	**Expected option life** (Note (iv))	**Dividend yield** (Note (v))
26 January 2006	HK$0.78	HK$2.50	HK$2.52	37%	4%	3–5 years	2.1%
10 November 2006	HK$0.46	HK$1.28	HK$1.28	43%	3.8–3.9%	3–5 years	1.7%

i. Since option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.

ii. Estimated volatility was based on the historical stock prices over 1–2 years preceding the grant date, expressed as an annualized rate and based on daily price changes.

iii. The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.

iv. The expected option life was determined by reference to certain empirical studies on suboptimal exercise behaviours.

v. Dividend yield was based on the average dividend yield for the one year preceding the year of grant.

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

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

Executive Directors
TAN Siu Lin
TAN Henry
TAN Cho Lung, Raymond
MOK Siu Wan, Anne
TAN Sunny

Non-executive Directors
TAN Willie
LU Chin Chu *(appointed with effect from 17 September 2007)*

Independent non-executive Directors
CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie

PARTICULARS OF SERVICE AGREEMENTS

Except for Ms. Mok Siu Wan, Anne and Mr. Sunny Tan, each of the executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from 27 June 2007, and thereafter shall continue subject to termination by either the Company or the Director giving three months' notice in writing to the other party. Under the service agreements, the remuneration payable to each of them shall be a fixed monthly salary, with such increase as the Board may from time to time determine in its absolute discretion. In addition, they will each be entitled to a bonus equivalent to one month's salary on or around each Chinese New Year falling after the first anniversary of the commencement date. Each of them will also be entitled to all reasonable out-of-pocket expenses.

On 17 September 2007, Mr. Lu Chin Chu was appointed as a non-executive Directors of the Company. Pursuant to the Articles of Association of the Company, Mr. Lu shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election. Mr. Lu will be entitled to an annual director's fee of HK$120,000, for the appointment period which shall be calculated on a pro rata basis for the performance of his duties as a non-executive director of the Company.

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

TAN Siu Lin	HK$76,700
TAN Henry	HK$198,000
TAN Cho Lung, Raymond	HK$144,000
MOK Siu Wan, Anne	HK$224,584
TAN Sunny	HK$67,000

Pursuant to the letter of re-appointment from the Company to each of Mr. Seing Nea Yie, Mr. Cheung Siu Kee and Mr. Henry Chan dated 28 January 2008, 4 April 2007 and 4 April 2007 respectively, the re-appointment of each of these independent non-executive Directors of the Company was for a term of another 3 years commencing from 28 January 2008, 16 April 2007 and 16 April 2007 respectively. Moreover, pursuant to written resolutions passed by the Remuneration Committee on 21 September 2006, each of the independent non-executive Directors shall be entitled to an annual fee of HK$120,000 effective from 1 January 2007.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2007, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the SEHK pursuant to the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interests in the Company
TAN Siu Lin	Trustee (note 1)	678,030,000	68.32%
TAN Henry	Beneficiary of Trust (notes 2 & 3)	614,250,000	61.89%
	Beneficial Owner (note 7)	450,000	0.05%
TAN Cho Lung, Raymond	Beneficiary of Trust (notes 2 & 5)	614,250,000	61.89%
	Beneficial Owner (note 7 & 9)	500,000	0.05%
MOK Siu Wan, Anne	Beneficial Owner (note 7)	1,200,000	0.12%
TAN Sunny	Beneficiary of Trust (notes 2 & 6)	614,250,000	61.89%
	Beneficial Owner (note 7 & 8)	1,022,000	0.10%
TAN Willie	Beneficiary of Trust (notes 2 & 4)	614,250,000	61.89%
	Beneficial Owner (notes 7 & 10)	900,000	0.09%

Notes:

1. Mr. Tan Siu Lin is the settlor and trustee of each of the Tan Family Trust of 2004, the Pak Kim Lam Tan Trust of 2004, the HJ Trust, the WR5C Trust, the LS Trust, the RC Trust, the JL Trust and the ST Trust (collectively referred to as the "Trusts"). As the settlor and trustee of the Trusts, all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under part XV of the SFO to be interested in the aggregate shareholdings of Tan Holdings Corporation ("Tan Holdings Corporation"), a company incorporated in Commonwealth of Northern Mariana Islands and Helmsley Enterprises Limited ("Helmsley"), a company incorporated in the Commonwealth of the Bahamas, held in the Company, representing 68.32% of the issued share capital of the Company.

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

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

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

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

6. 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. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond, Ms. Mok Siu Wan, Anne, Mr. Tan Sunny and Mr. Tan Willie were the grantees of the Company employee share options.

8. Mr. Tan Sunny acquired 322,000 shares of the Company ("Company Shares") in 2006.

9. A total of 200,000 shares of the Company Shares were purchased 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 Company Shares purchased by his associate.

10. A total of 600,000 Company Shares 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 Company Shares purchased by his associate.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

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

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

The following table is a summary of the historical amounts of the non-exempt continuing connected transactions of the Group pursuant to Chapter 14A of the Listing Rules for the years ended 31 December 2007 and 2006. Details of these connected transactions are more particularly described in the prospectus and in the relevant announcements released by the Company during the period covered, which are also posted in the Stock Exchange and the Company's websites. The additional continuing connected transactions, which were reported during the year, pertain mainly to shipping agency services, advance payments and sub-contracting services to the Tan Private Group.

Connected Party	Category	2007 US$'000	2006 US$'000
Tan Private Group	Food and office supplies	—	95
	Travel services	315	177
	Insurance coverage	—	283
	Supply of packaging materials	—	658
	Provision of technological support services	1,980	2,018
	Lease agreements	1,439	1,546
	Mechanical repair and maintenance services	—	107
	Administrative and support services	492	2,162
	Freight (shipping) services	6	634
	Transition services	1,030	3,129
	Sub-lease to office and warehouse space	273	—
	Insurance brokerage services	—	221
	Freight services by the Group	340	283
	Shipping agency services by the Group	1,728	1,749
	Advance Payments	287	—
	Sub-contracting Services	1,405	—

The aforesaid continuing connected transaction has been reviewed by the Directors (including independent non-executive directors) of the Company.

The Directors (including independent non-executive directors) confirmed that the aforesaid connected transaction were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board of Directors engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board of Directors.

Save as disclosed above:

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

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2007, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interest disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long position in the shares

Name of shareholder	Notes	Capacity	No. of ordinary Shares beneficially held	Approximate percentage of interests in the Company
Capital Glory Limited	(a)	Beneficial owner	614,250,000	61.89%
Helmsley	(a)	Interest of controlled corporation	614,250,000	61.89%
Tan Family Trust of 2004	(b)	Interest of controlled corporation	678,030,000	68.32%
Trusts (other than the Tan Family Trust of 2004)	(c)	Interest of controlled corporation	614,250,000	61.89%
Pou Chen Corporation		Interest of controlled corporation	89,100,000	8.98%
Wealthplus Holdings Limited		Interest of controlled corporation	89,100,000	8.98%
Yue Yuen Industrial (Holdings) Limited		Interest of controlled corporation	89,100,000	8.98%
Pou Hing Industrial Co. Ltd.		Interest of controlled corporation	89,100,000	8.98%
Great Pacific Investments Limited		Beneficial owner	89,100,000	8.98%
Tan Holdings Corporation		Interest of controlled corporation	60,750,000	6.12%
Union Bright Limited		Beneficial owner	60,750,000	6.12%
T. Rowe Price Associates, Inc. and its subsidiaries		Beneficial owner	59,992,000	6.04%

Notes:

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

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

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

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

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

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

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

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

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

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

As the trustee of the Tan Family Trust of 2004 and the Trusts (other than the Tan Family Trust of 2004), collectively known as the “Trusts”, all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to own in the aggregate shareholdings of Tan Holdings Corporation, Wincare International Company Limited and Helmsley held in the Company, representing 68.32% of the issued share capital of the Company.

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

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s shares during the year ended 31 December 2007.

PUBLIC FLOAT

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 63% (2006: 62%) of the total sales. The top five suppliers accounted for approximately 21% (2006: 40%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 22% (2006: 28%) of the total sales and the Group's largest supplier accounted for approximately 11% (2006: 19%) of the total purchases for the year. At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Corporate Governance Report is set out in pages 29 to 34 of this annual report.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 34 to the financial statements.

AUDITOR

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

On behalf of the Board

Tan Henry
Chief Executive Officer and Director

17 April 2008

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

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

Throughout the year ended 31 December 2007, the Company was in compliance with the Code as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

This report includes key information relating to corporate governance practices of the Company during the year ended 31 December 2007 and significant events after that date and up to the date of this report.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The Board

The Board is scheduled to meet at least four times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. In 2007, four Board meetings were held with an average attendance rate of 97%, details of which are presented below.

Board Members	Meetings Attended/ Held	Average Attendance Rate
Executive Directors		100%
TAN Siu Lin *(Chairman of the Board)*	4/4	100%
TAN Henry*	4/4	100%
TAN Cho Lung, Raymond*	4/4	100%
MOK, Siu Wan Anne	4/4	100%
TAN, Sunny*	4/4	100%
Non-executive Directors		80%
TAN Willie*	3/4	75%
Lu Chin Chu *(appointed with effect from 17 September 2007)*	1/1	100%
Independent non-executive Directors		100%
CHAN Henry	4/4	100%
CHEUNG Siu Kee	4/4	100%
SEING Nea Yie	4/4	100%

* Son of TAN Siu Lin

Directors are consulted to include any matter in the draft agenda. As part of our best practices, the agenda of Board meetings are finalized by the Chairman after taking into consideration any matters proposed by other Directors, including the independent non-executive Directors. The notice and agenda are generally released at least 14 days in advance. The Company's articles of association (the "Articles of Association") provide that a Board meeting shall be held in cases where a substantial shareholder or Director has a conflict of interest in a material matter, in which the substantial shareholder or Director is required to abstain from voting and shall not be counted in quorum. This is also in conformity with the Code requirements.

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

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

Chairman and CEO

During the year 2007 and as of the date of this report, Mr. Tan Siu Lin is the Chairman of the Board and Mr. Tan Henry is the Chief Executive Officer of the Company. Mr. Tan Henry is the son of Mr. Tan Siu Lin.

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

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

Composition

The board of directors (the "Board") comprises five executive Directors, including the Chairman of the Board, two non-executive Director and three independent non-executive Directors. Each of the Directors has the relevant experience, competencies and skills appropriate to the requirements of the business of the Group, which are more particularly described in page 13 to 16 of this Annual Report. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of directors of the Company.

Appointments, re-election and removal

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

Responsibilities of Directors

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

Each of the Directors is required to give sufficient time and attention to the affairs of the Company. Based on the meetings of the Board and the Board Committee, a very satisfactory average attendance rates were recorded, as also presented in page 29, 32 and 33 of the Annual Report.

Independent non-executive Directors

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

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

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

(iii) serve on committees if invited; and

(iv) scrutinize the performance of the Group as necessary

Pursuant to the letter of re-appointment from the Company to each of Mr. Seing Nea Yie, Mr. Cheung Siu Kee and Mr. Henry Chan dated 28 January 2008, 4 April 2007 and 4 April 2007 respectively, the re-appointment of each of these independent non-executive Directors of the Company was for a term of another 3 years commencing from 28 January 2008, 16 April 2007 and 16 April 2007 respectively. Moreover, pursuant to written resolutions passed by the Remuneration Committee on 21 September 2006, each of the independent non-executive Directors shall be entitled to an annual fee of HK$120,000 effective from 1 January 2007.

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

Supply of and access to information

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Independent non-executive Directors

CHAN Henry
CHEUNG Siu Kee
SEING Nea Yie, *Committee Chairman*

Executive Director
TAN Henry

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

A meeting of the Remuneration Committee is required to be held at least once a year to coincide with key dates within the financial reporting and audit cycle. In 2007, a perfect (100%) attendance rate for each Committee member was recorded for two meetings held by the Remuneration Committee.

The Remuneration Committee is authorized to investigate any matter within the RC Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary. The Remuneration Committee has reviewed the compensation of the directors and senior executives for 2007.

In 2007, total Directors' remuneration amounted to approximately US$2,070,000 (2006: US$1,665,000). The executive Directors and senior management's compensation, including the long-term incentive, shall be based on the corporate and individual performance.

ACCOUNTABILITY AND AUDIT

Financial reporting
The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2007, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

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

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

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

The Audit Committee has reviewed the annual and interim results of 2007 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

Also, based on the assessments made by the IA Team and up to the date of approval of the Company's 2007 Annual Report and financial statements, the Audit Committee and the Directors are satisfied that:

(i) the internal controls and accounting systems of the Group have been in place and function effectively and are designed to provide reasonable assurance that material assets are protected, business risks attributable to the Group are identified and monitored, material transactions are executed in accordance with management's authorization and the financial statements are reliable for publication; and

(ii) there is an on-going process in place for identifying, evaluating and managing significant risks faced by the Group.

The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting of the Company, Messrs. PricewaterhouseCoopers be re-appointed as the external auditors of the Group for 2008.

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

Audit Committee Members	Meetings Attended/ Held
CHAN Henry	3/3
CHEUNG Siu Kee	3/3
SEING Nea Yie	3/3

The financial statements for the year have been audited by PricewaterhouseCoopers. During the year, remuneration of approximately US$710,000 was payable to PricewaterhouseCoopers for the provision of audit services. In addition, approximately US$523,000 was payable to PricewaterhouseCoopers for other non-audit services. The non-audit services mainly consist of tax compliance, special audit and interim review. The fees for audit and non-audit services for subsidiaries not performed by PricewaterhouseCoopers amounted to approximately US$123,000 and US$51,000, respectively.

Communication with Shareholders

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

SHAREHOLDERS' INFORMATION

Major Shareholders and Spread of Shareholders

The Company has 992,500,000 shares in issue, each with a par value of US$0.01. As at 31 December 2007, the major shareholders of the Company were as follows:

Beneficial Shareholders	Number of Ordinary Shares Owned	Percentage
Capital Glory Limited (notes 1 & 2)	614,250,000	61.89%
Union Bright Limited (notes 1 & 3)	60,750,000	6.12%
Other Shareholders (notes 1, 4, 5 & 6)	4,152,000	0.42%
	679,152,000	68.43%
Public Shareholders		
Yue Yuen Industrials (Holdings) Limited	89,100,000	8.98%
T. Rowe Price Associates, Inc. and its subsidiaries	59,992,000	6.04%
Other Shareholders	164,256,000	16.55%
Total	992,500,000	100.00%

Notes:

1. Parties acting in concert.

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

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

4. Tan Family Trust of 2004 is interested in the entire issued share capital of Wincare International Company Limited which holds 3,030,000 Company Shares.

5. A total of 200,000 and 600,000 shares of the Company ("Company Shares") were purchased by associates of Mr. Tan Cho Lung, Raymond and Mr. Tan Willie, respectively, between 2005 and 2006. Mr. Tan Willie and Mr. Tan Cho Lung, Raymond are therefore deemed under Part XV of the SFO to be interested in the total Company Shares purchased by their respective associates.

6. Mr. Tan Sunny, in his personal capacity, purchased a total of 322,000 Company Shares in 2006.

Share Performance

The Company's share price was HK$1.01 as at 31 December 2007 and its market capitalization was HK$1.0 billion. In 2007, the highest trading price for the Company share was HK$1.56 on 5 June and the lowest was HK$0.93 on 27 November.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

We have audited the consolidated financial statements of Luen Thai Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 37 to 103, which comprise the consolidated and the Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

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

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 April 2008

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Leasehold land and land use rights	6	**4,476**	4,286
Property, plant and equipment	7	**92,578**	90,643
Intangible assets	8	**65,004**	52,857
Interests in associated companies	10	**382**	287
Interests in jointly controlled entities	11	**6,745**	2,045
Deferred income tax assets	12	**759**	311
Other non-current assets		**4,295**	3,627
		174,239	154,056
Current assets			
Inventories	13	**65,245**	65,332
Trade and bills receivables	14	**100,065**	93,852
Financial assets at fair value through profit and loss		**—**	122
Amounts due from related companies	32	**3,175**	2,397
Amounts due from associated companies and jointly controlled entities	32	**5,127**	6,778
Deposits, prepayments and other receivables		**11,086**	15,600
Pledged bank deposits	15	**1,519**	681
Cash and bank deposits	15	**96,668**	107,076
		282,885	291,838
Total assets		**457,124**	445,894
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	**9,925**	9,925
Other reserves	17	**108,052**	98,628
Retained earnings			
— Proposed final dividend		**1,727**	—
— Others		**100,582**	90,178
		220,286	198,731
Minority interest		**9,794**	15,502
Total equity		**230,080**	214,233

CONSOLIDATED BALANCE SHEET (CONTINUED)
As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
LIABILITIES			
Non-current liabilities			
Borrowings	18	33,750	38,250
Retirement benefit obligations	19	3,135	2,295
Deferred income tax liabilities	12	3,769	3,849
Other long-term liabilities	20	26,673	22,073
		67,327	66,467
Current liabilities			
Trade and bills payables	21	55,755	43,906
Borrowings	18	18,408	31,184
Current income tax liabilities		11,747	12,489
Amounts due to related companies	32	2,837	1,499
Amounts due to associated companies and jointly controlled entities	32	1,647	84
Other payables and accruals		69,323	76,032
		159,717	165,194
Total liabilities		227,044	231,661
Total equity and liabilities		457,124	445,894
Net current assets		123,168	126,644
Total assets less current liabilities		297,407	280,700

TAN SIU LIN
Director

TAN HENRY
Director

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

BALANCE SHEET

As at 31 December 2007

	Note	2007 US$'000	2006 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	9	**199,626**	199,626
Current assets			
Deposits, prepayments and other receivables		**23**	—
Cash and bank deposits	15	**167**	430
Amount due from a subsidiary	9	**2,500**	—
		2,690	430
Total assets		**202,316**	200,056
EQUITY			
Capital and reserves attributable to the equity holders of the Company			
Share capital	16	**9,925**	9,925
Other reserves	17	**189,664**	189,101
Retained earnings			
— Proposed final dividend		**1,727**	—
— Others		**741**	841
Total equity		**202,057**	199,867
LIABILITIES			
Current liabilities			
Other payables and accruals		**259**	189
Total equity and liabilities		**202,316**	200,056
Net current assets		**2,431**	241
Total assets less current liabilities		**202,057**	199,867

TAN SIU LIN
Director

TAN HENRY
Director

The notes on pages 44 to 103 are an integral part of this financial statements.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007
(By function of expense)

	Note	2007 US$'000	2006 US$'000
Revenue	22	**800,877**	661,836
Cost of sales	23	**(645,982)**	(537,565)
Gross profit		**154,895**	124,271
Selling and distribution expenses	23	**(26,158)**	(19,168)
General and administrative expenses	23	**(104,742)**	(91,570)
Operating profit		**23,995**	13,533
Finance income	25	**3,601**	3,500
Finance costs	25	**(4,670)**	(6,608)
Share of profit of associated companies		**95**	54
Share of profit/(loss) of jointly controlled entities		**1,592**	(435)
Profit before income tax		**24,613**	10,044
Income tax expense	26	**(4,208)**	(5,000)
Profit for the year		**20,405**	5,044
Attributable to:			
Equity holders of the Company		**12,515**	2,509
Minority interest		**7,890**	2,535
		20,405	5,044
Earnings per share for profit attributable to the equity holders of the Company, expressed in US cents per share	28		
— Basic		**1.3**	0.3
— Diluted		**1.3**	0.3
Dividends	29	**3,762**	1,846

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	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 2006	9,925	116,998	728	91,063	218,714	5,290	224,004
Net income recognized directly in equity — currency translation differences	—	—	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 arisen from acquisition of a subsidiary	—	—	(20,383)	—	(20,383)	—	(20,383)
Share based compensation expense	—	—	539	—	539	—	539
Minority interest — Business combinations	—	—	—	—	—	7,677	7,677
	—	—	(21,294)	(3,394)	(24,688)	7,677	(17,011)
Balance at 31 December 2006	9,925	116,998	(18,370)	90,178	198,731	15,502	214,233

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)
For the year ended 31 December 2007

	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 2007	9,925	116,998	(18,370)	90,178	198,731	15,502	214,233
Net income recognized directly in equity — currency translation differences	—	—	4,550	—	4,550	—	4,550
Profit for the year	—	—	—	12,515	12,515	7,890	20,405
Total recognized income for 2007	—	—	4,550	12,515	17,065	7,890	24,955
Dividends paid	—	—	—	(2,035)	(2,035)	—	(2,035)
Purchase of additional interests in subsidiaries from minority shareholders (Note 20)	—	—	—	—	—	(4,142)	(4,142)
Derecognition of financial liabilities upon acquisition of minority interest (Note 20)	—	—	4,311	1,651	5,962	—	5,962
Dividends paid to minority shareholders of subsidiaries	—	—	—	—	—	(9,456)	(9,456)
Share based compensation expense	—	—	563	—	563	—	563
	—	—	4,874	(384)	4,490	(13,598)	(9,108)
Balance at 31 December 2007	9,925	116,998	(8,946)	102,309	220,286	9,794	230,080

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	Note	2007 US$'000	2006 US$'000
Cash flow from operating activities			
Cash generated from operations	30	**57,146**	17,558
Interest paid		**(3,684)**	(4,091)
Income tax paid		**(3,116)**	(1,268)
Overseas taxation paid		**(2,338)**	(1,416)
Net cash generated from operating activities		**48,008**	10,783
Cash flow from investing activities			
Purchase of property, plant and equipment		**(13,695)**	(19,813)
Purchase of financial assets at fair value through profit and loss		**122**	—
Decrease in bank deposits maturing beyond three months		**—**	56,674
Increase in pledged bank deposits		**(838)**	(681)
Proceeds from disposal of property, plant and equipment		**839**	1,470
Acquisition of a subsidiary, net of cash acquired		**—**	(13,683)
Payment for purchase of additional interests in subsidiaries from minority shareholders		**(9,817)**	—
Payment of consideration payable for acquisition of a subsidiary		**(7,400)**	(5,739)
Disposal of subsidiaries, net of cash disposed		**—**	196
Increase in investment in jointly controlled entities		**(649)**	(1,289)
Increase in long-term loans to a jointly controlled entity		**(2,459)**	—
Interest received		**3,601**	3,500
(Increase)/decrease in other non-current assets		**(668)**	931
Net cash (used in)/generated from investing activities		**(30,964)**	21,566
Net cash generated before financing activities		**17,044**	32,349
Cash flows from financing activities			
Decrease in trust receipts bank loans and collateralized borrowings		**(8,140)**	(8,943)
Increase in short-term bank loans		**—**	(413)
Increase in long-term bank loans		**—**	45,000
Repayment of long-term bank loans		**(4,900)**	(48,635)
Dividends paid to the Company's shareholders		**(2,035)**	(3,394)
Dividends paid to minority shareholders of subsidiaries		**(9,456)**	—
Net cash used in financing activities		**(24,531)**	(16,385)
(Decrease)/increase in cash and cash equivalents		**(7,487)**	15,964
Cash and cash equivalents at 1 January		**96,977**	80,003
Effect of foreign exchange rate changes		**1,315**	1,010
Cash and cash equivalents at 31 December	15	**90,805**	96,977

The notes on pages 44 to 103 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Luen Thai Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the manufacturing and trading of garment and textile products, apparel manufacturing and the provision of freight forwarding and logistic services.

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 17 April 2008.

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 Luen Thai Holdings Limited 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.

(a) *Standards, amendments and interpretations that are effective in 2007*

- HKFRS 7, "Financial instruments: Disclosures', and the complementary amendment to HKAS 1, 'Presentation of financial statements – Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables;

- HK(IFRIC) — Int 8, "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC) 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. This standard does not have any impact on the Group's financial statements; and

- 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. This standard does not have any impact on the Group's financial statements.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(b) *Standards and interpretations effective in 2007 but not relevant for the Group's operations*

The following standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2007 but are not relevant to or have no significant impact on the Group's operations:

- HK(IFRIC) — Int 7 "Applying the restatement approach under HKAS 29, Financial reporting in hyper-inflationary economies"; and

- HK(IFRIC) — Int 9 "Re-assessment of embedded derivatives".

(c) *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 2007 and have not been early adopted:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). HKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009.

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- HK(IFRIC) — Int 11, "HKFRS 2 — Group and treasury share transactions". HK(IFRIC) — Int 11 provides guidance on whether share-based transactions involving treasury shares or involving Group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- HK(IFRIC) — Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group will apply HK(IFRIC) — Int 14 from 1 January 2008, but it is not expected to have any significant impact on the Group's financial statements.

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognized. Any gain or loss is recognized in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group will apply HKAS 27 (Revised) from 1 January 2010.

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are 'capable of being conducted' rather than 'are conducted and managed'. It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010; and

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

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

- HKFRS 2 Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). The amendment clarifies the definition of "vesting conditions" and specifies the accounting treatment of "cancellations" by the counterparty to a share-based payment arrangement. Vesting conditions are service conditions (which require a counterparty to complete a specified period of service) and performance conditions (which require a specified period of service and specified performance targets to be met) only. All "non-vesting conditions" and vesting conditions that are market conditions shall be taken into account when estimating the fair value of the equity instruments granted. All cancellations are accounted for as an acceleration of vesting and the amount that would otherwise have been recognized over the remainder of the vesting period is recognized immediately. The Group will apply HKFRS 2 Amendment from 1 January 2009, but it is not expected to have any significant impact on the Group's financial statements.

(d) The following interpretations have not yet been effective and not relevant for the Group operations:

- HK(IFRIC) — Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) — Int 12 is not relevant to the Group's operations because none of the Group's companies provide for public sector services; and

- HK(IFRIC) — Int 13, "Customer loyalty programmes" (effective from 1 July 2008). HK(IFRIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) *Subsidiaries*

Subsidiaries are 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 2.9). 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation (continued)

(c) Associates

Associates are 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the 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 at the date of acquisition. Separately recognized goodwill is tested 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Intangible assets (continued)

(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 Leasehold land and land use right

Leasehold land and land use rights are stated at less accumulated amortization and impairment losses. Cost represents consideration paid for the rights to use the land on which various plants and buildings are situated for periods varying from 10 to 50 years. Amortization of land use rights is calculated on a straight-line basis over the period of the land use right.

2.9 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 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.

2.10 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.10 Financial assets (continued)

(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 bills receivables" in the balance sheet (Note 2.12).

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 and bills receivables is described in Note 2.12.

2.11 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.

2.12 Trade and bills receivables

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

2.13 Cash and cash equivalents

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Share capital

Ordinary shares are classified as equity.

2.15 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.

2.16 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.

2.17 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and associates operate and generate taxable income.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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 income 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 income tax 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 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 expensed 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 obligations 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee benefits (continued)

(c) *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to 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.

2.19 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. 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.

2.20 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Company. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognized but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognized as a provision.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.21 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 value-added tax, 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 collectability of the related receivables is reasonably assured.

(ii) *Freight forwarding and logistics services income*

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

(iii) *Interest income*

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

(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.

2.22 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.

2.23 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 a variety of financial risks: market risk (including currency risk and cash flow and fair value 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.

Risk management is carried out by a central treasury department (Group Treasury). Group Treasury identifies and evaluates financial risks in close co-operation with the Group's operating units.

(a) Market risk

(i) Foreign exchange 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 State dollar (US$), Hong Kong dollar (HK$), Euro and Chinese Renminbi (RMB). 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. The Group also mitigates this risk by maintaining HK$, Euro and RMB bank accounts which are used by the Group to pay for the transactions denominated in these currencies.

At 31 December 2007, if US$ had weakened/strengthened by 10% against the Euro with all other variables held constant, post-tax profit for the year would have been US$715,000 (2006: US$350,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Euro-denominated trade receivables and payables, and cash and bank balances.

At 31 December 2007, if US$ had weakened/strengthened by 10% against the RMB with all other variables held constant, post-tax profit for the year would have been US$781,000 (2006: US$601,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of RMB-denominated trade payables and cash and bank balances.

(ii) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets except for certain bank deposits, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

The Group's interest rate risk arises from bank borrowings. As at 31 December 2007, borrowings were primarily at floating rates. The Group generally has not used financial derivatives to hedge its exposure to interest rate risk.

The Company's loans to subsidiaries were issued at interest free, and expose the Company to fair value interest-rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift.

At 31 December 2007, if interest rates on borrowings had been 1% higher/lower with all other variables held constant, post-tax profit for the year would have been US$597,000 (2006: US$787,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Credit risk

The carrying amount of cash and bank deposits, trade and bills receivables, amounts due from related companies and associated companies, jointly controlled entities, deposits and other receivables included in the 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 (including related companies) with an appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group usually requires customers to settle the balances with normal credit terms of 30 to 60 days. The Group's top five customers accounted for approximately 63% (2006: 62%) of the total sales. Management considers that the credit risk in respect of these customers is minimal after considering the financial position and past experience with these 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.

The credit risk on cash and bank deposit is limited because the Group mainly places the deposits in banks with high credit rating and management does not expect any losses from non-performance by banks.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) 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.

Management monitors rolling forecasts of the Group's liquidity reserve which comprises undrawn borrowing facility (Note 18) and cash and cash equivalents (Note 15) on the basis of expected cash flow.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000
Group				
At 31 December 2007				
Bank borrowings	19,308	4,731	15,787	19,387
Trade and other payables	125,078	—	—	—
Amounts due to related companies	2,837	—	—	—
Amounts due to associated companies and jointly controlled entities	1,647	—	—	—
Other long-term liabilities	—	5,758	12,519	13,596
At 31 December 2006				
Bank borrowings	32,625	5,118	15,644	25,970
Trade and other payables	119,938	—	—	—
Amounts due to related companies	1,499	—	—	—
Amounts due to associated companies and jointly controlled entities	84	—	—	—
Other long-term liabilities	—	1,905	—	26,004

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other shareholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The Group monitors capital by maintaining a net cash position throughout the year.

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

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

(a) 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 required. 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. Please refer to Note 26 for details.

(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 (other than goodwill). This estimate is 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 amortization lives and therefore depreciation and amortization expense in future periods.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(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 amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These 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 continue 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 periods. 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.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(h) Business combinations

Contingent consideration involving post-acquisition performance of the purchased entities is included in the cost of acquisition if the contingent consideration is likely to become payable and can be measured reliably at the date of the acquisitions. Contingent consideration is estimated by the Company's directors and the Group's management after considering historical performance and anticipation of post-acquisition growth and integration synergies expected to arise after the acquisitions. In making such financial budgets, management considers uncertainties and that various outcomes have different chances of being realized. Judgement is required in determining key assumptions adopted in the budgets. Changes to these key judgements and estimates could significantly affect the related financial budgets and therefore the estimated consideration for acquisition.

5 SEGMENT INFORMATION

(a) Primary reporting format — business segments

At 31 December 2007, 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.

Turnover 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 2007 are as follows:

	Garment/ textile products US$'000	Freight forwarding/ logistics services US$'000	Others US$'000	Group US$'000
Segment revenues				
Total segment revenue	777,227	20,668	6,389	804,284
Inter-segment revenue	—	(3,407)	—	(3,407)
Revenue	777,227	17,261	6,389	800,877
Segment result	22,420	1,575	—	23,995
Finance income	3,293	308	—	3,601
Finance costs	(4,670)	—	—	(4,670)
Share of profit of associated companies	—	95	—	95
Share of profit of jointly controlled entities	1,592	—	—	1,592
Profit before income tax				24,613
Income tax expense	(3,804)	(404)	—	(4,208)
Profit for the year				20,405
Minority interest	(7,757)	(133)	—	(7,890)
Profit attributable to the equity holders of the Company				12,515

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format — business segments (continued)

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

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

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format — business segments (continued)

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

	Year ended 31 December 2007			Year ended 31 December 2006		
	Garment/ textile products US$'000	**Freight forwarding/ logistics services US$'000**	**Group US$'000**	Garment/ textile products US$'000	Freight forwarding/ logistics services US$'000	Group US$'000
Depreciation (Note 7)	**13,383**	**1,053**	**14,436**	12,778	711	13,489
Amortization (Notes 6 and 8)	**2,145**	**—**	**2,145**	1,166	—	1,166
Provision for/(write-back of) impairment of trade receivables	**595**	**(198)**	**397**	343	25	368
(Write-back of)/provision for inventory obsolescence	**(1,567)**	**—**	**(1,567)**	1,047	—	1,047
Provision for impairment of intangible assets	**758**	**—**	**758**	827	—	827
Provision for impairment of property, plant and equipment	**—**	**—**	**—**	1,273	—	1,273

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

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Garment/ textile products US$'000	**Freight forwarding/ logistics services US$'000**	**Group US$'000**
Segment assets	**418,101**	**30,057**	**448,158**
Associated companies	**8**	**374**	**382**
Jointly controlled entities	**6,745**	**—**	**6,745**
	424,854	**30,431**	**455,285**
Unallocated assets			**1,839**
Total assets			**457,124**
Segment liabilities	**160,801**	**12,477**	**173,278**
Unallocated liabilities			**53,766**
Total liabilities			**227,044**
Capital expenditure (Notes 7 and 8)	**18,306**	**1,209**	**19,515**

5 SEGMENT INFORMATION (CONTINUED)

(a) Primary reporting format — business segments (continued)

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

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

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

Segment liabilities comprise operating liabilities. 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 7 and 8).

5 SEGMENT INFORMATION (CONTINUED)

(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"), Europe and Asia, 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.

	2007 US$'000	2006 US$'000
Revenue		
The United States	**412,277**	429,869
Europe	**237,543**	115,664
Japan	**57,413**	64,325
The PRC	**32,330**	17,501
Others	**61,314**	34,477
	800,877	661,836

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

	2007 US$'000	2006 US$'000
Total Assets		
Hong Kong	**233,690**	239,476
The United States	**42,902**	37,279
The PRC	**118,158**	106,079
Commonwealth of Northern Mariana Islands	**11,257**	18,234
The Philippines	**40,540**	36,264
Others	**3,450**	6,230
	449,997	443,562
Associated companies	**382**	287
Jointly controlled entities	**6,745**	2,045
	457,124	445,894

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

5 SEGMENT INFORMATION (CONTINUED)

(b) Secondary reporting segments — geographical segments (continued)

	2007 US$'000	2006 US$'000
Capital expenditure		
Hong Kong	8,545	33,128
The United States	162	1,101
The PRC	8,812	12,384
Commonwealth of Northern Mariana Islands	856	1,514
The Philippines	554	1,710
Others	586	1,714
	19,515	51,551

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:

	2007 US$'000	2006 US$'000
Outside Hong Kong held on:		
Leases of between 10 to 50 years	4,476	4,286
Opening net book amount	4,286	4,727
Amortization of prepaid operating lease payments (Note 23)	(91)	(102)
Transfer to a related company	(41)	—
Exchange differences	322	(339)
Closing net book amount	4,476	4,286

7 PROPERTY, PLANT AND EQUIPMENT – THE GROUP

	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
At 1 January 2006							
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
Year ended 31 December 2006							
Opening net book amount	26,948	7,185	27,990	12,704	1,361	8,121	84,309
Additions	148	2,024	3,524	4,672	980	8,465	19,813
Acquisition of a subsidiary	—	671	—	597	339	—	1,607
Disposal of a subsidiary	—	(1)	(48)	(129)	(19)	—	(197)
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

7 PROPERTY, PLANT AND EQUIPMENT – THE GROUP (CONTINUED)

	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 2007							
Opening net book amount	36,572	6,548	28,988	13,747	1,909	2,879	90,643
Additions	142	1,463	4,729	2,926	449	3,986	13,695
Disposals	–	(82)	(667)	–	(74)	–	(823)
Transfer from construction–in–progress	1,171	1	2,917	–	–	(4,089)	–
Depreciation	(2,045)	(1,829)	(5,816)	(4,122)	(624)	–	(14,436)
Exchange differences	946	1,168	1,014	148	24	199	3,499
Closing net book amount	36,786	7,269	31,165	12,699	1,684	2,975	92,578
At 31 December 2007							
Cost	44,830	17,560	61,659	39,157	4,350	2,975	170,531
Accumulated depreciation and impairment	(8,044)	(10,291)	(30,494)	(26,458)	(2,666)	–	(77,953)
Net book amount	36,786	7,269	31,165	12,699	1,684	2,975	92,578

(a) Depreciation expense of US$5,343,000 (2006: US$6,505,000) has been expensed in cost of sales, and US$9,093,000 (2006: US$6,984,000) has been expensed in the general and administrative expenses.

(b) The construction-in-progress mainly represented 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 – THE GROUP

	Goodwill US$'000	Others US$'000	Total US$'000
At 1 January 2006			
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 on contingent consideration	2,765	—	2,765
Acquisition of a subsidiary	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
Year ended 31 December 2007			
Opening net book amount	**24,992**	**27,865**	**52,857**
Acquisition of additional interests in subsidiaries from minority shareholders (Note i)	**5,820**	**—**	**5,820**
Adjustment on contingent consideration (Note ii)	**9,139**	**—**	**9,139**
Amortization (Note 23)	**—**	**(2,054)**	**(2,054)**
Provision for impairment (Note 23)	**(758)**	**—**	**(758)**
Closing net book amount	**39,193**	**25,811**	**65,004**
At 31 December 2007			
Cost	**40,778**	**29,419**	**70,197**
Accumulated amortization and impairment	**(1,585)**	**(3,608)**	**(5,193)**
Net book value	**39,193**	**25,811**	**65,004**

8 INTANGIBLE ASSETS – THE GROUP (CONTINUED)

Amortization of US$2,054,000 (2006: US$1,064,000) 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 of US$758,000 (2006: US$827,000). This loss has been included in the general and administrative expenses in the consolidated income statement.

Notes:

(i) In April 2007, the Group exercised the call option to acquire an additional 10% interest in On Time International Limited, a subsidiary from the minority shareholders at an estimated consideration of approximately US$4,553,000 and consequently a goodwill of approximately US$2,308,000 has been recognized.

In August 2007, one of the minority shareholders of Partner Joy Limited, a subsidiary, has exercised the put option to sell his 19% interest of Partner Joy Limited to the Group at a consideration of approximately US$5,967,000 and consequently a goodwill of approximately US$3,512,000 has been recognized.

(ii) The total purchase consideration for the acquisition of certain subsidiaries is determined with reference to the average of the consolidated net profit of those subsidiaries over certain specific periods. During the year, the goodwill in relation to the interests acquired increased by US$9,139,000 as a result of a change of such contingent consideration.

Impairment tests for goodwill

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

	2007 US$'000	2006 US$'000
Sweater division	**15,473**	10,863
Sleepwear division	**2,380**	2,380
Trading and sourcing division	**21,340**	10,991
Ladies' career wear division	**—**	758
	39,193	24,992

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

The impairment charge arose in the CGU of ladies' career wear division following a decision to scale down the business to this operation.

8 INTANGIBLE ASSETS – THE GROUP (CONTINUED)

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

	Sweater division	Sleepwear division	Trading and sourcing division
Growth rate (a)	2%	0%	4%
Discount rate (b)	14%	14%	17%

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 determined the financial budgets based on past performance and its expectations for the market development. The weighted average growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant divisions.

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY

	2007 US$'000	2006 US$'000
Unlisted shares, at cost	**71,564**	71,564
Amounts due from subsidiaries	**128,062**	128,062
	199,626	199,626

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

Particulars of the principal subsidiaries as at 31 December 2007:

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/in Hong Kong	10,000 ordinary share of HK$1 each	60%
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%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

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	Sourcing and trading of garment products 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 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$120,500,000 with total paid-in capital of HK$106,147,661	100%
GJM (UK) Limited	United Kingdom (“UK”)	Garment distributor 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%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Guangzhou G.J.M. Garment Manufacturing Factory	The PRC	Garment manufacturing in the PRC	Registered capital of US$7,200,000 with total paid–in capital of US$7,200,000	100%
Hongquan Consulting Services (Shenzhen) Co., Ltd.	The PRC	Provision of consultancy services in the PRC	HK$1,000,000	100%
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 shares of US$1 each	100%
Manhattan Limited	Hong Kong	Garment trading and sourcing overseas/ in Hong Kong	10,000 ordinary shares of HK$1 each	60%
On Time International Limited	BVI	Investment holding in Hong Kong	500 ordinary share of US$1 each	60%
Philippine Luen Thai Holdings Corporation	The Philippines	Investment holding in the Philippines	260,000 ordinary shares of Peso 100 each	100%

9 INVESTMENTS IN SUBSIDIARIES – THE COMPANY (CONTINUED)

Name	Place of incorporation/ establishment	Principal activities and place of operations	Particulars of issued share capital	Interest held
Partner Joy Group Limited	BVI	Investment holding in Hong Kong	1,000 ordinary shares of US$1 each	90%
Power Might Limited	BVI	Investment holding in Hong Kong	12,207,164 ordinary shares of US$1 each	100%
Sino Venus Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%
Sunny Force Limited	BVI	Investment holding in Hong Kong	1 ordinary share of US$1 each	100%
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	90%
Tien-Hu Trading (Hong Kong) Limited	Hong Kong	Trading of garment products in Hong Kong	1,000,000 ordinary shares of HK$1 each	90%
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	90%
TMS Fashion (H.K.) Limited	Hong Kong	Garment trading and investment holding in Hong Kong	3,000,000 shares of HK$1 each	60%
TMS International Limited	Hong Kong	Garment trading in Hong Kong	2,000 ordinary shares of HK$500 each	60%
Winley Industries Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	100%

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

The outstanding balances with subsidiaries except for the amount of US$2,500,000 (2006: Nil), are interest-free and not repayable in the coming twelve months.

10 INTERESTS IN ASSOCIATED COMPANIES – THE GROUP

	2007 US$'000	2006 US$'000
Share of net assets	**382**	287
Unlisted investments, at cost	**156**	156

Particulars of the principal associated companies as at 31 December 2007:

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

11 INTERESTS IN JOINTLY CONTROLLED ENTITIES – THE GROUP

	2007 US$'000	2006 US$'000
Share of net asset/(liabilities)	**1,642**	(599)
Loans to jointly controlled entities	**5,103**	2,644
	6,745	2,045
Unlisted investments, at cost	**3,205**	2,556

The loans to jointly controlled entities are unsecured, non-interest bearing and not repayable within the next twelve months.

11 INTERESTS IN JOINTLY CONTROLLED ENTITIES – THE GROUP (CONTINUED)

Particulars of the principal jointly controlled entities as at 31 December 2007:

Name	Place of issued shares held	Principal activities and place of operations	Particulars of issued share capital	Assets US$'000	Liabilities US$'000	Revenues US$'000	Profit/ (loss) US$'000	Interest held
Shenzhen Guangthai International Co. Ltd.	The PRC	Garment trading in PRC	HK$20,000,000	1,485	88	323	21	50%
Shenzhen Li Da Silk Garment Company Limited	The PRC	Garment manufacturing in the PRC	RMB2,400,000	363	251	1,409	2	25%
Wuxi Liantai Garments Co., Ltd.	The PRC	Garment manufacturing in the PRC	Registered capital of US$2,050,000 with total paid-in capital of US$1,241,400	1,568	309	2,032	51	50%
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	16,711	15,888	28,847	2,391	50%
Yuen Thai Holdings Limited	BVI	Investment holding in Hong Kong and in the Philippines	2 ordinary shares of US$1 each	2,820	2,822	–	(1)	50%
Yuenthai Philippines, Inc.	The Philippines	Garment manufacturing in the Philippines	Peso 4,000,000	2,219	3,890	–	(821)	50%
Hong Kong Guangthai International Company Limited	Hong Kong	Investment holding in Hong Kong	2 ordinary shares of HK$1 each	2,749	2,984	2,632	(101)	50%

12 DEFERRED INCOME TAX — THE GROUP

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:

	2007 US$'000	2006 US$'000
Deferred tax assets:		
— Deferred tax asset to be recovered after more than 12 months	(759)	(311)
Deferred tax liabilities		
— Deferred tax liabilities to be settled after more than 12 months	3,769	3,849
Deferred tax liabilities, net	3,010	3,538

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

	2007 US$'000	2006 US$'000
Beginning of the year	3,538	(391)
Recognized in the income statement (Note 26)	(504)	525
Acquisition of a subsidiary	—	3,350
Disposal of subsidiary	—	38
Exchange differences	(24)	16
End of the year	3,010	3,538

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 US$'000	Accelerated tax depreciation US$'000	Intangible assets US$'000	Others US$'000	Total US$'000
At 1 January 2006	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)
(Charged)/credited to the income statement	(8)	307	289	(84)	504
Exchange difference	—	—	—	24	24
At 31 December 2007	30	(258)	(3,061)	279	(3,010)

12 DEFERRED INCOME TAX – THE GROUP (CONTINUED)

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$7,814,000 (2006: US$7,091,000) in respect of losses amounting to US$23,752,000 (2006: US$17,246,000) that can be carried forward against future taxable income. These tax losses have an expiry date from 2008 to 2016.

13 INVENTORIES – THE GROUP

	2007 US$'000	2006 US$'000
Raw materials	30,564	30,986
Work-in-progress	17,491	20,378
Finished goods	17,190	13,968
	65,245	65,332

The cost of inventories recognized as expense and included in cost of sales amounted to US$568,500,000 (2006: US$444,219,000).

As at 31 December 2007, certain inventories were held under trust receipts bank loan arrangement.

14 TRADE AND BILLS RECEIVABLES – THE GROUP

	2007 US$'000	2006 US$'000
Trade and bills receivables	101,712	95,102
Less: provision for impairment of receivables	(1,647)	(1,250)
Trade and bills receivables — net	100,065	93,852

The carrying amount of trade and bills 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:

	2007 US$'000	2006 US$'000
0 to 30 days	87,383	80,974
31 to 60 days	5,600	6,442
61 to 90 days	2,663	1,768
Over 91 days	6,066	5,918
	101,712	95,102

Trade receivables that are less than two months past due are not considered impaired. As of 31 December 2007, trade receivables of US$7,082,000 (2006: US$6,436,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

14 TRADE AND BILLS RECEIVABLES – THE GROUP (CONTINUED)

The impairment provision was US$1,647,000 as of 31 December 2007 (2006: US$1,250,000). The provision made during the year has been included in the general and administrative expenses in the consolidated income statement.

Movement in the provision for impairment of trade receivables are as follows:

	2007 US$'000	2006 US$'000
At 1 January	1,250	1,899
Provision for receivable impairment	397	368
Unused amounts reversed	—	(1,017)
At 31 December	1,647	1,250

The carrying amounts of the Group's trade and bills receivables are denominated in the following currencies:

	2007 US$'000	2006 US$'000
US$	62,914	65,305
HK$	7,229	13,648
Euro	18,472	11,863
RMB	8,437	813
Philippines Peso	2,559	1,844
Other currencies	454	379
	100,065	93,852

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above. The Group does not hold any collateral as security.

15 CASH AND CASH EQUIVALENTS

	Group		Company	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Cash at bank and in hand	52,398	42,951	167	430
Short-term bank deposits	44,270	64,125	—	—
Cash and cash equivalents in the balance sheets	96,668	107,076	167	430
Bank overdrafts (Note 18)	(5,863)	(10,099)		
Cash and cash equivalents in the consolidated cash flow statement	90,805	96,977		
Maximum exposure to credit risk	96,668	107,076	167	430

15 CASH AND CASH EQUIVALENTS (CONTINUED)

The Group's cash and cash equivalents and bank deposit are denominated in the following currencies:

The Group

	2007 US$'000	2006 US$'000
US$	77,193	94,830
HK$	3,604	3,328
Euro	6,220	1,307
RMB	5,439	2,638
Other currencies	4,212	4,973
	96,668	107,076

The Company

	2007 US$'000	2006 US$'000
US$	164	407
Other currencies	3	23
	167	430

The effective interest rate on short-term bank deposits was 4.47% (2006: 4.33%) per annum; these deposits have an average maturity of 50 days (2006: 62 days).

As at 31 December 2007, pledged bank deposits have a maturity period of 90 days. Certain of the Group's banking facilities were pledged by such bank deposits of US$1,519,000 (2006: US$681,000).

16 SHARE CAPITAL

	Number of shares	Nominal value US$'000
Authorized – ordinary shares of US$0.01 each		
At 31 December 2006 and 2007	1,500,000,000	15,000
Issued and fully paid – ordinary shares of US$0.01 each		
At 31 December 2006 and 2007	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.

16 SHARE CAPITAL (CONTINUED)

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	Number of shares: Beginning of year '000	Granted '000	Cancelled/ Lapsed '000	End of year '000
28 December 2004	From 28 December 2004 to 27 December 2007	HK$4.1	7,620	—	(7,620)	—
26 January 2006	From 26 January 2007 to 25 January 2011	HK$2.52	8,420	—	(1,135)	7,285
10 November 2006	From 10 November 2007 to 9 November 2011	HK$1.28	9,031	—	(1,115)	7,916
			25,071	—	(9,870)	15,201

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: 2007 '000	2006 '000
27 December 2007	HK$ 4.1	—	7,620
25 January 2011	HK$ 2.52	7,285	8,420
9 November 2011	HK$ 1.28	7,916	9,031
		15,201	25,071

17 OTHER RESERVES

(a) Group

	Share premium US$'000	Capital reserve (Note (i)) US$'000	Other reserves US$'000	Share based compensation expense US$'000	Exchange reserve US$'000	Total US$'000
At 1 January 2006	116,998	11,722	(6,928)	—	(4,066)	117,726
Recognition of financial liability arisen from acquisition of a subsidiary	—	—	(20,383)	—	—	(20,383)
Acquisition of a subsidiary	—	—	(1,450)	—	—	(1,450)
Share based compensation expense	—	—	—	539	—	539
Exchange differences arising on translation of foreign subsidiaries	—	—	—	—	2,196	2,196
As at 31 December 2006	116,998	11,722	(28,761)	539	(1,870)	98,628
At 1 January 2007	**116,998**	**11,722**	**(28,761)**	**539**	**(1,870)**	**98,628**
Derecognition of financial liabilities upon acquisition of minority interest (Note 20)	**—**	**—**	**4,311**	**—**	**—**	**4,311**
Share based compensation expense	**—**	**—**	**—**	**563**	**—**	**563**
Exchange differences arising on translation of foreign subsidiaries	**—**	**—**	**—**	**—**	**4,550**	**4,550**
As at 31 December 2007	**116,998**	**11,722**	**(24,450)**	**1,102**	**2,680**	**108,052**

17 OTHER RESERVES (CONTINUED)

(b) Company

	Share premium US$'000	Capital reserve (Note (ii)) US$'000	Share based compensation reserve US$'000	Total US$'000
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
At 1 January 2007	116,998	71,564	539	189,101
Share based compensation expense	—	—	563	563
At 31 December 2007	116,998	71,564	1,102	189,664

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 Initial Public Offerings ("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 values 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 – THE GROUP

	2007 US$'000	2006 US$'000
Non-current		
Bank loans	33,750	38,250
Current		
Bank overdrafts	5,863	10,099
Collateralized borrowings	—	327
Current portion of non-current bank loans	4,500	4,900
Trust receipt bank loans	8,045	15,858
	18,408	31,184
Total borrowings	52,158	69,434

18 BORROWINGS – THE GROUP (CONTINUED)

At 31 December 2007, the Group's borrowings were repayable as follows:

	Bank overdrafts		Trust receipt bank loans		Bank loans		Total	
	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000	2007 US$'000	2006 US$'000
Within 1 year	5,863	10,099	8,045	15,858	4,500	5,227	18,408	31,184
Between 1 and 2 years	—	—	—	—	4,500	4,500	4,500	4,500
Between 2 and 5 years	—	—	—	—	13,500	13,500	13,500	13,500
Wholly repayable within 5 years	5,863	10,099	8,045	15,858	22,500	23,227	36,408	49,184
Over 5 years	—	—	—	—	15,750	20,250	15,750	20,250
	5,863	10,099	8,045	15,858	38,250	43,477	52,158	69,434

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

	2007 US$'000	2006 US$'000
HK$	12,075	7,301
US$	40,083	62,133
	52,158	69,434

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

	2007		2006	
	US$	HK$	US$	HK$
Bank loans	4.89%	—	4.62%	—
Trust receipt bank loans	5.33%	3.62%	5.23%	4.07%
Bank overdrafts	8.00%	8.00%	8.00%	8.00%

Bank borrowings are secured by the corporate guarantee provided by the Company. As at 31 December 2007, the Group had aggregate banking facilities of approximately US$227,274,000 (2006: US$234,533,000) for overdrafts, loans, trade financing and bank guarantees. Unused facilities as at the same date amounted to approximately US$163,978,000 (2006: US$151,396,000).

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

19 RETIREMENT BENEFIT OBLIGATIONS – THE GROUP

	2007 US$'000	2006 US$'000
Balance sheet obligation for:		
— Defined benefits plans	2,746	1,813
— Provision for long service payments	389	482
	3,135	2,295
Income statement charge for (Note 24):		
— Defined benefits plan	793	838
— Provision for long service payment	73	80
	866	918

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$847,000 for the year ended 31 December 2007 (2006: US$636,000).

(b) Defined benefit plans

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

	2007 US$'000	2006 US$'000
Present value of unfunded obligations	2,757	1,791
Unrecognized actuarial (losses)/gains	(11)	22
Liability in the consolidated balance sheet	2,746	1,813

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

	2007 US$'000	2006 US$'000
Current service cost	636	372
Interest cost	157	137
Actuarial gain recognized during the year	—	(35)
Curtailment/settlement loss	—	364
Total, included in employee benefit expense (Note 24)	793	838

19 RETIREMENT BENEFIT OBLIGATIONS – THE GROUP (CONTINUED)

(b) Defined benefit plans (continued)

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

	2007 US$'000	2006 US$'000
At 1 January	**1,813**	1,667
Total expense — included in employee benefit expense as shown above	**793**	838
Contributions paid	**(26)**	(809)
Exchange difference	**166**	117
At 31 December	**2,746**	1,813

The principal actuarial assumptions used are as follows:

	2007	2006
Discount rate	**8.5%**	9.0%
Future salary increases 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:

	2007 US$'000	2006 US$'000
Present value of unfunded obligations	**427**	605
Unrecognized actuarial losses	**(38)**	(123)
Liability in the consolidated balance sheet	**389**	482

19 RETIREMENT BENEFIT OBLIGATIONS – THE GROUP (CONTINUED)

(c) Long service payments (continued)

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

	2007 US$'000	2006 US$'000
Current service cost	28	19
Interest cost	20	24
Net actuarial losses recognized	25	37
Total, included in employee benefit expense (Note 24)	73	80

The above charges were included in the general and administrative expenses.

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

	2007 US$'000	2006 US$'000
At 1 January	482	374
Total expenses — included in employee benefit expense as shown above	73	80
Contributions paid	(286)	(106)
MPF refund received	120	134
At 31 December	389	482

The principal actuarial assumptions used are as follows:

	2007	2006
Discount rate	3.1%	3.7%
Future salary increases rate	3.0%	3.0%

20 OTHER LONG-TERM LIABILITIES – THE GROUP

Other long-term liabilities comprised:

	2007 US$'000	2006 US$'000
Consideration payable for acquisition of subsidiaries	5,316	1,690
Financial liabilities in connection with the put options granted for the acquisition of subsidiaries	21,357	20,383
	26,673	22,073

The consideration payable represented the balance of consideration payable for the acquisition of 60% equity interest in On Time International Limited ("On Time") and 90% 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 10% interest in On Time and Partner Joy, respectively to the Group.

20 OTHER LONG-TERM LIABILITIES – THE GROUP (CONTINUED)

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

	2007 US$'000	2006 US$'000
Consideration payable:		
— Within 1 year	5,433	6,302
— Between 1 and 2 years	5,758	1,905
Financial liabilities:		
— Within 1 year	2,843	9,097
— Between 2 and 5 years	12,519	—
— Later than 5 years	13,596	26,004
	40,149	43,308
Less: Amount representing interest element	(5,200)	(5,836)
Present value of consideration payable and financial liabilities	34,949	37,472
Less: Current portion included in other payables and accruals	(8,276)	(15,399)
	26,673	22,073

During the year, the Group derecognized financial liabilities of approximately US$5,962,000 (2006: Nil) when a minority shareholder of Partner Joy exercised the put option to sell his 19% interest in Partner Joy to the Group.

21 TRADE AND BILLS PAYABLES

At 31 December 2007, the ageing analysis of trade and bills payables was as follows:

	2007 US$'000	2006 US$'000
0 to 30 days	43,387	34,525
31 to 60 days	8,224	4,059
61 to 90 days	706	819
Over 91 days	3,438	4,503
	55,755	43,906

21 TRADE AND BILLS PAYABLES (CONTINUED)

The carrying amounts of the Group's trade and bills payables are denominated in the following currencies:

	2007 US$'000	2006 US$'000
US$	**18,059**	19,209
HK$	**24,213**	14,363
Euro	**11,864**	8,131
RMB	**279**	1,447
Philippines Peso	**987**	625
Other currencies	**353**	131
	55,755	43,906

22 REVENUE

	2007 US$'000	2006 US$'000
Sales of garment and textile products	**777,227**	644,416
Freight forwarding and logistics service fee	**17,261**	13,791
Management income from related companies and a jointly controlled entity	**410**	427
Rental income from a related company	**210**	198
Commission income from		
— a related company	**1,728**	1,749
— third parties	**646**	89
Sales of quota	**767**	—
Others	**2,628**	1,166
Revenue	**800,877**	661,836

23 EXPENSES BY NATURE

	2007 US$'000	2006 US$'000
Cost of inventories	568,500	444,219
Exchange difference, net	(2,259)	727
(Gain)/loss on disposal of property, plant and equipment	(16)	115
Auditor's remuneration	774	733
Amortization of leasehold land and land use rights (Note 6)	91	102
Amortization of intangible assets (Note 8)	2,054	1,064
Provision for impairment of intangible assets (Note 8)	758	827
Depreciation of property, plant and equipment (Note 7)	14,436	13,489
Provision for impairment of property, plant and equipment	—	1,273
Provision for claims	4,540	2,082
Provision for impairment of receivables	397	368
Write-off of non-current assets	2,204	—
(Write-back of)/provision for inventory obsolescence	(1,567)	1,047
Operating leases		
— office premises and warehouses	6,661	5,539
— plant and machinery	1,476	1,717
Quota expenses	5,975	2,343
Employee benefit expense (Note 24)	116,088	118,033
Transportation	4,747	3,886
Commission	3,567	1,527
Legal and professional fee	4,617	2,904
Communication, supplies and utilities	24,845	21,737
Write-back of other payables	(2,681)	(778)
Other expenses	21,675	25,349
	776,882	648,303
Representing:		
Cost of sales	645,982	537,565
Selling and distribution expenses	26,158	19,168
General and administrative expenses	104,742	91,570
	776,882	648,303

24 EMPLOYEE BENEFIT EXPENSE — INCLUDING DIRECTORS' EMOLUMENTS

(a) Employee benefit expense during the year is as follows:

	2007 US$'000	2006 US$'000
Wages, salaries and allowances	112,937	113,195
Termination benefits	566	2,207
Share options granted to directors and employees	563	539
Pension costs		
— Defined contribution plans (Note 19(a))	847	636
— Defined benefit plans (Note 19(b))	793	838
— Long service payments (Note 19(c))	73	80
Others	309	538
	116,088	118,033

(b) Directors' and senior management

The remuneration of every director for the year ended 31 December 2007 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	—	122	—	—	—	122
Mr. Tan Henry	—	332	—	17	2	351
Mr. Tan Cho Lung, Raymond	—	242	19	47	2	310
Ms. Mok Siu Wan, Anne	—	377	391	44	107	919
Mr. Tan Sunny	—	112	17	26	2	157
Non-executive directors						
Mr. Tan Willie	150	—	—	11	—	161
Mr. Lu Chin Chu[2]	5	—	—	—	—	5
Independent non-executive directors						
Mr. Chan Henry	15	—	—	—	—	15
Mr. Cheung Siu Kee	15	—	—	—	—	15
Mr. Seing Nea Yie	15	—	—	—	—	15

24 EMPLOYEE BENEFIT EXPENSE — INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Directors' and senior management (continued)

The remuneration of every Director for the year ended 31 December 2006 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	—	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	—	112	—	19	2	133
Non-executive directors						
Mr. Tan Willie	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

1 Other benefits mainly include share option.

2 Mr. Lu Chin Chu was appointed as non-executive director on 17 September 2007.

None of the directors of the Company waived any emoluments paid by the group companies during the year (2006: Nil).

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included two (2006: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three individuals during the year (2006: three) are as follows:

	2007 US$'000	2006 US$'000
Basic salaries, other allowances and benefit in kind	**755**	733
Discretionary bonuses	**704**	480
Pension scheme contributions	**13**	12
Others	**—**	28
	1,472	1,253

24 EMPLOYEE BENEFIT EXPENSE — INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(c) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
Emolument bands		
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)	**2**	—
US$452,001 to US$516,000		
(equivalent to HK$3,500,001 to HK$4,000,000)	**—**	2
US$580,645 to US$645,161		
(equivalent to HK$4,500,001 to HK$5,000,000)	**1**	—
	3	3

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

25 FINANCE INCOME AND COSTS

	2007 US$'000	2006 US$'000
Interest expense on bank loans and overdrafts	**3,684**	4,091
Change in estimates of financial liabilities	**(195)**	1,589
Interest expense on financial liabilities carried at amortized costs	**1,181**	928
Finance costs	**4,670**	6,608
Finance income – Interest income	**(3,601)**	(3,500)
Net finance costs	**1,069**	3,108

26 INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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.

	2007 US$'000	2006 US$'000
Current income tax:		
— Hong Kong profits tax	2,015	1,774
— Overseas taxation	9,168	3,213
Over-provision in prior years	(6,471)	(512)
Deferred income tax (Note 12)	(504)	525
	4,208	5,000

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

	2007 US$'000	2006 US$'000
Profit before income tax	24,613	10,044
Tax calculated at domestic tax rates applicable to profits in the respective countries	11,086	1,668
Income not subject to tax	(2,927)	(790)
Expenses not deductible for taxation purposes	1,569	1,818
Tax losses for which no deferred income tax asset was recognized	880	3,356
Utilization of previously unrecognized tax losses	50	(22)
Tax effect of share of results of associated companies and jointly controlled entities	21	(518)
Over-provision in prior years	(6,471)	(512)
Tax charge	4,208	5,000

The weighted average applicable tax rate was 45.0% (2006: 16.6%). The increase is caused by a change of profitability of the Group's subsidiaries in the respective countries.

A Hong Kong subsidiary has received notices of additional assessments/assessments from the Hong Kong Inland Revenue Department ("IRD") for the years of assessment 2000/01 to 2006/07 demanding for tax totalling US$3,567,000 in respect of certain income, which the management has regarded as not subject to Hong Kong Profits Tax. The management has thoroughly revisited the situations, and has concluded that the subsidiary company has good grounds to defend that the relevant income are not subject to Hong Kong Profits Tax. In the circumstances, the management has filed objections to these additional assessments/assessments and has concluded that no provision for these assessments is necessary. The subsidiary company has paid the amount of US$3,567,000 in the form of Tax Reserve Certificates, of which an amount of US$1,080,000 was paid prior to 31 December 2007 and is included in the prepayments in the consolidated balance sheet as at 31 December 2007.

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$3,662,000 (2006: US$1,368,000).

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.

	2007 US$'000	2006 US$'000
Profit attributable to equity holders of the Company	12,515	2,509
Weighted average number of ordinary shares in issue	992,500,000	992,500,000
Basic earnings per share (US cents per share)	1.3	0.3

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

29 DIVIDENDS

	2007 US$'000	2006 US$'000
Interim dividend paid of US0.205 cent (2006: US0.186 cent) per ordinary share	2,035	1,846
Proposed final dividend of US0.174 cent (2006: Nil) per ordinary share	1,727	—
	3,762	1,846

The directors recommend the payment of a final dividend of US cent of 0.174 per share, totalling US$1,727,000 (2006: Nil). Such dividend is to be approved by the shareholders at the forthcoming Annual General Meeting. These financial statements do not reflect this dividend payable.

30 CONSOLIDATED CASH FLOW STATEMENT

	2007 US$'000	2006 US$'000
Profit before income tax	24,613	10,044
Adjustment for:		
Share of profits of associated companies	(95)	(54)
Share of (profits)/losses of jointly controlled entities	(1,592)	435
Finance income (Note 25)	(3,601)	(3,500)
Finance expense (Note 25)	4,670	6,608
Amortization of intangible assets (Note 8)	2,054	1,064
Amortization of leasehold land and land use rights (Note 6)	91	102
Depreciation of property, plant and equipment (Note 7)	14,436	13,489
Provision for impairment of property, plant and equipment	—	1,273
Impairment of intangible assets	758	827
(Gain)/loss on disposal of property, plant and equipment, net	(16)	115
Gain on disposal of a subsidiary	—	(35)
Share based compensation expense	563	539
Operating profit before working capital changes	41,881	30,907
Changes in working capital:		
Inventories	87	(554)
Trade and bills receivables	(6,213)	(5,709)
Amounts due from related companies	(778)	458
Amounts due from associated companies and jointly controlled entities	1,651	(4,733)
Deposits, prepayments and other receivables	4,514	(5,032)
Trade and bills payables	11,849	(2,456)
Amounts due to related companies	1,338	(479)
Amounts due to associated companies and jointly controlled entities	1,563	84
Other payables and accruals	414	4,818
Retirement benefit obligation	840	254
Cash generated from operations	57,146	17,558

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

	2007 US$'000	2006 US$'000
Net book amount (Note 7)	823	1,585
Gain/(loss) on disposal of property, plant and equipment	16	(115)
Proceeds from disposal of property, plant and equipment	839	1,470

31 COMMITMENTS

(a) Capital commitments

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

	2007 US$'000	2006 US$'000
Property, plant and equipment		
— contracted but not provided for	**1,012**	3,545

(b) Operating lease commitments

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

	2007 US$'000	2006 US$'000
Land and buildings		
— No later than 1 year	**3,770**	2,066
— Later than 1 year and no later than 5 years	**5,736**	2,024
— Later than 5 years	**4,163**	3,877
	13,669	7,967
Plant and equipment		
— No later than 1 year	**173**	73
— Later than 1 year and no later than 5 years	**170**	89
	343	162

32 SIGNIFICANT RELATED PARTY TRANSACTIONS

Capital Glory Limited, a company incorporated in the British Virgin Islands, 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 Bahamas. The ultimate controlling party of the Group is Mr. Tan Siu Lin.

(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) *Provisions of goods and services*

	2007 US$'000	2006 US$'000
Management fee income from		
— related companies	16	146
— a jointly controlled entity	394	281
	410	427
Commission income from a related company	1,728	1,749
Freight forwarding and logistics service income from		
— related companies	348	426
— an associated company	—	27
— a jointly controlled entity	336	66
	684	519
Sales to a jointly controlled entity	15,458	8,074
Rental income from a related company	210	198
Recharge of administrative expenses from related companies	110	308
Recharge of material costs and other expenses from		
— related companies	287	—
— jointly controlled entities	3,734	2,657
	4,021	2,657
Transfer of leasehold land and land use rights to a related company	41	—

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

(ii) Purchases of goods and services

	2007 US$'000	2006 US$'000
Management fee charged by related companies	—	1
Rental expenses for occupying office premises, warehouses and staff quarters charged by related companies	1,439	1,546
Office supplies charged by related companies	8	95
Packaging expenses charged by related companies	—	658
Insurance expenses charged by related companies	27	504
Travelling related service fees charged by related companies	629	567
Professional and technological support service fees to related companies	1,980	2,018
Repair and maintenance expenses charged by related companies	—	107
Freight forwarding and logistics services charged by related companies	6	634
Property, plant and machinery acquired from a related company	—	777
Administrative and support service fees charged by related companies	542	2,530
Subcontracting fee charged by		
— a related company	1,405	—
— jointly controlled entities	2,328	1,416
	3,733	1,416
Commission expense charged by a jointly controlled entity	2,833	—
Recharge of material costs and other expenses to related companies	6,553	—
Handling service fee paid/payable to PT. Best Indo*	1,030	918
Property, plant and machinery acquired from PT. Best Indo* and PT. Bestex*	—	412

32 SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Transactions with related parties (continued)

(ii) Purchases of goods and services (continued)

* PT. Best Indo and PT. Bestex are companies incorporated in Indonesia and owned by Mr. Frank Hermmann 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

	2007 US$'000	2006 US$'000
Basic salaries and allowance	2,650	3,492
Bonus	1,178	511
Pension scheme contributions	126	38
Others	—	191
	3,954	4,232

(c) Banking facilities

As at 31 December 2007, 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$90,000,000 to Yuen Thai Industrial Co. Ltd., a jointly controlled entity of the Group.

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

As at 31 December 2007, the outstanding balances with the related companies, associated companies and jointly controlled entities are unsecured, interest-free and repayable on demand.

The credit quality of these balances that are neither past due nor impaired can be assessed by reference to historical information about counter party default rates. None of them have defaults and been renegotiated in the past.

33 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.

34 EVENTS AFTER THE BALANCE SHEET DATE

In March 2008, the Group has effected the conversion of a piece of land held by the Group in Qingyuan, the PRC, from industrial use to commercial/residential use. In this connection, the total land premium payable by the Group for such conversion is approximately US$7,600,000.

FINANCIAL SUMMARY

	2003	2004	2005	2006	**2007**
Financial highlights *(US$'000)*					
Total assets	244,643	353,759	415,420	445,894	**457,124**
Total liabilities	188,767	179,233	191,416	231,661	**227,044**
Bank borrowings	33,637	97,392	83,687	69,434	**52,158**
Capital and reserves attributable to the equity holders of the Company	55,659	174,228	218,714	198,731	**220,286**
Working capital	33,435	88,854	118,099	126,644	**123,168**
Revenue	544,924	553,766	593,118	661,836	**800,877**
Profit attributable to the equity holders of the Company	23,566	30,361	13,240	2,509	**12,515**
Key ratios					
Current ratio	1.24	1.72	1.66	1.77	**1.77**
Gross profit margin	25.2%	22.7%	19.2%	18.8%	**19.3%**
Profit margin attributable to the equity holders of the Company	4.3%	5.5%	2.2%	0.4%	**1.56%**

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