The board of directors (the "Board") of Luen Thai Holdings Limited (the "Company") has the pleasure of presenting the Company's interim report together with the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group" or "Luen Thai") for the six months ended 30 June 2005. The Group's unaudited interim financial statements have been reviewed by the Company's audit committee, and reviewed by the Company's auditors, PricewaterhouseCoopers, in accordance with Statement of Auditing Standard 700 "Engagements to review interim financial reports" issued by the Hong Kong Institute of Certified Public Accountants.

MANAGEMENT DISCUSSION AND ANALYSIS

Overview

As the global apparel industry enters into 2005, the first year in the "quota-free" era, we are reading into a new edition of the rules engagement in world trade, which reflects the latest benefits (and problematic issues) arising from China's accession into the World Trade Organisation and has led to the creation of new apparel sourcing strategies and supply chain/manufacturing partnerships in the region. The first half of 2005 has indeed proven to be a challenging period for the Group, attributable mainly to the latest round of trade disputes and negotiation between China and the USA ("US") as well as the European Union ("EU"). The imposition of temporary safeguards by the US and the EU, and the expected additional petitions to counter the flow of garments from China, have affected not just the Group but also the entire apparel industry at different levels.

The continued Sino-American and Sino-European trade disputes and the resultant reinstatement of import quota on certain product categories have forced our customers to make frequent and last-minute changes to their production orders with us. These order changes have complicated our manufacturing process and therefore increased our operating costs. The Group's aggregate costs of sales for the first half of 2005 increased by 1.7% (or approximately US$3,606,000) as compared with the corresponding period in 2004, against a 1.1% (or approximately US$2,885,000) decrease in export sales. The increase in cost of sales was attributable to:

(1) additional transportation costs arising from changes in production schedules and production origins;

(2) lower utilisation of the production facilities in China due to re-allocation and cancellation of orders at short notice; and

(3) temporary changes to production lines to accommodate different products which have, to some extent, negatively affected the Group's operational efficiency.

In the light of the Group's substantial exposure to the US market, the Group continues to take prudent measures in balancing and spreading its exposure to country-specific risks by expanding its business operations in Japan and Europe. In the first half of 2005 and as compared with the corresponding period in 2004, we have seen an increase of approximately 49.9% (or approximately US$10,209,000) and approximately 10% (or approximately US$2,463,000) in revenue from the Group's operations in Europe and Japan respectively, and such increment when combined represents approximately 4.7% of the Group's total turnover for the first half of 2005.

As an industry leader, Luen Thai had also taken strategic initiatives to position itself for the new "quota-free" era. It is our continuous effort to offer an integrated and comprehensive one-stop service to our key customers. The latest and continued development of our Dongguan "Supply Chain City" in China has generated encouraging results, with us gaining new customers, market share and improved design and supply chain coordination. To further strengthen our business partnership with key customers, we have also opened new development centers, upgraded our design & research center, and built a fabric & trims innovation center, all in China, during the first half of 2005.

Luen Thai is committed to its multi-product and multi-country strategy. As a measure to reduce risks associated with "safeguards measures" against China and maintain an even spread of production risks, we have continued to maintain and utilise our non-China production facilities, as well as developing and enhancing our Outward Processing Arrangement ("OPA") capabilities in Macau and Hong Kong. In terms of product range, we have gained the capabilities for the production of sweaters through our acquisition of Partner Joy Group Limited (which owns Tien Hu Knitters Limited, Tien-Hu Knitting Factory (HK) Limited and Tien-Hu Trading (HK) Limited; and collectively referred to as the "Tien-Hu group") in May 2005. Tien-Hu group sold over approximately US$90 million of sweater to its customers in 2004. We are committed to support Tien-Hu group to further develop its business with our supply chain infrastructure and customer relationships. In addition to sweater, we also started the manufacturing of pants (or trousers) during the first half of 2005 with some notable success through the support from our key customers despite the larger-than-expected start-up costs.

Results of operations

Turnover of the Group was approximately US$267,484,000 for the six months ended 30 June 2005, representing a decrease of 1.1% as compared to that recorded for the corresponding period last year.

During the period under review, gross profit margin decreased by 2.2% point to 20.5% whereas the operating margin decreased from 6.6% to 5.9% when compared to that of the same period last year. These reductions are the results of a decrease in apparel turnover primarily due to the aftermath of Sino-American and Sino-European trade disputes and the reinstatement of import quota on certain product categories as mentioned in the "Overview" section above. The Group also incurred additional start-up costs on its expansion into the production of pants and its development of OPA facilities in Macau.

The Group's selling and distribution expenses decreased by approximately 59.9% or approximately US$6,434,000 during the first six months of 2005 primarily due to the elimination of quota charges and improved control on freight costs. General & administrative expenses, however, increased by approximately 8.2% over the same period last year as a result of the additional costs incurred in the midst of the current uncertainties surrounding the global apparel industry.

Mariana Express Lines Limited ("MELL"), an associated company engaged in ocean cargo service in Asia, recorded a loss of approximately US$1,758,000 for the six months period ended 30 June 2005 due to the high oil prices and the increase in charter hire costs.

The effective tax rate, however, decreased significantly due to the derecognition of certain tax provision as a result of a review undertaken by the Directors as at 30 June 2005.

The profit attributable to equity holders of the Company for the first six months of 2005 therefore suffered a decline of 4.7% to approximately US$12,505,000 when compared to that recorded for the same period last year.

Apparel Operations

The on-going textile trade disputes between China and US/EU caused some negative impact to our apparel operation. The reinstatement of quota has negatively impacted the operations and caused additional operating costs to our apparel operations. The growth of the Group's sleepwear business is in line with the Group's overall strategic direction. Our joint venture with Yue Yuen Industries Limited, Yuen Thai Industries Company Limited ("YTIC"), continues its momentum in the development of active wear. YTIC is in the second year of operation and we are pleased with the development and confident on the business potential going forward.

Another area of growth for the Group is its continued expansion into the Japanese and European markets. In the light of its significant exposure to the US market, the Group continues to take prudent measures in balancing and spreading its exposure to country-specific risks by expanding its sales to Japan and Europe. In the first half of 2005, we have seen a notable success from such strategy.

Logistics and Freight Forwarding Operations

For the six months ended 30 June 2005, the Group's logistics division recorded a turnover of approximately US$6,123,000, representing an approximately 4.6% increase from approximately US$5,853,000 recorded for the same period last year. The growth in the Group's logistics division is the result of new customers gained in the US.

Liquidity and Financial Resources

Cash flow from the Group's operations for the first six months in 2005 was approximately US$16,454,000. As at 30 June 2005, the Group's total cash and cash equivalents approximately amounts to US$101,286,000, an increase of US$55,082,000 over the balance as at 31 December 2004.

Gearing ratio is defined as net debt (representing by bank borrowings net of cash and bank balances) divided by shareholders' funds. As at 30 June 2005, the Group is in a net cash position and hence no gearing ratio is presented.

As at 30 June 2005, the maturity profile of the Group's bank borrowings spread over two years with approximately US$99,172,000 repayable within one year or on demand and approximately US$1,200,000 in the second year.

Foreign Exchange Risk Management

The Group adopts a prudent policy to hedge the fluctuation of exchange rates. Most of the Group's operating activities are denominated in US dollars and Hong Kong dollars. For those activities denominated in other currencies, the Group may from time to time enter into forward contracts with large and reputable financial institutions to hedge its receivable and payable denominated in foreign currencies to reduce the risks involved in exchange rate fluctuations. As at 30 June 2005, the Group has no outstanding foreign currency exchange contract.

Acquisitions and Joint Ventures

Acquisitions and joint ventures remain an important part of the Group's growth strategy, with the proven success of certain acquisitions and joint ventures particularly in the past two years that enabled the Group to expand into other apparel product categories such as sleepwear, ladies career wear and active wear, which in turn increased the Group's market share in the overall apparel business.

On 3 May 2005, the Group acquired a 71% equity interest in Partner Joy Group Limited ("Partner Joy") through Fortune Investment Limited, a wholly owned subsidiary of the Company (the "Acquisition"). Partner Joy through its three wholly owned subsidiaries in Hong Kong – Tien-Hu Knitters Limited, Tien-Hu Knitting Factory (HK) Limited, and Tien-Hu Trading (HK) Limited – is principally engaged in the manufacturing and trading of sweaters. The Tien-Hu group has been in operation since the 1980s and its major customers include many renowned US brands.

The Acquisition gave Luen Thai a significant presence in the sweater segment and will further consolidate the Group's leading position in the apparel industry. This is also in line with Luen Thai's multi-product strategy by way of selective acquisitions and joint ventures. The Tien-Hu group contributed approximately US$454,000 of post acquisition profit (or approximately 3.6% of the profit attributable to equity holders of the Company) for the six months ended 30 June 2005.

Details of the Acquisition were more particularly described in the Company's announcement dated 4 May 2005 and a related circular released to the Company's shareholders on 25 May 2005.

Future Plans and Prospect

Looking ahead, the Sino-American and Sino-European trade disputes and negotiations will continue to pose uncertainties for the global apparel trade during the rest of the year. As resolution of these disputes are made in the near future (such as the comprehensive EU agreement), there will be better clarity and visibility for Luen Thai and our customers to plan business for the rest of 2005 and 2006. We will continue to be prudent in developing our business while minimising risks relating to trade disputes. The trend of industry consolidation is unavoidable. We are confident that Luen Thai will eventually become one of the major consolidators and beneficiaries in the industry with our full-service, multi-country, multi-product, "design-to-store" business model. Customer partnerships and acquisitions will continue to be the driving forces on business growth.

Luen Thai is currently considering the acquisition of apparel related businesses, those with strong potential to bring shareholders' value to the Group. Part of the proceeds from the Company's listing in 2004 and the placing and subscription agreement completed in January 2005 was set-aside for this purpose.

The Group is committed to conform to its cost-cutting measures and shall continue to improve its operational efficiency.

Contingent Liabilities and Off-Balance Sheet Obligations

The Group is involved in various labour lawsuits and claims arising from the normal course of business. The Directors believe that the Group has substantial legal and factual bases to support 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. Accordingly, no provision for such liabilities has been made in the financial statements. In addition, an estimate of the financial effect is not disclosed, as it is not practicable to do so.

Certain subsidiaries of the Group have given guarantees to a bank in respect of general banking facilities granted to a company beneficially owned by certain directors of the subsidiaries of the Group amounting to US$6,877,000.

Human Resources and Social Responsibilities

Luen Thai has a current manpower of approximately 18,000 stationed in various locations worldwide. The Group's operation is managed by a professional and multicultural management team whose specialties have been honed in the industry. This executive and management team is aligned to the Group's strategic objectives, business model and corporate values. As part of our commitment to being a learning organisation, Luen Thai has set up technical training schools to support its expansion of facilities. The schools train new hires in basic sewing machine operations and also existing operators in learning new methods for diversified product ranges. Conduct of supervisory and management training for supervisors and managers enables enhanced learning in the areas of leadership and management skills. The Group offers its staff competitive remuneration schemes. In addition, share options are granted to eligible employees as incentive for their contribution to the Group.

In June 2005, the Company was given the Platinum Award by Community Chest Group in Hong Kong in recognition of its generous contribution to people in need. The Group also initiated a company-wide voluntary fund-raising program in January 2005 and was successful in raising a considerable amount of money to help the victims of the December 2004 tsunami in South Asia.

PURCHASE, SALE OR REDEMPTION OF SHARES

On 24 January 2005, the Company, Capital Glory Limited and BNP Paribas Peregrine Capital Limited entered into a placing agreement in relation to the placing of 90,200,000 existing shares of the Company ("Placing Agreement") and a conditional subscription agreement between the Company and Capital Glory in relation to the subscription of 90,200,000 new shares ("Subscription Agreement"), which is equivalent to the same number of shares under the Placing Agreement. Details of both the Placing and Subscription Agreements were more particularly described in the Company's announcement dated 24 January 2005.