

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

Luen Thai Holdings Limited together with its subsidiaries (the “Group” or “Luen Thai”) acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders’ value. It 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.

In November 2004, The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) issued certain amendments in the Listing Rules related to the Code on Corporate Governance Practices (the “Code”) and the rules on the Corporate Governance Report, which came into effect on 1 January 2005. The Company has considered the Code and has reviewed and amended internal procedures, where appropriate, to comply with the code.

Throughout the year ended 31 December 2005, the Company was in compliance with the Code as set out in the then Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”).

This report includes information relating to corporate governance practices of the Company during the year ended 31 December 2005 and significant events after that date and up to the date of this report.

DIRECTORS’ SECURITIES TRANSACTIONS

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 by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules. 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.

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BOARD OF DIRECTORS

The Board

The Board is scheduled to meet at least four times a year to determine overall strategic direction and objectives and approve interim and annual results and other significant matters. In 2005, four Board meetings were held with an average attendance rate of 94%, details of which are presented below.

Board Members	Meetings Attended/Held	Average Attendance Rate
<i>Executive Directors</i>		89%
TAN Siu Lin (<i>Chairman of the Board</i>)	4/4	
TAN Henry*	4/4	
TAN Willie*	3/4	
TAN Cho Lung, Raymond*	3/4	
MOK Siu Wan, Anne (<i>appointed with effect from 3 June 2005</i>)	3/3	
<i>*Son of TAN Siu Lin</i>		
<i>Independent non-executive Directors</i>		100%
CHAN Henry	4/4	
CHEUNG Siu Kee	4/4	
FOK Kwan Wing (<i>deceased on 21 January 2005</i>)	n/a	
SEING Nea Yie (<i>appointed with effect from 28 January 2005</i>)	4/4	

Directors are consulted to include any matter in the draft agenda. As part of our best practices, the agenda of Board meetings are finalized by the Chairman after taking into consideration any matters proposed by other Directors, including the independent non-executive Directors. The notice and agenda are generally released at least 14 days in advance.

The Company's articles of association (the "Articles of Association") provide that a Board meeting shall be held in cases where a substantial shareholder or Director has a conflict of interest in a material matter, in which the substantial shareholder or Director is required to abstain from voting and shall not be counted in quorum. This is also in conformity with the Code requirements.

The Company Secretary, Mr. Chiu Chi Cheung, is responsible for taking minutes of Board and Board Committee meetings. Draft and final minutes are sent to all Directors for comments within a reasonable time. A final draft of each minutes of meetings is made available for inspection by Directors/Committee Members.

All Directors have access to the Company Secretary who is responsible for ensuring that Board procedures are complied with and advises the Board on corporate governance and compliance matters. They are also encouraged to take independent professional advice at the Company's expense in performance of their duties, if necessary. Furthermore, all the Directors are covered by the Directors' & Officers' Liability Insurance, which is also part of our best practices.

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Chairman and CEO

During the year 2005 and as of the date of this report, Mr. Tan Siu Lin is the Chairman of the Board and Mr. Tan Henry is the Chief Executive Officer of the Company. Mr. Tan Henry is the son of Mr. Tan Siu Lin.

The Chairman of the Board is responsible for overseeing the strategic planning and leadership of Luen Thai. The Chief Executive Officer, on the other hand, is responsible for the strategic development and maintaining the Group's relationship with outside companies of the Group.

The Chairman ensures that the entire Board is provided with relevant Company information that would allow them to effectively discharge their responsibilities. The Company continues to strive to improve the quality and timeliness of dissemination of relevant information to all the Directors.

Composition

The board of directors (the "Board") comprises five executive Directors, including the Chairman of the Board, and three independent non-executive Directors. Each of the Directors has the relevant experience, competencies and skills appropriate to the requirements of the business of the Group, which are more particularly described in page 17 of this Annual Report. The independent non-executive Directors are expressly identified as such in all corporate communications that disclose the names of directors of the Company. The Group's best practices include the appointment of independent non-executive Directors which represents at least one-third of the Board.

Appointments, re-election and removal

The Board as a whole is responsible for the procedure agreeing to the appointment of its own members and for nominating them for election by the shareholders on first appointment and thereafter at regular interval of rotation. Pursuant to the provisions of the Articles of Association, the Directors are subject to retirement by rotation at least once every three years and new Directors are required to submit themselves for re-election at the first general meeting of the Company following their appointment. The Company has not established any nomination committee and is not currently considering establishing the same owing to the small size of the Board of the Company. The Chairman of the Board is mainly responsible for identifying appropriate candidates to fill the casual vacancy whenever it arises or to add additional member as and when required. The Chairman will propose the qualified candidate(s) to the Board for consideration. The Board will approve the appointment based on the suitability, qualification of the candidate.

Responsibilities of Directors

Upon acceptance of appointment, a new Director is provided with sufficient orientation package, including introduction to Group activities (when necessary), induction into their responsibilities and duties, and other regulatory requirements, to ensure that he has a proper understanding of the business and his responsibilities as a Director of the Company.

Each of the Directors is required to give sufficient time and attention to the affairs of the Company. Based on the meetings of the Board and Committees under the Board (the "Board Committee"), a very satisfactory average attendance rates were recorded, as also presented in pages 38, 41 and 43 of the Annual Report.

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Independent non-executive Directors

The roles of the independent non-executive Directors include the following:

- (i) provision of independent judgement at the Board meeting;
- (ii) take the lead where potential conflicts of interests arise;
- (iii) serve on committees if invited; and
- (iv) scrutinize the performance of the Group as necessary

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

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 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.

Supply of and access to information

To allow the Directors to make an informed decision and properly discharge their duties and responsibilities, the Company Secretary ensures that relevant Board papers are sent to all the Directors in a timely manner. All Board papers and minutes are also made available for inspection by the Board and its Committees.

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REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Remuneration Committee was set up with the responsibility of recommending to the Board the remuneration policy of all the Directors and the senior management, which was discussed in more detail in its written Terms of Reference (the "RC Terms of Reference"). The Remuneration Committee comprises one executive Director and three independent non-executive Directors, as set out below.

Independent non-executive Directors

CHAN Henry

CHEUNG Siu Kee

SEING Nea Yie, *Committee Chairman*

Executive Director

TAN Henry

The Committee Chairman is required to report to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.

A meeting of the Remuneration Committee is required to be held at least once a year to coincide with key dates within the financial reporting and audit cycle. In 2005, a perfect (100%) attendance rate for each Committee member was recorded for three meetings held by the Remuneration Committee.

The Remuneration Committee is authorized to investigate any matter within the RC Terms of Reference and seek any information it requires from any employee and obtain outside legal or other independent professional advice at the cost of the Company if it considers necessary. The Remuneration Committee has reviewed the compensation of the directors and senior executives for 2005.

In 2005, total Directors' remuneration amounted to approximately US\$1,818,000 (2004: US\$984,000), individual monthly details of which are disclosed in pages 28 and 29 of the Annual Report. Executive Directors and senior management's compensation including the long-term incentive shall be based on the corporate and individual performance.

ACCOUNTABILITY AND AUDIT

Financial reporting

The Directors are responsible for the preparation of financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the financial statements for the year ended 31 December 2005, the Directors have selected suitable accounting policies and applied them consistently; adopted appropriate Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards; made adjustments and estimates that are prudent and reasonable; and have prepared the financial statements on the going concern basis. The Directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company.

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Internal Controls

The Board has overall responsibility for the system of internal controls of the Company and for reviewing its effectiveness. The Board is committed to implementing an effective and sound internal controls system to safeguard the interest of the shareholders and the Group's assets.

The Internal Audit Team (the "IA Team") was established in May 2005 with an Internal Audit Charter approved and adopted by the Audit Committee. The Audit Team is an independent unit established within the Group, which provides the Board 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 has a direct reporting line to the Audit Committee.

The Directors through the IA Team under the Audit Committee conduct periodical reviews of the effectiveness of the Group's system of internal controls.

Audit Committee

The Audit Committee was established with written terms of reference that sets out the authorities and duties of the Committee adopted by the Board. It comprises three independent non-executive Directors, none of which is a former partner of the external auditors

The Audit Committee's principal duties include reviewing the nature and scope of the statutory audits, interim and annual financial statements of the Group, and the adequacy and effectiveness of the accounting and financial controls of the Group. It shall meet at least three times a year and on an ad hoc/as-needed basis. It meets with the external auditors and the management of the Group, to ensure that the audit findings are addressed properly. The Audit Committee is authorized to take independent professional advice at Company's expense.

The Audit Committee has reviewed the annual and interim results of 2005 and was content that the accounting policies of the Group are in accordance with the generally accepted accounting practices in Hong Kong.

The Audit Committee recommended to the Board that, subject to the shareholders' approval at the forthcoming annual general meeting of the Company, Messrs. PricewaterhouseCoopers be re-appointed as the external auditors of the Group for 2006.

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Attendance for the three meetings held by the Audit Committee during the year is set out below:

Audit Committee Members	Meetings Attended/Held
CHAN Henry	3/3
CHEUNG Siu Kee	3/3
FOK Kwan Wing (<i>deceased on 21 January 2005</i>)	n/a
SEING Nea Yie, <i>Committee Chairman (appointed with effect from 28 January 2005)</i>	3/3

The financial statements for the year have been audited by PricewaterhouseCoopers. During the year, remuneration of approximately US\$620,000 was payable to PricewaterhouseCoopers for the provision of audit services. In addition, approximately US\$296,000 was payable to PricewaterhouseCoopers for other non-audit services. The non-audit services mainly consist of tax compliance and the interim review. The fees for audit and non-audit services for subsidiaries not performed by PricewaterhouseCoopers amounted to approximately US\$69,000 and US\$87,000, respectively.

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.

SHAREHOLDERS' INFORMATION

Major Shareholders and Spread of Shareholders

The Company has 992,500,000 shares in issue, each with a par value of US\$0.01.

As at 31 December 2005, 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	61.89%
Union Bright Limited (<i>notes 1 & 3</i>)	60,750,000	6.12%
Other Shareholders (<i>notes 1, 4 & 5</i>)	1,274,000	0.13%
	676,274,000	68.14%
Public Shareholders		
Yue Yuen Industrials (Holdings) Limited	89,100,000	8.98%
JPMorgan Chase & Co.	50,168,000	5.05%
Other Shareholders	176,958,000	17.83%
	992,500,000	100.0%

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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.
4. Tan Holdings Corporation purchased a total of 774,000 Company Shares in May and July 2005.
5. A total of 500,000 shares of the Company ("Company Shares") were purchased by an associate of Mr. Tan Willie between September and October 2005. Mr. Tan Willie is therefore deemed under Part XV of the SFO to be interested in the said total 500,000 purchased Company Shares.

Share Performance

The Company's share price was HK\$2.075 as at 31 December 2005 and its market capitalization was HK\$2.06 billion. In 2005, the highest trading price for the Company share was HK\$4.40 on 21 January and the lowest was HK\$1.97 on 13 December.