

REPORT OF THE DIRECTORS

The board of directors of Luen Thai Holdings Limited (the “Board” or “Directors”) has the pleasure in presenting to the shareholders this annual report together with the audited financial statements of Luen Thai Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES

The Group is principally engaged in the manufacturing and trading of garment and textile products, and the provision of freight forwarding and logistics services.

GROUP PROFIT

The consolidated income statement is set out on page 52 and shows the Group’s profit for the year ended 31 December 2006. A discussion and analysis of the Group’s performance during the year and the material factors underlying its results and financial position are provided on pages 10 to 15 of the annual report.

DIVIDENDS

An interim dividend of US0.186 cent per share was paid to the shareholders during the year totalling to approximately US\$1,846,000 and the Directors do not recommend the payment of a final dividend.

SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED ENTITIES

Details of the principal subsidiaries, associates and jointly controlled entities of the Company and the Group as at 31 December 2006 are set out in notes 9 to 11 to the financial statements.

SHARE CAPITAL

Details of movements in share capital of the Company during the year are set out in note 16 to the financial statements.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 17 to the financial statements.

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DISTRIBUTABLE RESERVES

The distributable reserves of the Company available for distribution as dividends amounted to approximately US\$189,403,000 as at 31 December 2006, comprising retained earnings of approximately US\$841,000, a share premium of approximately US\$116,998,000 and a capital reserve amounting to approximately US\$71,564,000. Under the Companies Law (Revised) of the Cayman Islands, the funds in the share premium account and the capital reserve account of the Company are distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debt as they fall due in the ordinary course of business.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group is set out on page 132 of the annual report.

PROPERTY, PLANT AND EQUIPMENT

During the year, the Group acquired property, plant and equipment of approximately US\$19,813,000.

Details of the movements in property, plant and equipment of the Group during the year are set out in note 7 to the financial statements.

RETIREMENT SCHEMES

Details of the retirement schemes are set out in note 19 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to approximately US\$74,000.

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SHARE OPTIONS

A share option scheme was adopted by the sole shareholder of the Company at the general meeting held on 27 June 2004, pursuant to which options may be granted to Eligible Participants (“Eligible Participants”) to subscribe for shares in the Company (the “Share Option Scheme”). The purposes of the Share Option Scheme are to recognize and acknowledge the contributions that the Eligible Participants have made or may make to the Group and provide them an opportunity to acquire proprietary interests in the Company with the view of achieving the following principal objectives:

- a) motivate the Eligible Participants to optimize their performance and efficiency for the benefit of the Group; and
- b) attract and retain or otherwise maintain ongoing business relationship with the Eligible Participants whose contributions are or will be beneficial to the Group.

A summary of details of the Share Option Scheme is set out as follows:

Eligible Participants:

At the Board’s discretion include–

- (i) any director, employee or officer employed by any Group company (“Employee”), consultant, professional, customer, supplier, agent, partner or adviser of or contractor to the Group or a company in which the Group holds an interest or subsidiary of such company (“Affiliate”); or
- (ii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any Director, Employee, consultant, professional, customer, supplier, agent, partner or advisor of or contractor to the Group or an Affiliate; or
- (iii) a company beneficially owned by any Director, Employee, consultant, professional, customer, supplier, agent, partner, advisor of or contractor to the Group or an Affiliate.

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Minimum period for which an option must be held before it can be exercised:

An option may be exercised at any time during a period to be notified by the Board to each grantee. The Board may also provide restrictions on the exercise of an option during the period an option may be exercised.

Amount payable on acceptance of the option and the period within which payments or calls must or may be made or loans for such purposes must be repaid:

HK\$10 within 21 days of offer

Basis of determining the exercise price:

The exercise price shall be determined by the Board and not less than the highest of –

- (i) the closing price of a share as stated in the daily quotations sheet of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the relevant option, which must be a business day;
- (ii) an amount equivalent to the average closing price of a share as stated in the Stock Exchange's daily quotation sheets for the 5 business days immediately preceding the date of grant of the relevant option; and
- (iii) the nominal value of share on the date of grant.

Remaining life of the Share Option Scheme:

The Share Option Scheme will remain in force until 26 June 2014, unless otherwise determined in accordance with its term.

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The following is a summary of options granted, cancelled and outstanding during the year ended 31 December 2006:

	Notes	Date of grant (dd/mm/yyyy)	Exercisable Period (dd/mm/yyyy)	Exercise price per share	No. of share options			
					As at 1 January 2006	Granted during the year	Cancelled during the year	As at 31 December 2006
TAN Henry	5	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	200,000	–	–	200,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	200,000	–	200,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	250,000	–	250,000
					200,000	450,000	–	650,000
TAN Cho Lung, Raymond	5	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	150,000	–	–	150,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	150,000	–	150,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	150,000	–	150,000
					150,000	300,000	–	450,000
MOK Siu Wan, Anne	10	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	250,000	–	–	250,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	500,000	–	500,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	700,000	–	700,000
					250,000	1,200,000	–	1,450,000
TAN Sunny	5,11	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	150,000	–	–	150,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	300,000	–	300,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	400,000	–	400,000
					150,000	700,000	–	850,000
TAN Willie	7	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	200,000	–	–	200,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	300,000	–	300,000
					200,000	300,000	–	500,000

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	Note	Date of grant (dd/mm/yyyy)	Exercisable Period (dd/mm/yyyy)	Exercise price per share	No. of share options			
					As at 1 January 2006	Granted during the year	Cancelled during the year	As at 31 December 2006
TAN Jerry	6	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	150,000	–	–	150,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	150,000	–	150,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	150,000	–	150,000
					150,000	300,000	–	450,000
CHIU George	8	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	200,000	–	–	200,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	200,000	–	200,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	200,000	–	200,000
					200,000	400,000	–	600,000
TAN Jeffrey	9	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	50,000	–	–	50,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	150,000	–	150,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	150,000	–	150,000
					50,000	300,000	–	350,000
TAN Jason	9	28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	100,000	–	–	100,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	200,000	–	200,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	200,000	–	200,000
					100,000	400,000	–	500,000
Other Employees		28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	6,306,500	–	(136,500)	6,170,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	6,560,000	(290,000)	6,270,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	6,830,500	–	6,830,500
					6,306,500	13,390,500	(426,500)	19,270,500
Total		28/12/2004	28/12/2004 – 27/12/2007	HK\$4.10	7,756,500	–	(136,500)	7,620,000
		26/01/2006	26/01/2007 – 25/01/2011	HK\$2.52	–	8,710,000	(290,000)	8,420,000
		10/11/2006	10/11/2007 – 09/11/2011	HK\$1.28	–	9,030,500	–	9,030,500
					7,756,500	17,740,500	(426,500)	25,070,500

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Notes:

1. Upon acceptance of the options, HK\$10 is paid by each grantee to the Company by way of consideration for each grant.
2. The exercise price of the share options is subject to the adjustment in the event of any alteration in the capital structure of the Company.
3. Up to the date of approval of the Company's 2006 Annual Report and accounts, none of the share options granted on 28 December 2004, 26 January and 10 November 2006 have been exercised.
4. Only the options granted and vested from 1 January 2005 onwards are recognized in the financial statements in conformity with Hong Kong Financial Reporting Standard 2 Share-based Payments.
5. Mr. Tan Henry, Mr. Tan Cho Lung, Raymond and Mr. Tan Sunny are executive Directors of the Company.
6. Mr. Tan Jerry is the Chief Executive Officer of CTSI Logistics and the brother of the Directors mentioned in note 5 above.
7. Mr. Tan Willie is a non-executive Director of the Company and also the brother of the Directors mentioned in note 5 above.
8. Mr. Chiu George is the brother-in-law of Mr. Tan Henry.
9. Mr. Tan Jeffrey and Mr. Tan Jason are the sons of Mr. Tan Henry, the Group Chief Executive Officer, and are also employees of the Group.
10. Ms. Mok Siu Wan, Anne is an executive Director of the Company.
11. Mr. Tan Sunny is the Chief Financial Officer of the Group and was appointed as an executive Director of the Company with effect from 26 May 2006.

Share option expenses charged are based on valuation determined using the Binomial Lattice Model. Share options granted during the year were valued based on the following assumptions:-

Date of grant	Option value (Note (i))	Share price at date of grant	Subscription price	Expected volatility (Note (ii))	Annual risk-free interest rate (Note (iii))	Expected option life (Note (iv))	Dividend yield (Note (v))
26 January 2006	HK\$0.78	HK\$2.5	HK\$2.52	37%	4%	3 – 5 years	2.1%
10 November 2006	HK\$0.46	HK\$1.28	HK\$1.28	43%	3.8%-3.9%	3 – 5 years	1.7%

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- (i) Since option pricing model requires input of highly subjective assumptions, fair values calculated are therefore inherently subjective and the model may not necessarily provide a reliable measure of share option expense.
- (ii) Estimated volatility was based on the historical stock prices over 1 – 2 years preceding the grant date, expressed as an annualized rate and based on daily price changes.
- (iii) The risk-free interest rate was based on the market yield of Hong Kong Exchange Fund notes with a remaining life corresponding to the expected option life.
- (iv) The expected option life was determined by reference to certain empirical studies on sub-optimal exercise behaviours.
- (v) Dividend yield was based on the average dividend yield for the one year preceding the year of grant.

DIRECTORS AND DIRECTORS' SERVICE AGREEMENTS

The Directors of the Company during the year and up to the date of this report were:

Executive Directors

TAN Siu Lin

TAN Henry

TAN Cho Lung, Raymond

MOK Siu Wan, Anne

TAN Sunny (*appointed with effect from 26 May 2006*)

Non-executive Director

TAN Willie (*formerly an executive Director, current appointment took effect on 26 May 2006*)

Independent non-executive Directors

CHAN Henry

CHEUNG Siu Kee

SEING Nea Yie

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PARTICULARS OF SERVICE AGREEMENTS

Except for Ms. Mok Siu Wan, Anne and Mr. Tan Sunny, each of the executive Directors has entered into a service agreement with the Company for an initial fixed period of three years commencing from 27 June 2004, and thereafter shall continue subject to termination by either the Company or the Director giving three months' notice in writing to the other party. Under the service agreements, the remuneration payable to each of them shall be a fixed monthly salary, with such increase as the Board may from time to time determine in its absolute discretion. In addition, they will each be entitled to a bonus equivalent to one month's salary on or around each Chinese New Year falling after the first anniversary of the commencement date. Each of them will also be entitled to all reasonable out-of-pocket expenses.

On 26 May 2006, Mr. Tan Sunny was elected as an executive Director and Mr. Tan Willie was re-designated as a non-executive Director of the Company during its 2006 Annual General Meeting. The remuneration payable to Mr. Tan Sunny is the same as those provided to the other executive Directors of the Company, including fixed monthly salary, bonus and all reasonable out-of-pocket expenses. On the other hand, the remuneration payable to Mr. Tan Willie pursuant to the service agreement entered into with the Company for an initial period of three years commencing 26 May 2006, shall be a fixed annual salary of US\$150,000, with such adjustment as the Board may from time to time determine in its absolute discretion. Mr. Tan Willie's remuneration was determined by reference to the prevailing market condition and his knowledgeable experience for the industry.

The respective monthly salaries of the executive Directors are set out below:

Dr. TAN Siu Lin	HK\$76,700
Mr. TAN Henry	HK\$198,000
Mr. TAN Cho Lung, Raymond	HK\$144,000
Mr. MOK Siu Wan, Anne	HK\$256,668
Mr. TAN Sunny	HK\$67,000

Pursuant to the letter of re-appointment from the Company to Mr. Cheung Siu Kee and Mr. Chan Henry dated 4 April 2007, the re-appointment as independent non-executive Director of the Company is for a term of another 3 years commencing from 16 April 2007. Mr. Seing Nea Yie's appointment, which became effective on 28 January 2005, is also for a term of three years. Moreover, pursuant to written resolutions passed by the Remuneration Committee on 21 September 2006, each of the independent non-executive Directors shall be entitled to an annual fee of HK\$120,000 effective from 1 January 2007. The annual fee paid to the independent non-executive Directors in prior years amounted to HK\$100,000.

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DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2006, the interests of the Directors and chief executives of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under Section 352 of the SFO, or otherwise notified to the Company and the SEHK pursuant to the Model Code contained in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") were as follows:

Long position in the Shares

Name of Director	Capacity	No. of Shares	Percentage of interests in the Company
TAN Siu Lin	Trustee (note 1)	675,998,000	68.11%
TAN Henry	Beneficiary of Trust (notes 2 & 3)	614,250,000	61.89%
	Beneficial Owner (notes 7 & 8)	650,000	0.07%
TAN Cho Lung, Raymond	Beneficiary of Trust (notes 2 & 5)	614,250,000	61.89%
	Beneficial Owner (notes 7, 8 & 9)	650,000	0.07%
MOK Siu Wan, Anne	Beneficial Owner (notes 7 & 8)	1,450,000	0.15%
TAN Sunny	Beneficiary of Trust (notes 2 & 6)	614,250,000	61.89%
	Beneficial Owner (notes 7, 8 & 11)	1,172,000	0.12%
TAN Willie	Beneficiary of Trust (notes 2 & 4)	614,250,000	61.89%
	Beneficial Owner (notes 7 & 10)	1,100,000	0.11%

Notes:

1. Mr. Tan Siu Lin is the settlor and trustee of each of the Tan Family Trust of 2004, the Pak Kim Lam Tan Trust of 2004, the HJ Trust, the WR5C Trust, the LS Trust, the RC Trust, the JL Trust and the ST Trust (collectively referred to as the "Trusts"). As the settlor and trustee of the Trusts, all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to be interested in the aggregate shareholdings of Tan Holdings Corporation ("Tan Holdings Corporation"), a company incorporated in Commonwealth of Northern Mariana Islands and Helmsley Enterprises Limited ("Helmsley"), a company incorporated in the Commonwealth of the Bahamas, held in the Company, representing 68.11% of the issued share capital of the Company.

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2. Pursuant to a shareholders' agreement dated 12 June 2004 and entered into between Mr. Tan Siu Lin as trustee for each of the Trusts and Helmsley, each of the Trusts have agreed to adhere to certain pre-emptive arrangements concerning the transfer of shares in Helmsley. For the purposes of Part XV of the SFO, each of the Trusts is therefore deemed to have effective voting power in respect of the interests in Helmsley in the Company.
3. Mr. Tan Henry is one of the beneficiaries of the HJ Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the HJ Trust in the Company.
4. Mr. Tan Willie is one of the beneficiaries of the WR5C Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of WR5C Trust in the Company.
5. Mr. Tan Cho Lung, Raymond is one of the beneficiaries of the RC Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the RC Trust in the Company.
6. Mr. Tan Sunny is one of the beneficiaries of the ST Trust, which is a revocable discretionary trust. He is therefore deemed under Part XV of the SFO to be interested in the interests of the ST Trust in the Company.
7. Except for Mr. Tan Siu Lin and the independent non-executive Directors, each of the Directors is a grantee in the share options granted on 28 December 2004 and 26 January 2006.
8. Except for Mr. Tan Siu Lin, each of the executive Directors is a grantee in the share options granted on 10 November 2006.
9. A total of 200,000 shares of the Company ("Company Shares") were acquired by an associate of Mr. Tan Cho Lung, Raymond in August 2006. He is therefore deemed under Part XV of the SFO to be interested in all of the 200,000 Company Shares acquired by his associate.
10. A total of 600,000 Company Shares were acquired by an associate of Mr. Tan Willie between 2005 and 2006. He is therefore deemed under Part XV of the SFO to be interested in all of the 600,000 Company Shares purchased by his associate.
11. Mr. Tan Sunny acquired a total of 322,000 Company shares in 2006.

CONNECTED TRANSACTIONS AND DIRECTORS' INTERESTS IN CONTRACTS

The Tan Private Group, comprising Helmsley and Tan Holdings Corporation, and their respective subsidiaries (other than the Group) and any other connected person of the Company (as defined in the Listing Rules), is engaged in a large variety of businesses, ranging from the distribution of office supplies, insurance, fisheries, technological support, property, advertising and printing, and production of packaging materials. Such operations are generally conducted with independent third parties not connected with the Company or any of its Directors, chief executives and substantial shareholders (such terms as defined under the Listing Rules). However, given the extensive scope of such non-apparel-related business operations of the Company's substantial shareholders (with the same meaning ascribed thereto in the Listing Rules), Helmsley and Tan Holdings Corporation, the Group has a number of continuing transactions with the Tan Private Group.

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As defined in the Listing Rules, members of the Tan Private Group are deemed associates and hence connected persons of the Company. Therefore, any transaction between any Group company and any member of the Tan Private Group that will continue following the Listing will constitute a connected transaction of the Company for the purposes of Chapter 14A of the Listing Rules, and which may be subject to the reporting, announcement and/or independent shareholders' approval requirements contained in Chapter 14A of the Listing Rules.

The following table is a summary of the historical amounts of the non-exempt continuing connected transactions of the Group pursuant to Chapter 14A of the Listing Rules for the years ended 31 December 2006 and 2005. Details of these connected transactions are more particularly described in the prospectus and in the relevant announcements released by the Company during the period covered, which are also posted in the Stock Exchange and the Company's websites. The additional continuing connected transactions, which were reported during the year, pertain to lease arrangements, provision of shipping, insurance brokerage and transition services to the Group and the provision of freight services to the Tan Private Group.

Connected Party	Category	2006	2005
		US\$'000	US\$'000
Tan Private Group	Food and office supplies	95	267
	Travel services	177	327
	Insurance coverage	283	680
	Supply of packaging materials	658	1,001
	Provision of technological support services	2,018	2,068
	Lease agreements	1,546	1,001
	Mechanical repair and maintenance services	107	182
	Administrative and support services	2,162	5,206
	Freight (shipping) services	634	1,059
	Transition services	3,129	–
	Insurance brokerage services	221	208
	Freight services by the Group	283	134
	Shipping agency services by the Group	1,749	962

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The aforesaid continuing connected transactions had been reviewed by the Directors (including independent non-executive directors) of the Company.

The Directors (including independent non-executive directors) confirmed that the aforesaid connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (c) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole; (d) have not exceeded the relevant maximum amount capped in accordance to the waiver previously granted by the Stock Exchange.

In accordance with paragraph 14A.38 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Board engaged the auditors of the Company to perform certain factual finding procedures on the above continuing connected transactions on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed – Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings for the selected samples based on the agreed procedures to the Board.

Save as disclosed above:

- (i) no contracts of significance subsisted to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly at the end of the year or at any time during the year; and
- (ii) there were no transactions which need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

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SUBSTANTIAL SHAREHOLDERS

As at 31 December 2006, the register of substantial shareholders maintained pursuant to Section 336 of the SFO showed that other than the interests disclosed in "Directors' and Chief Executives' Interests in Shares", the following shareholders had notified the Company of their relevant interests in the issued share capital of the Company.

Long position in the shares

Name of shareholder	Notes	Capacity	No. of ordinary shares beneficially held	Approximate percentage of interests in the Company
Capital Glory Limited	(a)	Beneficial owner	614,250,000	61.89%
Helmley	(a)	Interest of controlled corporation	614,250,000	61.89%
Tan Family Trust of 2004	(b)	Interest of controlled corporation	675,998,000	68.11%
Trusts (other than the Tan Family Trust of 2004)	(c)	Interest of controlled corporation	614,250,000	61.89%
Pou Chen Corporation		Interest of controlled corporation	89,100,000	8.98%
Wealthplus Holdings Limited		Interest of controlled corporation	89,100,000	8.98%
Yue Yuen Industrial (Holdings) Limited		Interest of controlled corporation	89,100,000	8.98%
Pou Hing Industrial Co. Ltd.		Interest of controlled corporation	89,100,000	8.98%
Great Pacific Investments Limited		Beneficial owner	89,100,000	8.98%
Tan Holdings Corporation		Interest of controlled corporation	60,750,000	6.12%
		Beneficial owner	998,000	0.10%
Union Bright Limited		Beneficial owner	60,750,000	6.12%
T. Rowe Price Associates, Inc. and its subsidiaries		Beneficial owner	59,992,000	6.04%

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Notes:

- (a) Capital Glory Limited (“Capital Glory”), a company incorporated in the British Virgin Islands (“BVI”) with limited liability, is a wholly owned subsidiary of Helmsley. Helmsley is therefore deemed to be interested in the interests of Capital Glory held in the Company.
- (b) The Tan Family Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin and his family members. The Tan Family Trust of 2004 is interested in the entire issued share capital of Tan Holdings Corporation and 30% of the issued share capital of Helmsley. For the purposes of Part XV of the SFO, it is deemed to be interested in the shares held by both Tan Holdings Corporation and Helmsley.
- (c) The Trusts (Other than the Tan Family Trust of 2004) comprise the following:
 - (i) The Pak Kim Lam Tan Trust of 2004 was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan and their family members.
 - (ii) The HJ Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Henry and the family members of Mr. Tan Henry.
 - (iii) The WR5C Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Willie and the family members of Mr. Tan Willie.
 - (iv) The LS Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mrs. Lily Tan Chou and the family members of Mrs. Lily Tan Chou.
 - (v) The RC Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Lung, Raymond and the family members of Mr. Tan Cho Lung, Raymond.
 - (vi) The JL Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Cho Yee, Jerry and the family members of Mr. Tan Cho Yee, Jerry.
 - (vii) The ST Trust was established on 11 June 2004 as a revocable discretionary trust for the benefit of Mr. Tan Siu Lin, Mrs. Pak Kim Lam Tan, Mr. Tan Sunny and the family members of Mr. Tan Sunny.

As the trustee of the Tan Family Trust of 2004 and the Trusts (other than the Tan Family Trust of 2004), collectively known as the “Trusts”, all of which are revocable discretionary trusts, Mr. Tan Siu Lin is deemed under Part XV of the SFO to own in the aggregate shareholdings of Tan Holdings Corporation and Helmsley held in the Company, representing 68.11% of the issued share capital of the Company.

Save as disclosed above, so far as is known to the Directors, there are no other person (not being a Director or chief executive of the Company) who has interest or a short position in the Shares or underlying shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or will be interested in 10% or more of the nominal values of any class of share capital carrying rights to vote in all circumstances at general meetings or any other members of the Group.

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PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2006.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this report as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

The Group's top five customers accounted for approximately 62% (2005: 64%) of the total sales. The top five suppliers accounted for approximately 40% (2005: 42%) of the total purchases for the year. In addition, the Group's largest customer accounted for approximately 28% (2005: 28%) of the total sales and the Group's largest supplier accounted for approximately 19% (2005: 21%) of the total purchases for the year. At no time during the year have the Directors, their associates or any shareholders of the Company (which to the knowledge of the Directors own more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules. Corporate Governance Report is set out in pages 38 to 46 of this annual report.

POST BALANCE SHEET EVENT

Details of a significant event occurring after the balance sheet date are set out in note 35 to the financial statements.

Report of the Directors

AUDITORS

The financial statements for the year have been audited by Messrs. PricewaterhouseCoopers. A resolution will be submitted to the forthcoming Annual General Meeting of the Company to re-appoint Messrs. PricewaterhouseCoopers as the auditors of the Company.

On behalf of the Board

Tan Henry

Chief Executive Officer and Director

19 April 2007