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LUEN THAI HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock code: 311)

REVISION OF ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS

Reference is made to the announcement of the Company dated 9 September 2015 regarding the provision of design, sourcing and manufacturing of apparel and/or the related advance payment of the expenses (“Services”) by the LTO Group to the LTE Group pursuant to the Master Agreement and the announcement of the Company dated 12 October 2016 regarding the revision of annual caps for the above transactions.

Taking into account the continuous increase in demand for the Services, and the actual transaction amounts for the provision of the Services received by the LTO Group under the Master Agreement, the Directors consider that the existing annual caps for the Services under the Master Agreement for the two years ending 31 December 2017 will be insufficient for the expected amounts to be received by the LTO Group during that period. The Directors have therefore revised such annual caps.

The annual caps for the aggregate fees to be paid by the LTE Group to the LTO Group under the Master Agreement will be revised from US\$10,700,000 (approximately HK\$82,925,000) and US\$10,700,000 (approximately HK\$82,925,000) respectively to US\$13,000,000 (approximately HK\$100,750,000) and US\$20,300,000 (approximately HK\$157,325,000) respectively for the two years ending 31 December 2017.

As the applicable Percentage Ratios for the revised annual caps under the Master Agreement are more than 0.1% but less than 5%, the transactions under the Master Agreement will continue to be subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders’ approval requirement under the Listing Rules.

BACKGROUND

Reference is made to the announcement of the Company dated 9 September 2015 regarding the provision of the Services by the LTO Group to the LTE Group pursuant to the Master Agreement and the announcement of the Company dated 12 October 2016 regarding the revision of annual caps for the above transactions.

On 9 September 2015, LTO, a direct wholly-owned subsidiary of the Company (for itself and on behalf of the LTO Group) entered into the Master Agreement with LTE (for and on behalf of the LTE Group) in respect of the provision of the Services by the LTO Group to the LTE Group for a term of two and a half years from 1 July 2015 to 31 December 2017.

Pricing Basis

In line with the industry practice, the Services to be performed under a typical Order to cover design of apparels, sourcing of raw materials such as fabric and accessories (like lining and buttons) and manufacturing of the apparels in accordance with the specifications stipulated in the Order. As such Services usually form part and parcel of the work required under a typical Order, the LTO Group will assess the overall work required and then provide the price quotation for a unit price of a product under a particular Order, having regard to the workmanship, quality of the products, cost involved and the actual amount of the work to be done.

While the LTO Group will assess the overall work required when providing a price quotation for a unit price of a product under an Order, the LTO Group will also take into account the different types of Services involved in an Order before arriving at the overall price quotation for producing a unit of a product. In determining the pricing policy for the design of apparels, the LTO Group will take into consideration the workmanship and the complication of the work involved for producing a specific type of design required. The LTO Group will compare the quoted prices for a particular kind of design for a product in an Order with the quoted prices offered by the LTO Group to one or two independent third parties for manufacturing products with similar design.

In determining the pricing policy for the work relating to sourcing of raw materials, the LTO Group will take into consideration the quality of the raw materials to be used for producing a particular type of product in accordance with the specifications required under an Order and the cost involved in purchasing such raw materials. The pricing for sourcing of raw materials will be mainly based on the costs involved for purchasing such raw materials from raw material suppliers who are independent third parties.

In determining the pricing policy for the work relating to the manufacturing of apparels, the LTO Group will take into consideration the workmanship, the cost and complication of the work involved and the size of an Order. Similar to the pricing for the design of apparels and sourcing of raw materials, the LTO Group will also compare the quoted prices for manufacturing the quantity of products required in an Order with the quoted prices offered by the LTO Group to one or two independent third parties for manufacturing products with similar workmanship involved.

In addition, the LTO Group will also obtain information available in the market on the price quotations for manufacturing products bearing similarities with respect to the design, raw materials used or workmanship involved, so as to ascertain the prevailing market rates in determining the quoted prices in an Order.

After assessing the overall work required for producing particular type(s) of products in an Order and determining the price quotation of the unit price for producing such products, the quoted prices will be negotiated between the parties in an Order based on normal commercial terms or on terms no less favorable than those terms offered by the LTO Group to independent third parties for similar products in its ordinary and usual course of business.

REVISION OF THE ANNUAL CAPS FOR THE TWO YEARS ENDING 31 DECEMBER 2017 AND REASONS FOR THE REVISION

The Company estimates that the annual caps for the two years ending 31 December 2017 under the Master Agreement cannot meet the demands for the business development of LTE Group. As such, on 20 December 2016, the Board resolved that the Company will revise the annual caps for the two years ending 31 December 2017 under the Master Agreement to US\$13,000,000 (approximately HK\$100,750,000) and US\$20,300,000 (approximately HK\$157,325,000) respectively.

Existing annual caps and historical transaction amounts

As mentioned in the announcement of the Company dated 12 October 2016, the existing annual caps for the Services under the Master Agreement were US\$10,700,000 (approximately HK\$82,925,000) and US\$10,700,000 (approximately HK\$82,925,000) respectively for the two years ending 31 December 2017.

For the year ended 31 December 2015 and the 11 months ended 30 November 2016, the aggregate fees received by the LTO Group for its provision of the Services to the LTE Group under the Master Agreement amounted to approximately US\$2,847,000 (approximately HK\$22,064,000) and US\$9,865,000 (approximately HK\$76,454,000) respectively.

As at the date of this announcement, the actual transaction amount did not exceed the existing annual caps for the year ending on 31 December 2016 under the Master Agreement.

Basis of the revised annual caps

Taking into account the continuous increase in demand for the Services by the LTE Group due to the unanticipated rapid growth of the LTE Group's business and the actual transaction amounts for the provision of the Services received by the LTO Group for the year ended on 31 December 2015 and the 11 months ended 30 November 2016, the Directors consider that the existing annual caps for the Services under the Master Agreement will be insufficient for the expected amounts to be received by the LTO Group during the two years ending 31 December 2017.

In light of the foregoing, the Directors have revised the annual caps for the Services under the Master Agreement to US\$13,000,000 (approximately HK\$100,750,000) and US\$20,300,000 (approximately HK\$157,325,000) respectively for the two years ending 31 December 2017.

Save and except for the revision of the annual caps as set out above, all the terms and conditions of the Master Agreement remain unchanged.

Internal Control

The Company has established various internal control measures in order to ensure that the transactions under the Master Agreement are in accordance with the pricing policies and the terms of the Master Agreement are on normal commercial terms or on terms no less favorable

than those terms offered by the Group to independent third parties for similar products in its ordinary and usual course of business. Such internal control measures mainly include the following:

- The managers overseeing the transactions under the Master Agreement will regularly review the terms of such transactions to ensure that the fees charged for such transactions will reflect the pricing policies of the Group.
- The corporate finance department of the Company will also review annually the pricing policies of the transactions under the Master Agreement to ensure that the transactions are charged on the same bases and the same rates for similar services rendered to independent third parties.
- The corporate finance department of the Company is responsible for collecting data and statistics of the continuing connected transactions under the Master Agreement on a monthly basis to ensure the annual caps approved are not exceeded.
- The external auditors of the Company will report by issuing a letter to the Board every year on the continuing connected transactions of the Company in relation to the pricing policies and annual caps of the continuing connected transactions (including the transactions under the Master Agreement) of the Company conducted during the preceding financial year pursuant to the Listing Rules.
- In addition, the independent non-executive Directors of the Company will conduct an annual review with respect to the continuing connected transactions of the Company throughout the preceding financial year and confirm on the transactional amounts and terms of the continuing connected transactions in the annual report of the Company pursuant to the requirements under the Listing Rules, and to ensure that the transactions are entered into on normal commercial terms, are fair and reasonable, and are carried out pursuant to the terms of the relevant agreements governing the continuing connected transactions.

REASONS FOR ENTERING INTO THE MASTER AGREEMENT

Retail and distribution of footwear is one of the key businesses of the LTE Group. Since July 2015, LTE Group commenced to test the market's receptivity by selling small quantity of branded apparels. In order to seize the opportunities of this new business, the Group decided to enter into the Master Agreement with the LTE Group. The Directors believe that the transactions contemplated under the Master Agreement will enhance the revenue streams of the Group and will help optimize the productivity of the design, sourcing and manufacturing workforce of the Group, which is beneficial to the long term development of the Group.

In addition, the Directors believe that the transactions with the LTE Group under the Master Agreement would be a less risky option for the Group to take part in the retail business, as the Group may otherwise need to incur additional time and cost in due diligence exercise.

The Directors (including all the independent non-executive Directors) are of the opinion that the continuing connected transactions with the LTE Group contemplated under the Master Agreement: (i) were entered into in the ordinary and usual course of business of the Company; (ii) were on normal commercial terms and were negotiated on arm's length basis or on terms no less favourable than those terms offered by the Group to independent third parties for similar products in its ordinary and usual course of business; and (iii) the terms of the Master

Agreement and the revised annual caps are fair and reasonable. The Directors (including all the independent non-executive Directors) are also of the view that the continuing connected transactions pursuant to the Master Agreement and the revised annual caps are in the interests of the Group and the Company's shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

LTE is controlled by Dr. Tan Henry, an executive Director and the chief executive officer of the Company. Hence LTE is a connected person of the Company and the transactions contemplated under the Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable Percentage Ratios for the revised annual caps for the Master Agreement for the two years ending 31 December 2017 are more than 0.1% but less than 5%, the Master Agreement will continue to be subject to the reporting, announcement and annual review requirements but are exempt from the independent shareholders' approval requirement under the Listing Rules.

Dr. Tan Siu Lin, together with his sons Dr. Tan Henry, Mr. Tan Willie and Mr. Tan Cho Lung, Raymond, who are all Directors, have a material interest in the transactions contemplated under the Master Agreement. Accordingly, they have abstained from voting on the board resolutions of the Company approving the entering into of the Master Agreement and the transactions contemplated thereunder, as well as the above revised annual caps for the Services under the Master Agreement.

INFORMATION ON THE PARTIES

LTO is an investment holding company and the Group is principally engaged in the manufacturing and trading of apparel and accessories, the provision of freight forwarding and logistics services.

LTE is an investment holding company and the LTE Group is principally engaged in the industries of fishing and distribution of tuna, travel and tours services, air and ocean cargo services, real estate, wholesale distribution and retail businesses.

DEFINITIONS

“Board”	board of Directors
“Company”	Luen Thai Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on the Stock Exchange
“connected person”	shall have the meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“independent third party”	a third party which, together with its beneficial owner(s) (if any) and to the best of the Directors' knowledge, information and belief after having made all reasonable enquiries, is independent of the Company and its connected persons

“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“LTE”	Luen Thai Enterprises Limited, a company incorporated under the laws of the British Virgin Islands
“LTE Group”	LTE together with its subsidiaries, associated companies, affiliates as well as joint ventures of such subsidiaries, associated companies and affiliates
“LTO”	Luen Thai Overseas Limited, a company incorporated in the Bahamas and a direct wholly-owned subsidiary of the Company
“LTO Group”	LTO and its subsidiaries
“Master Agreement”	the master agreement dated 9 September 2015 entered into between LTO and LTE in relation to the provision of the Services by the LTO Group to the LTE Group
“Order(s)”	the purchase order(s) to be placed by the LTE Group with the LTO Group pursuant to the Master Agreement
“Percentage Ratios”	shall have the meaning as ascribed to it under Chapter 14 of the Listing Rules
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America

For illustration purpose, in this announcement, amounts in US\$ have been translated into HK\$ at the exchange rate of (i) US\$1.00 to HK\$7.75 in respect of the historical annual caps; and (ii) US\$1.00 to HK\$7.75 in respect for the revised annual caps. Such translations do not constitute a representation that any amount has been, could have been or may be exchanged at such rates.

Dated 20 December 2016

As at the date hereof, the Board comprise the following Directors:

Executive Directors:

Tan Siu Lin (*Chairman*)
Tan Henry
Tan Cho Lung, Raymond
Mok Siu Wan, Anne

Independent Non-executive Directors:

Chan Henry
Cheung Siu Kee
Seing Nea Yie

Non-executive Directors:

Tan Willie
Lu Chin Chu

By order of the Board
Chiu Chi Cheung
Company Secretary

Website: www.luenthai.com