

CHAIRMAN'S STATEMENT

INTRODUCTION

Despite the outstanding performance of the ladies' fashion and sweater (Tien-Hu) divisions, the Group's overall 2006 financial performance was severely affected by the one-time restructuring of its casual wear division. The year 2006 is the worst year in terms of profit in Luen Thai company history. It is, however, our best year in terms of revenue, evidenced by the increased market share with key customers plus the new accounts we have secured during the year.

The Group's overall business remains sound and intact despite the challenges that we had to overcome in the past two years. We have proven that our D2S business model together with our multi-product and multi-country strategy is the right solution in providing value to our strategic customers.

The overall supply chain efficiency is the key determining factor in the industry where customers demand better quality products with the lowest total costs possible. Our customers continue to consolidate vendor numbers as well as countries of sourcing. In view of this behavior, Luen Thai also has continued to make adjustments on its strategy in order to maintain its competitive advantage in servicing our customers.

Luen Thai's scale, product diversity, management, customer relationships, financial strength and D2S business model continue to provide support to all our acquisitions and joint ventures, which have proven to be an important part of our growth strategy. We will continue to capitalize on such infrastructure and experience in the industry together with the right business model, to become one of the major consolidators and beneficiaries in the apparel industry.

BUSINESS DEVELOPMENT

Luen Thai's D2S business model 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). It aids the Group in achieving its ultimate goal to better serve its customers through shorter lead time and value-added services in all aspects of the supply chain.



Chairman's Statement

Casual Wear Division

The casual wear division, which contributed approximately 57% of the Group's revenue, has faced a challenging year due to high cost of operation as a result of a required one-time restructuring in order to rebalance its customers, products and related capacity to optimize asset utilization and operational efficiency in the long run. During second half of 2006, the casual wear division had to do order reallocation to address capacity and product mismatch-related issues when the Group closed one of the three garment manufacturing facilities in the Philippines and ceased its manufacturing operations in Saipan, as we continue to expand operations in China. The restructuring caused our casual wear division to incur substantial losses, which adversely affected the Group's overall financial performance.

Ladies' Fashion Division

The ladies' fashion division, which contributed approximately 20% of the Group's revenue, had an outstanding year with record revenue and profit. In fact, it became the profit driver for Luen Thai in 2006. The ladies' fashion division has continuously increased its market share on existing and new customers, with particular success in the department store sector in both the USA and UK markets.

Sweater Division

On the second year after its acquisition, the sweater division (Tien-Hu), which contributed for approximately 16% of the Group's revenue, continues to outperform its budget with record revenue and profit. The integration process has been very smooth and it has been able to leverage the Group's "D2S" platform in developing new business.

On Time Acquisition

Luen Thai has also developed a balanced approach of manufacturing and outsourcing strategy to provide flexibility in order processing. In April 2006, the Group acquired a 50% stake in On Time International Limited ("On Time") (the "Acquisition"), which has given Luen Thai a stronger outsourcing platform in Indonesia, India and Bangladesh, and enhanced design capabilities and client base in Europe. A substantial increase of 80.4% or approximately US\$52 million in revenue from our business in Europe was recorded in 2006 that is mainly attributable to the Acquisition. On Time is principally engaged in the design, sourcing and distribution of garments and other textile products on a worldwide basis.

Chairman's Statement

FUTURE PLANS AND PROSPECTS

Luen Thai will continue deploy resources to improve its D2S platform in supporting further growth of our business units. With the success of GJM, Tomwell, Yuen Thai, Tien-Hu and On Time, Luen Thai will seek value-enhancing acquisition and joint venture opportunities.

Operationally, with the completion of the restructuring, it is expected that the casual wear division will return to profitability and margin recovery would be in progress. We are optimistic on the future growth of the casual wear division. Also, given the outstanding performance of the ladies' fashion and sweater divisions in 2006, we are looking forward to more contributions from such business units. On Time will become an important business unit of Luen Thai and we are committed to leverage our D2S platform in supporting On Time in gaining more business. Lastly, given the strengthen of the Chinese domestic market, Luen Thai will seek opportunities in developing business in China to further reduce our reliance on the USA market.

CORPORATE GOVERNANCE

The Group acknowledges the need and importance of corporate governance as one of the key elements in creating shareholders' value. The Group is committed to improving its corporate governance policies in compliance with the regulatory requirements and in accordance with international best practices. As at the date of this report, the Company has formed the Audit Committee, Remuneration Committee and Bank Facility Committee all at the Board of Directors (the "Board") level, to provide assistance, advice and recommendations on relevant matters that aim to ensure protection of the Group and the Company's shareholders' interests as a whole.

APPRECIATION

On behalf of the Group, I would like to express my sincere appreciation to all our customers, vendor partners, shareholders and strategic partner, Yue Yuen Industrial (Holdings) Limited, for their steadfast trust and support. Also, I would like to thank all our employees for their commitment and hard work. None of the Group's achievements could have been possible without them. Finally, I am grateful to my fellow Board members and the senior management for their cooperation and countless contributions to the Group.

TAN Siu Lin

Chairman

Hong Kong, 19 April 2007