

# CHAIRMAN'S STATEMENT



## INTRODUCTION

It is the Group's first year of issuing its annual report. I am pleased to report that 2004 was a year of measured growth for Luen Thai. The Group was able to increase its net profit by 28.8% in the last year before the elimination of the quota system.

The quota system had created a structural inefficiency in the textile and apparel industry. It had resulted in dispersed production, creating a highly fragmented marketplace. Quotas were applied differently to different products and exporting markets, greatly restricting the quantity of specific categories of apparel that were exported. Quota restrictions were added to production costs by greatly limiting supply and ramping up prices, causing disruptions to the overall mechanics of the industry.

On 1st January 2005, the final phase of quota removal, impacting the most significant clothing categories, was completed, signaling the end of the quota era. The elimination of quotas has triggered an array of changes and restructuring in the textile and garment industry. The ability to cope with the changes while being competitive will be the biggest challenge for the various parts of the supply chain.

It is believed that retailers and brands will work more closely with the suppliers in order to achieve efficiency gains. To stay competitive, suppliers will need to be more responsive to the customers' needs and be flexible enough to offer additional supply chain functions and services. Ultimately, suppliers and customers together will execute the supply chain process by looking for economies of scale to consolidate their operations, eliminating overlapping functions and better managing goods and information flow. In the long run, as freer trade gathers pace, worldwide sourcing will involve far fewer supply countries as customers will consolidate their supplier base to source directly from the most efficient producers (in terms of lead time and costs). With cost savings and efficiency imminent, it is believed that the clear beneficiaries will be the "end" of the supply chain, namely retailers and consumers who will benefit from more efficient production, shorter lead time, and a stronger price-value proposition.

## BUSINESS DEVELOPMENT

Since 1998, Luen Thai has gone through a company-wide change programme in preparation for meeting our customers' demands with a revamp of our supply chain process. We have been studying the athletic footwear industry for many years since quota system on athletic footwear was eliminated in 1980s, particularly with Yue Yuen, our strategic partner, to anticipate the development of the industry and our customers' needs as we noticed similarities between apparel and athletic footwear on supply chain and manufacturing process and fragmented nature of production prior to quota elimination.

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

The middle of 2004 had been a defining moment for Luen Thai. In the midst of the external changes that are happening within the apparel industry, the Group has also undergone a complete evolution.

In July 2004, Luen Thai was successfully listed on the Main Board of the SEHK. By going public, Luen Thai was able to raise the necessary capital to expand steadily in view of the 2005 opportunities. More than prestige, we recognise that this development will drive us more to achieve our goals for the long-term interest of our shareholders, customers, supplier partners and employees.

With our commitment to grow and ensure leadership in the global apparel industry, the Group continues to expand our multi-product and multi-country services through joint ventures and acquisitions, enabling us to expand existing markets and penetrate new ones.

In May 2004, the Group acquired Tomwell from Asia Expert Limited and Kasper Holdings Inc., affiliates of NYSE-listed Jones Apparel Group, Inc., expanding our product range into ladies' career wear. Such strategic move complements very well with our fashion division which includes fashion and sleepwear products. Post-acquisition operation of Tomwell has been working smoothly.

In June 2004, the Group formed Yuen Thai, a joint venture company with Yue Yuen, the largest athletic footwear manufacturer in the world, to expand into the global active wear market. The Group is very pleased to have the opportunity in working with Yue Yuen in capturing one of the highest growth sectors in the global apparel market.

Today the Group develops a wide array of products in the casual wear, ladies fashion wear and active wear categories for world renowned brands.

In the fourth quarter of 2004, the first phase of Luen Thai's first Supply Chain City in Dongguan, China was formally completed. Product development centres and design & research centre along with state-of-the-art production facilities were opened in servicing our customers, especially in the front-end of the supply chain process. Such expansion complements our diversified and balanced strategy of multi-country production base for our customers, in mitigating country and trade-related regulatory risks. The Group has also started its second Supply Chain City in Qingyuan, China to meet the expected demand after 2004.

### LOOKING AHEAD

The coming year is not without challenge given the fact that the industry is entering into a new era with short-term uncertainties on quota and trade-related regulations. To further mitigate trade-related regulatory risks, the Group will commence Outward Processing Arrangement ("OPA") operations in Macau and Hong Kong in 2005. OPA operation is strategically important for the Group to continue its PRC development in anticipation of anti-surge/safeguard provision being imposed to China. Luen Thai will remain focused to strive to be one of the leading apparel supply chain and manufacturing players in the global market with state-of-the-art supply chain and manufacturing platform as well as multi-product and multi-country manufacturing base.

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

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

On behalf of the Board, I would like to express my sincere gratitude to the staff for their hard work and dedication to the development of the Group. Each and everyone of them has played an important role to the day-to-day operations of Luen Thai.

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

**TAN Siu Lin**  
*Chairman*

Hong Kong, 21st April 2005