

CHAIRMAN'S STATEMENT

INTRODUCTION

2005 was indeed proven to be a challenging year not only for the Group but also for the entire apparel industry. The Group has been able to sustain its growth despite the chaos that affected the entire apparel industry during the year, as a result of trade disputes between China and its major markets following the quota elimination.

The first year of the supposedly “quota-free” era in the global apparel industry has seen major issues on trade relationships as protectionism sentiments from importing countries became more intense after an upset from the surge of Chinese-made textile products. Major global players such as the United States of America (“USA”) and the European Union (“EU”) were forced to impose temporary safeguards to counter the flow of garments from China that lead to trade disputes and brought about uncertainties in the market.

To minimize the effects resulting from the uncertainties from trade disputes to our customers, we had to cope with the frequent changes in production schedules and origins, and the need to re-allocate and cancel orders at short notice, aside from the temporary changes to product lines to accommodate different products, which further resulted to lower utilization of certain Luen Thai facilities.

We consider the chaos in 2005 only temporary and with trade agreements now in force with the USA/EU, along with implementation of China’s quota allocation system, we expect order flows to stabilize and increase in volume in 2006.

Moreover, as market consolidation has become inevitable, Luen Thai will continue to capitalize its strong customer relationships and experience in the industry together with the right business model, to become one of the major consolidators and beneficiaries in the “quota-free” era in the apparel industry.



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BUSINESS DEVELOPMENT

Luen Thai developed "D2S" 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.

As an industry leader, Luen Thai has 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 services to our key customers, as we expand further our China operations, with the view of its competitive advantage in terms of lead time and efficiency. In February and September 2005, we opened two more dedicated development centers in Panyu and Dongguan Supply Chain City in China. We now operate a total of six dedicated development centers for our key customers. In addition, we opened the Fabric & Trims Innovation Center at the Dongguan Supply Chain City in February 2005, which is the first of its kind in the global apparel industry. It was created to cut sourcing lead time by bringing a wide selection of the latest materials development closer to our customers in collaboration with our key vendor partners. These facilities, along with other on-site development support services in design, print, washing, embroidery, costing, technical support and sample making are all located just a few minutes away from each other within the Dongguan Supply Chain City. The set-up facilitates on-site and joint product development and helps our customers achieve *speed-to-market* advantages. Furthermore, it allows us to strengthen our business partnerships with key customers and suppliers as well.

Luen Thai is committed to its multi-product and multi-country strategy. As a measure to reduce risks associated with "safeguard measures" against China and maintain an even spread of production risks, we have continued to maintain and utilize our non-China production facilities, as well as developing and enhancing our Outward Processing Arrangement ("OPA") capabilities. 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 (Hong Kong) Limited and Tien-Hu Trading (Hong Kong) Limited; and collectively referred to as the "Tien-Hu") in May 2005. We are committed to support Tien-Hu 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.

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FUTURE PLANS AND PROSPECTS

Looking ahead, with trade agreements now in force with the USA/EU, along with the implementation of China's quota allocation system, we expect order flows to stabilize in 2006. Luen Thai will continue to be prudent in developing its business while minimizing risks related to trade regulations. Also, we will remain focused to strive to be one of the leading players in the global apparel market with state-of-the-art supply chain and manufacturing platform as well as multi-product and multi-country manufacturing base.

Customer Partnership: The Group will continue to grow as we gain new customers and develop closer partnership with our existing key customers through our D2S business model together with our 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 strengthen its multi-country and 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 GJM, Tomwell, Yuen Thai and Tien-Hu.

On behalf of the Board of Directors, I would like to express my sincere gratitude to all our customers, shareholders and vendor-partners for placing their trust in Luen Thai and for the support they have given us all these years.

I would also like to extend my appreciation to all our employees for their continued hard work and dedication to the development of the Group. Each and every one of them has played an important role to the day-to-day operations of Luen Thai.

Finally, I would also like to take this opportunity to express my sincere thanks for the close cooperation of my fellow Board members and the senior management 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, 20 April 2006