

REPORT OF THE DIRECTORS

The directors of the Company (the "Directors") of Luen Thai Holdings Limited (the "Company") have the pleasure in presenting to the shareholders their annual report together with the audited accounts of the Company and the Group for the year ended 31st December 2004.

PRINCIPAL ACTIVITIES

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

GROUP PROFIT

The consolidated profit and loss account is set out on page 41 and shows the Group's profit for the year ended 31st December 2004. A discussion and analysis of the Group's performance during the year and the material factors underlying its results and financial position are provided in the Chairman's Statement and CEO Report on pages 11 to 18 of this Annual Report.

DIVIDENDS

The Directors recommend the payment of a final dividend of US 0.52 cent per share totalling to approximately US\$5,161,000.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 25 to the accounts.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 27 to the accounts.

DISTRIBUTABLE RESERVES

The distributable reserves of the Company available for distribution as dividends amounted to US\$149,241,000 as at 31st December 2004, comprising retained earnings of US\$5,991,000, a share premium of US\$71,686,000 and a merger reserve arising from the reorganisation prior to the listing, amounting to US\$71,564,000.

Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the merger 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.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US\$702,000.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 98 of the Annual Report.

REPORT OF THE DIRECTORS

FIXED ASSETS

During the year, the Group acquired fixed assets of approximately US\$32.4 million, mainly representing the expansion of manufacturing facility in our Dongguan Supply Chain City. Details of the movement in fixed assets of the Group during the year are set out in note 13 to the accounts.

MODEL CODE

The Company has adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standards set out in the Model Code for Securities Transactions ("the "Model Code"). After 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.

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 purchased, sold or redeemed any of their shares during the year.

RETIREMENT SCHEMES

Details of the retirement scheme are set out in note 24 to the accounts.

SHARE OPTIONS

A share option scheme was adopted by the sole shareholder of the Company at the general meeting held on 27th 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 recognise 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 optimise 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

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 adviser of or contractor to the Group or an Affiliate; or

REPORT OF THE DIRECTORS

- (iii) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, adviser 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\$10.00 within 21 days of offer
Basis of determining the exercise price:	<p>The exercise price shall be determined by the Board and not less than the highest of</p> <ul style="list-style-type: none">(i) the closing price of a share as stated in the Stock Exchange's daily quotations sheet 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 26th June 2014, unless otherwise determined in accordance with its term.

REPORT OF THE DIRECTORS

The following is a summary of options granted and outstanding during the year ended 31st December 2004:

						No. of share options		
	Note	Date of grant	Exercise Period	Exercise Price Per Share	As at 1st January 2004	Granted during the year	Exercised during the year	As at 31st December 2004
TAN Henry	5	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	200,000	-	200,000
TAN Willie	5	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	200,000	-	200,000
TAN Cho Lung, Raymond	5	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	150,000	-	150,000
TAN Sunny	6	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	150,000	-	150,000
TAN Jerry	7	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	150,000	-	150,000
TAN Jason	8	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	100,000	-	100,000
TAN Jeffrey	8	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	50,000	-	50,000
CHIU George	9	28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	200,000	-	200,000
Other Employees		28th December 2004	28th December 2004 to 27th December 2007	HK\$4.10	-	6,556,500	-	6,556,500
						- 7,756,500	-	7,756,500

Notes:

1. Upon acceptance of the options, HK\$10.00 is paid by the grantee to the Company by way of consideration for the grant.
2. The exercise price of the share options is subject to the adjustment in the event of any alteration in the capital structure of the Company.
3. The closing market price per share on the date the options were granted was HK\$4.1.
4. The above options granted are not recognised in the accounts until they are exercised. The Directors do not consider it appropriate to state the value of the options granted during the year as a number of variables which are crucial for the calculation of the value of the options have not been determined. The Directors believe that any calculation of the value of the options based on a great number of speculative assumptions would not be meaningful and would be misleading.
5. Mr. Tan Henry, Mr. Tan Willie and Mr. Tan Cho Lung, Raymond are Directors of the Company.
6. Mr. Tan Sunny is the Chief Financial Officer of the Group and the brother of the Directors mentioned in note 5 above.
7. Mr. Tan Jerry is the Chief Executive Officer of CTSI Logistics and the brother of the Directors mentioned in note 5 above.
8. Mr. Tan Jason and Mr. Tan Jeffrey are the sons of Mr. Tan Henry, the Group Chief Executive Officer, and are also employees of the Group.
9. Mr. Chiu George is the brother-in-law of Mr. Tan Henry.

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

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 61% (2003: 58%) of the total sales. The top five suppliers accounted for approximately 65% (2003: 46%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 26% (2003: 27%) of the total sales and the Group's largest supplier accounted for approximately 27% (2003: 24%) 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.

REPORT OF THE DIRECTORS

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

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

Executive Directors

TAN Siu Lin
TAN Henry
TAN Willie
TAN Cho Lung, Raymond

Independent Non-executive Directors

CHAN Henry
CHEUNG Siu Kee
FOK Kwan Wing*
SEING Nea Yie

* Deceased

PARTICULARS OF SERVICE AGREEMENTS

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

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

Dr. TAN Siu Lin	HK\$76,700
Mr. TAN Henry	HK\$198,000
Mr. TAN Willie	HK\$192,000
Mr. TAN Cho Lung, Raymond	HK\$144,000

Pursuant to the letter of appointment from the Company to each of the independent non-executive Directors dated 16th April 2004, the appointment of each independent non-executive Director was for an initial term of 3 years commencing from 16th April 2004, except for Mr. Seing Nea Yie, whose appointment became effective on 28th January 2005 as replacement of Mr. Fok Kwan Wing who passed away on 21st January 2005. Pursuant to the Articles of Association of the Company, Mr. Seing shall hold office only until the next following Annual General Meeting of the Company and shall then be eligible for re-election. Details of the change in directorship were also included in the Company's announcement dated 27th January 2005.

Pursuant to the letters of appointment from the Company dated 27th January 2005 for Mr. Seing Nea Yie and 16th April 2004 for all other independent non-executive Directors, all independent non-executive Directors shall be entitled to an annual fee of HK\$100,000.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31st December 2004, 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 SEHK ("Listing Rules") were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interest in the Company
TAN Siu Lin	Trustee (<i>Note 1</i>)	675,000,000	74.81%
TAN Henry	Beneficiary of Trust (<i>Notes 2 & 3</i>)	614,250,000	68.08%
TAN Willie	Beneficiary of Trust (<i>Notes 2 & 4</i>)	614,250,000	68.08%
TAN Cho Lung, Raymond	Beneficiary of Trust (<i>Notes 2 & 5</i>)	614,250,000	68.08%

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 74.81% of the issued share capital of the Company.
2. Pursuant to a shareholders' agreement dated 12th 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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS AND DIRECTORS' INTEREST IN CONTRACTS

The Tan Private Group, comprising of Helmsley and Tan Holdings Corporation and their respective subsidiaries (other than the Group) and any other connected person of the Company (as defined in the Listing Rules), is engaged in a large variety of businesses, ranging from the distribution of office supplies, insurance, fisheries, technological support, property, advertising and printing, automobile repair, 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 executive 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 31st December 2004 and 2003. Details of these connected transactions are more particularly described in the prospectus.

Connected Party	Category	2004	2003
		US\$'000	US\$'000
Tan Private Group	Food and office supplies	456	423
	Travel services	386	–
	Insurance coverage	1,028	1,145
	Supply of packaging materials	1,321	1,453
	Provision of technological support services	2,266	2,423
	Lease agreements	881	1,083
	Freight services	231	176
	Mechanical repair and maintenance services	296	318
	Administrative and support services	9,024	9,508

REPORT OF THE DIRECTORS

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

- (i) carried out on normal commercial terms;
- (ii) carried out in the ordinary and usual course of business of the Group on terms that are fair and reasonable to the Group and are in the interest of the shareholders of the Company and the Group as a whole; and
- (iii) within the relevant cap amounts as agreed by the SEHK.

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.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2004, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interest disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued capital of the Company.

Long position in the Shares

Name of shareholder	Notes	Capacity*	No. of ordinary shares beneficially held	Approximate percentage of interest in Company
Capital Glory Limited	(a)	Beneficial owner	614,250,000	68.08%
Helmsley	(a)	Interest of controlled corporation	614,250,000	68.08%
Tan Family Trust of 2004	(b), (c)	Interest of controlled corporation	675,000,000	74.81%
Trusts (other than the Tan Family Trust of 2004)	(c)	Interest of controlled corporation	614,250,000	68.08%
Pou Chen Corporation		Interest of controlled corporation	89,100,000	9.87%
Wealthplus Holdings Limited		Interest of controlled corporation	89,100,000	9.87%
Yue Yuen Industrial (Holdings) Limited		Interest of controlled corporation	89,100,000	9.87%
Pou Hing Industrial Co. Ltd.		Interest of controlled corporation	89,100,000	9.87%
Great Pacific Investments Limited		Beneficial Owner	89,100,000	9.87%
Tan Holdings Corporation		Interest of controlled corporation	60,750,000	6.73%
Union Bright Limited		Beneficial Owner	60,750,000	6.73%

Notes:

- a) Capital Glory Limited (“Capital Glory”), an international business company incorporated in the BVI with limited liability, is a wholly-owned subsidiary of Helmsley. Helmsley is therefore deemed to be interested in the interests of Capital Glory held in the Company
- b) The Tan Family Trust of 2004 was established on 11th June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin and his family members. The Tan Family Trust of 2004 is interested in the entire issued share capital of Tan Holdings Corporation and 30% of the issued share capital of Helmsley. For the purposes of Part XV of the SFO, it is deemed to be interested in the shares held by both Tan Holdings Corporation and Helmsley.
- c) The Trusts (Other than the Tan Family Trust of 2004) comprise of the following:
 - (i) The Pak Kim Lam Tan Trust of 2004 was established on 11th 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 11th 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 11th 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 11th 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 11th 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 11th 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 11th 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 and Helmsley held in the Company, representing 74.81% of the issued share capital of the Company immediately following the completion of the Share Offer on 7th August 2004.

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.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules since the Company's listing on the SEHK on 15th July 2004.

POST BALANCE SHEET EVENT

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

AUDITORS

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

On behalf of the Board

Tan Henry

Chief Executive Officer and Director

21st April 2005