

Luen Thai Holdings Limited 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.

BOARD OF DIRECTORS

The Board of Directors comprises four executive Directors and three independent non-executive Directors. The Directors are subject to retirement and re-election at the Annual General Meeting in accordance with the provisions of the Company's Articles of Association. The Board is scheduled to meet at least three times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. All Directors are encouraged to take independent professional advice at the Company's expense in performance of their duties, if necessary. The roles of the independent non-executive Directors are to focus on effectiveness of internal controls, risk evaluation and meet regularly with external auditors to discuss the audit process and accounting issues.

Frequency of Meetings and Attendance

Six Board meetings were held during the year with an average attendance rate of 90%. Attendance at board meetings by category is set out below:

Category	Average Attendance Rate
Executive Directors	83%
Independent non-executive Directors	100%

Remuneration

In 2004, total Directors' remuneration amounted to approximately US\$984,000 (2003: US\$721,000).

The Remuneration Committee was set up in April 2005 with the responsibility of recommending to the Board the remuneration policy of all Directors and the senior management. Majority of the Committee members are independent non-executive Directors.

Independence

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 Company's 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.

AUDIT COMMITTEE

The Audit Committee of the Board of Directors was established with written terms of reference that sets out the authorities and duties of the Committee adopted by the Board. The Committee comprises three independent non-executive Directors.

The Committee's principal duties include reviewing the nature and scope of the statutory audits, interim and annual accounts of the Group, and the adequacy and effectiveness of the accounting and financial controls of the Group. The committee shall meet at least three times a year and ad hoc/as-needed basis. It meets regularly with the external auditors and the management of the Group, to ensure that the audit findings are addressed properly.

The Committee has reviewed the annual and interim results of 2004 and was content that the accounting policies of the Group are in accordance with the current best practices in Hong Kong.

Two meetings were held during the year after the Company's listing on the SEHK on 15th July 2004. The attendance at meetings is set out below:

Audit Committee Members	Meetings Attended/Held
CHAN Henry	2/2
CHEUNG Siu Kee	2/2
FOK Kwan Wing (deceased on 21st January 2005)	2/2
SEING Nea Yie (appointed on 28th January 2005)	N/A

INTERNAL AUDIT

An internal audit team will be established in May 2005 with an Internal Audit Charter to be approved and adopted by the Audit Committee. The internal audit team shall be an independent unit established within the Group, which shall provide the Board of Directors 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 shall have a direct reporting line to the Audit Committee.

CODES AND POLICIES

Code of Best Practice

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.

Related Party Transactions Policy

Related party transactions are periodically reviewed and approved by the Audit Committee. Significant related party transactions undertaken by the Group during the year are set out in note 32 to the accounts. All such related party transactions were undertaken, on normal commercial terms in the ordinary course of business of the Group.

Securities Dealing Code

In 2004, the Company adopted its own Securities Dealing Code to align with the amendments of the Model Code for Securities Transactions by Directors of listed Issuers of the SEHK.

The revised code sets out the principles applying to dealing in the Company's shares and other securities. It applies to all Directors and to all employees to whom the code is given and who are informed that they are subject to its provisions. The Directors and all the relevant employees must comply strictly with the terms of the code. Any breach of the code would be regarded as a very serious disciplinary matter.

SHAREHOLDERS' INFORMATION

Major Shareholders and Spread of Shareholders

The shares of the Company are listed on the SEHK. As at 31st December 2004, the Company has 902,300,000 shares in issue, each with a par value of US\$0.01.

As at 31st December 2004, the major shareholders of the Company were as follows:

Beneficial Shareholders	Number of Ordinary Shares Owned	Percentage
Capital Glory Limited (<i>notes 1 & 2</i>)	614,250,000	68.1%
Union Bright Limited (<i>notes 1 & 3</i>)	60,750,000	6.7%
	675,000,000	74.8%
Public Shareholders		
Yue Yuen Industrials (Holdings) Limited	89,100,000	9.9%
Other Public Shareholders	138,200,000	15.3%
	902,300,000	100.0%
Total	902,300,000	100.0%

CORPORATE GOVERNANCE

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.

SHARE PLACING AND SUBSCRIPTION SUBSEQUENT TO YEAR END

The Company entered into both the Placing Agreement and Subscription Agreement on 24th January 2005. Pursuant to the Placing Agreement, the Placing Agent has agreed to place 90,200,000 existing shares owned by Capital Glory to not less than six independent placees at Placing Price HK\$4.07. Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue to Capital Glory 90,200,000 new shares at the Placing Price HK\$4.07 subject to completion of the Placing. The Placing Price and the Subscription Price were determined after arm's length negotiations between the Company, Capital Glory and the Placing Agent and the Directors consider that the terms of the Placing Price and the Subscription Price are fair and reasonable. The net proceeds of the Subscription will be used to finance the expansion of the Group's existing product types, such as ladies' intimate wear, knitwear and cotton pants and the remaining balance for general working capital of the Group.

As at the date of this report, the effects of the shareholding structure of the Company pursuant to the Placing and the Subscription are as follows:

	Number of Ordinary Shares Owned	Percentage
Beneficial Shareholders		
Capital Glory Limited (<i>notes 4 & 5</i>)	614,250,000	61.9%
Union Bright Limited (<i>notes 4 & 6</i>)	60,750,000	6.1%
	<hr/>	<hr/>
	675,000,000	68.0%
Public Shareholders		
Yue Yuen Industrials (Holdings) Limited	89,100,000	9.0%
Other Public Shareholders	228,400,000	23.0%
	<hr/>	<hr/>
Total	992,500,000	100.0%
	<hr/>	<hr/>

Notes:

4. Parties acting in concert
5. 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.
6. Union Bright Limited is a wholly-owned subsidiary of Tan Holdings Corporation, which is in turn wholly-owned by the Tan Family Trust.

Share Performance

Since the 15th July 2004 (the listing date), the Company's share price rose by 48% to HK\$4.03 on 31st December 2004. 4.3 billion of Company shares were traded on the SEHK at a value of HK\$1.5 billion in 2004.

The Company's share price was HK\$4.03 as at 31st December 2004 and its market capitalisation was HK\$3.6 billion. In 2004, the highest trading price for the Company share was HK\$4.47 on 12th November and the lowest was HK\$2.72 on 15th July.

Communication with Shareholders

Communication with shareholders is given high priority. Extensive information about the Group's activities is provided in the Annual Report and the Interim Report. Luen Thai website provides regularly updated Group information to shareholders. Luen Thai also arranges regular site visit for investors and media.

Enquiries on matters relating to shareholdings and the business of the Group are welcome, and are dealt with in an informative and timely manner. The Group encourages all shareholders to attend Annual General Meeting.