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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in the Company, you should at once hand this circular to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

CONTINUING CONNECTED TRANSACTIONS

- (1) OEM SERVICES MASTER AGREEMENT**
- (2) OBM PRODUCTS PURCHASE MASTER AGREEMENT AND**
- (3) SALES AND SERVICES FRAMEWORK AGREEMENT**

**Independent Financial Adviser
to the Independent Board Committee and Independent Shareholders**



A letter from the Board is set out on pages 5 to 25 and a letter from the Independent Board Committee is set out on pages IBC-1 to IBC-2 of this circular. A letter from the Independent Financial Adviser containing its advice and recommendations to the Independent Board Committee and the Independent Shareholders is set out on pages IFA-1 to IFA-35 of this circular.

A notice convening the EGM of the Company to be held at the Boardroom, Rooms 1001–1005, 10th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 January 2024 at 2:30 p.m. is set out on pages EGM-1 to EGM-4 of this circular. Whether or not you are able to attend the EGM, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as practicable but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned thereof (as the case may be) should you so wish.

In case of inconsistency between the Chinese version and the English version of this circular, the English version will prevail.

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DEFINITIONS

In this circular, unless the context otherwise requires, the following expressions have the following respective meanings:

“Agreements”	the OEM Services Master Agreement, the OBM Products Purchase Master Agreement and the Sales and Services Framework Agreement
“Announcement”	the announcement issued by the Company on 8 December 2023 in relation to the Agreements
“Articles”	the articles of association of the Company, as amended from time to time
“Authorized Products”	apparel products under brand names owned by the LTE Group or brand name(s) which the LTE Group is so authorized or otherwise licensed to use
“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 (stock code: 311)
“connected person(s)”	shall have the meaning as ascribed to it under the Listing Rules
“continuing connected transactions”	shall have the meaning as ascribed to it under the Listing Rules
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be held at the Boardroom, Rooms 1001–1005, 10th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong on 16 January 2024 at 2:30 p.m. to consider and (if appropriate) to approve the resolutions contained in the notice set out on pages EGM-1 to EGM-4 of this circular, or its adjournment
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board comprising all the independent non-executive Directors, established for the purpose of advising the Independent Shareholders in connection with the transactions contemplated under the Agreements and the proposed annual caps thereof

DEFINITIONS

“Independent Financial Adviser”	Lego Corporate Finance Limited, a licenced corporation to carry out type 6 (advising on corporate finance) regulated activity under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the Agreements
“Independent Shareholders”	Shareholders other than those who have a material interest in the Agreements and the transactions contemplated thereunder
“independent third party(ies)”	third party(ies) 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, are independent of the Company and its connected persons
“Interim Report 2023”	the interim report of the Company for the six months ended 30 June 2023 published on 19 October 2023
“Latest Practicable Date”	27 December 2023, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information in this circular prior to its publication
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“LTE”	Luen Thai Enterprises Limited, a company incorporated in 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
“LTG”	Luen Thai Group Ltd, a company incorporated in the Bahamas
“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
“OBM”	original brand manufacturing, a type of manufacturing under which the manufacturer develops and owns the design of products which are sold under such manufacturer’s own or licensed brand names
“OBM Products”	apparel products developed, designed and/or manufactured under brand name(s) owned or to be owned by the LTO Group and/or brand name(s) which the LTO Group is authorized or otherwise licensed to use

DEFINITIONS

“OBM Products Purchase Master Agreement”	the OBM Products Purchase Master Agreement dated 8 December 2023 entered into between LTO and LTE, the principal terms of which are set out in the section headed “OBM Products Purchase Master Agreement — Principal Terms” of this circular
“OBM Purchase Order(s)”	purchase order(s) to be placed by LTE Group with LTO Group from time to time for the purchase of OBM Products in accordance with the OBM Products Purchase Master Agreement
“OEM”	original equipment manufacturing, a type of manufacturing under which products are manufactured, in whole or in part, in accordance with the design and specifications of the customer
“OEM Order(s)”	purchase order(s) to be placed by LTE Group with LTO Group from time to time for OEM Services of OEM Products in accordance with the OEM Services Master Agreement
“OEM Products”	apparel products to be manufactured by the LTO Group for the LTE Group from time to time pursuant to OEM Orders on an OEM basis
“OEM Services”	OEM manufacturing service of apparel
“OEM Services Master Agreement”	the OEM Services Master Agreement dated 8 December 2023 entered into between LTO and LTE, the principal terms of which are set out in the section headed “OEM Services Master Agreement — Principal Terms” of this circular
“percentage ratios”	shall have the meaning as ascribed to it under Chapter 14 of the Listing Rules
“PRC”	the People’s Republic of China
“Previous OEM Services Master Agreement”	the master agreement dated 29 October 2020 entered into between LTO and LTE in relation to the provision of OEM Services by the LTO Group to the LTE Group
“Sales and Services Agreement(s)”	the individual agreement(s) that may be entered into between the relevant member(s) of the LTE Group and the LTO Group from time to time in accordance with the principles and terms of the Sales and Services Framework Agreement
“Sales and Services Framework Agreement”	the Sales and Services Framework Agreement dated 8 December 2023 entered into between LTO and LTE, the principal terms of which are set out in the section headed “Sales and Services Framework Agreement — Principal Terms” of this circular

DEFINITIONS

“Sales Services”	sales coaching services and promotion services to be provided by the LTE Group to the LTO Group in respect of Authorized Products
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholders”	shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

For illustration purpose, in this circular, amounts in US\$ have been translated into HK\$ at the exchange rate of US\$1.00 to HK\$7.80. Such translations do not constitute a representation that any amount has been, could have been or may be exchanged at such rates.



LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

Executive Directors:

Wang Weimin (*Chairman*)
Tan Siu Lin (*Honorary Life Chairman*)
Tan Cho Lung, Raymond
(Chief Executive Officer)
Zhang Min
Jin Xin

Non-executive Director:

Mok Siu Wan, Anne

Independent Non-executive Directors:

Lee Cheuk Yin, Dannis
Chan Henry
Wang Ching

Registered Office:

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

*Head office and principal place of
business in Hong Kong:*

Rooms 1001–1005, 10/F
Nanyang Plaza
57 Hung To Road
Kwun Tong, Kowloon
Hong Kong

29 December 2023

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

- (1) OEM SERVICES MASTER AGREEMENT**
(2) OBM PRODUCTS PURCHASE MASTER AGREEMENT AND
(3) SALES AND SERVICES FRAMEWORK AGREEMENT

INTRODUCTION

Reference is made to the Announcement in respect of the Agreements and the transactions respectively contemplated thereunder.

On 8 December 2023 (after trading hours), LTO (a direct wholly-owned subsidiary of the Company) and LTE (a connected person of the Company) entered into (1) the OEM Services Master Agreement in relation to the provision of OEM Services by the LTO Group to the LTE Group from time to time; (2) the OBM Products Purchase Master Agreement in

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relation to the purchase of OBM Products by the LTE Group from the LTO Group from time to time; and (3) the Sales and Services Framework Agreement in relation to the design, manufacturing, sales and distribution of Authorized Products by the LTO Group and the provision of the Sales Services by the LTE Group to the LTO Group in relation to such Authorized Products from time to time.

LTE is an indirect wholly-owned subsidiary of LTG, and LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. Therefore, LTG is a connected person of the Company. LTE is a deemed associate of LTG, and hence a connected person of the Company. As a result, the transactions contemplated under each of the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. No other connected person of the Company holds any interest in the shares of LTG.

Despite the relevant transactions contemplated under the OEM Services Master Agreement and the OBM Products Purchase Master Agreement on one hand and the Sales and Services Framework Agreement on the other are of income nature and expense nature respectively, the transactions under the Agreements are required to be aggregated pursuant to Rule 14A.81 to Rule 14A.83 of the Listing Rules on the basis that they are entered into with the associates of the same connected person i.e. LTG.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the highest proposed annual caps for the aggregate fees for the transactions contemplated under the Agreements for each of the years ending on 31 December 2024, 2025 and 2026 is more than 5% and more than HK\$10,000,000 on an annual basis, the transactions contemplated under the Agreements will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

The Company will hold the EGM for the Independent Shareholders to consider and, if thought fit, approve the Agreements and the transactions contemplated thereunder, and the proposed annual caps thereof. The Independent Board Committee has been established to advise the Independent Shareholders on the transactions contemplated under the Agreements and the proposed annual caps thereof. Lego Corporate Finance Limited has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

The purpose of this circular is to (i) provide the Shareholders with further information in respect of the Agreements and the proposed annual caps thereof; (ii) set out the recommendation of the Independent Board Committee to the Independent Shareholders and the advice of the Independent Financial Adviser in respect of the Agreements and the proposed annual caps thereof; and (iii) give the Shareholders the notice of the EGM and other information as required under the Listing Rules.

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OEM SERVICES MASTER AGREEMENT

References are made to the announcement of the Company dated 29 October 2020 and the circular of the Company dated 30 November 2020 in relation to, among other things, the Previous OEM Services Master Agreement entered into between LTO (a direct wholly-owned subsidiary of the Company) and LTE (a connected person of the Company) in relation to the provision of OEM Services by the LTO Group to the LTE Group.

The Previous OEM Services Master Agreement will expire on 31 December 2023. On 8 December 2023 (after trading hours), LTO entered into the OEM Services Master Agreement with LTE in relation to the provision of OEM Services by the LTO Group to the LTE Group from time to time.

Principal Terms

The principal terms of the OEM Services Master Agreement are as follows:

- Date:** 8 December 2023
- Parties:** (i) LTO, for itself and on behalf of the LTO Group; and
(ii) LTE, for itself and on behalf of the LTE Group
- Term:** Subject to the Independent Shareholders' approval of the OEM Services Master Agreement and the transactions contemplated thereunder, the term of the OEM Services Master Agreement shall commence on 1 January 2024 and shall end on 31 December 2026, unless terminated earlier by an instrument signed by both parties or by either party by giving the other party not less than 30-day written notice.
- Subject Matter:** The LTO Group shall provide the OEM Services to the LTE Group pursuant to the OEM Order(s) to be placed by the LTE Group with the LTO Group from time to time during the term
- OEM Orders:** Each OEM Order should set out, among other things, the specifications, quantity and price of the products, payment terms, delivery time and place of delivery as shall be agreed by both parties provided always that:
- (a) the prices for the OEM Products under each OEM Order shall be negotiated on an arm's length basis and charged on a similar basis as the LTO Group transacts business with other independent third party customers;

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- (b) each OEM Order shall be on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, and the terms and conditions shall be no less favourable to the LTO Group than those provided to independent third party customers for similar products in terms of specifications, particulars and complexity; and
- (c) each OEM Order shall be in compliance with the provisions of the OEM Services Master Agreement.

Payment Terms:

For each OEM Order, a credit period of 30 days (or such other credit period as the parties may agree in writing on a case by case basis) will be granted to the LTE Group after shipment of the relevant OEM Products.

Pricing Policy

As per the terms of the OEM Services Master Agreement, the general pricing principles in respect of the provision of the OEM Services will be charged on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, on similar basis as the LTO Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the LTO Group than those provided to independent third party customers.

Subject to the general pricing principles disclosed above, the service fee for the provision of OEM Service will be charged on a cost-plus basis, representing the actual costs plus an average gross profit margin of not less than 12% or on terms no more favourable than those terms offered to independent third party customers for similar products in terms of specifications, particulars and complexity. In determining the costs, the Company will take into account the actual costs incurred including, among others, the cost of raw materials, the cost of labour and other costs directly attributable to the manufacturing of the apparel. In determining the margin, LTO Group will take into account the following factors: (i) the prevailing market prices of similar products obtained through internal checks; (ii) the service fee charged to other independent third party customers for similar products; (iii) specifications, particulars and complexity of products; and (iv) urgency of the delivery schedule of the products.

In determining the above pricing policy, the Group considered the average gross profit margin for the historical transactions entered into between the LTO Group and the LTE Group in relation to OEM Services under the Previous OEM Services Master Agreement, as well as the average gross profit margin for transactions entered into with independent third party customers for comparable products with similar specifications and complexity. For the historical transactions entered into with the LTE Group in each of the years ended 31 December 2021, 2022 and the ten months ended 31 October 2023, the average gross profit margin was not less than 12%. On the other hand, the average gross profit margin for

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similar transactions entered into with the relevant independent third party customers was lower than 12% for the corresponding years/period. As such, the Directors are of the view that the cost-plus margin of 12% is on normal commercial terms or better to the Group.

Having said that, the prices to be offered to the LTE Group under each OEM Order will be separately negotiated on an arm's length basis in accordance with the terms of the OEM Services Master Agreement. As market conditions may change over time, the LTO Group may from time to time offer more competitive prices to its customers, including independent third party customers and the LTE Group. In case a transaction with the LTE Group under any OEM Order is not charged at a cost-plus basis of not less than 12%, the management personnel of the relevant business unit of the LTO Group will take steps to ensure that the terms of the relevant OEM Order will be no more favorable than those offered to independent third party customers of the Group for similar products before accepting such OEM Order. Such steps will include specifically comparing and reviewing the service fee offered to independent third party customers for similar products in recent transactions at the relevant time, and making sure that the cost-plus margin to be offered to the LTE Group under the relevant OEM Order will be at least the same or higher. For such transactions, the relevant third party transactions used for comparison will be put on record to facilitate the annual review of the independent non-executive Directors of the Company in relation to the continuing connected transactions contemplated under the OEM Services Master Agreement. The Directors are of the view that such procedures are reasonably sufficient to ensure that the terms of the OEM Orders will be no more favorable than those offered by the LTO Group to independent third party customers.

Historical Figures and Proposed Annual Caps

As mentioned in the announcement of the Company dated 29 October 2020, the annual caps for the aggregate fees payable by the LTE Group to the LTO Group under the Previous OEM Services Master Agreement were US\$115,000,000 (approximately HK\$897,000,000), US\$160,000,000 (approximately HK\$1,248,000,000) and US\$200,000,000 (approximately HK\$1,560,000,000) for each of the years ended 31 December 2021 and 2022 and the year ending 31 December 2023, respectively.

For the years ended 31 December 2021, 2022 and the ten months ended 31 October 2023, the aggregate fees received or receivable by the LTO Group for its provision of OEM Services to the LTE Group under the Previous OEM Services Master Agreement amounted to approximately US\$93,611,000 (approximately HK\$730,165,800), US\$55,252,000 (approximately HK\$430,965,600) and US\$57,642,000 (approximately HK\$449,607,600), respectively.

As disclosed above, the historical utilization rate of the annual caps for the years ended 31 December 2021, 2022 and the ten months ended 31 October 2023 was only approximately 81.4%, 34.5% and 28.8% respectively. The Board considered that the relatively low utilization rate of the annual caps for the years ended 31 December 2022 and the ten months ended 31 October 2023 were mainly due to sluggish retail market in the PRC as a result of the strict epidemic prevention and control measures during the outburst of COVID-19.

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Though anti-epidemic restrictions were eased in the late 2022 and eventually scrapped in early 2023, there was a slower than expected recovery in the market and a lag in the consumer confidence.

In addition, as informed by the LTE Group, the business strategies and the development plan of the LTE Group has also been affected by the COVID-19 epidemic to a certain extent, and the pace of new shop opening was inevitably behind the original plan. In general, the adverse impact of the COVID-19 epidemic is dissipating and the global economy is picking up at a slow pace, the LTE Group is more optimistic about the future business prospects and development of their business, which will be accompanied by persistent growing and viable demand for the OEM Products provided by the LTO Group.

The proposed annual caps for the fees to be received by the LTO Group from the LTE Group under the OEM Services Master Agreement will be US\$110,000,000 (approximately HK\$858,000,000), US\$160,000,000 (approximately HK\$1,248,000,000) and US\$220,000,000 (approximately HK\$1,716,000,000) for each of the years ending 31 December 2024, 2025 and 2026, respectively.

The proposed annual caps in respect of the OEM Services under the OEM Services Master Agreement as set out above were determined by the Board after considering the following factors and taking into account the production capacity of the Group in the PRC:

(i) Anticipated market recovery

Based on the recent trend of the business of OEM Services provided to the LTE Group and other customers, the Directors noted that there are clear signs of ongoing market recovery. For OEM Services provided to the LTE Group, the growth of the relevant transaction amounts for the second and third quarters in 2023 were approximately 65.3% and 42.1%, respectively, as compared to the corresponding quarters in 2022. In addition, the Group has already secured orders from the LTE Group for OEM Products amounting to approximately US\$29.3 million since November 2023 (representing approximately 15% of the annual cap for the year ending 31 December 2023), which had been delivered as at the Latest Practicable Date or will be delivered by the end of 2023 or in early 2024. Based on such figures, coupled with the recovering economic conditions, the Directors are of the view that the level of business activities with the LTE Group in respect of OEM Services will continue to increase.

(ii) Historical growth of OEM Services provided to the LTE Group

As disclosed above, the PRC economy and the Group's OEM business were unavoidably affected by the impact of the COVID-19 pandemic in the past few years, as evidenced by the relatively low utilization rate of the annual caps under the Previous OEM Services Master Agreement. Nevertheless, the Directors noted the strong growth potential of the business of the LTE Group. For the year ended 31 December 2021, despite the lingering impact of the COVID-19 pandemic, the purchase amounts for OEM Products by the LTE Group increased from approximately US\$54.0 million for the year ended 31 December 2020 to approximately US\$93.6 million for the year ended

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and 31 December 2021 (representing an increase of approximately US\$40 million or 73.3%). After the COVID-19 outbreaks in various cities in 2022, the PRC has gradually returned to pre-pandemic life since early 2023. Although there had been a temporary lag in consumer confidence in 2023, the management of the Group is positive that the PRC retail market will continue to pick up in 2024, and the LTE Group will be able to release its growth potential. In fact, in the third quarter of 2023, there has already been a significant growth of 121.3% in the purchase amount of OEM Products from the LTE Group, as compared to the second quarter in 2023.

(iii) Expected delivery schedules for the OEM Products

Prior to the entering into of the OEM Services Master Agreement, the LTE Group provided the LTO Group with the expected delivery schedules for OEM Products to be supplied to the LTE Group for each of the years ending 31 December 2024, 2025 and 2026 based on their projection of the development and expansion of the business of the LTE Group. Based on the projections provided by the LTE Group, it is expected that the demand of LTE Group's apparel products will keep increasing and it is estimated that the purchase amounts for OEM Products from the LTO Group will be approximately US\$100 million, US\$140 million and US\$230 million for each of the three years ending 31 December 2024, 2025 and 2026 respectively. The said amounts provided by the LTE Group represents approximately 90.9%, 87.5% and 104.5% of the proposed annual caps for the corresponding years. Based on information provided by LTE Group, the Directors are of the view that the said projected purchase amounts could be achieved in the next three years in view of the LTE Group's development plan for their apparel business and their aggressive retail network expansion plan. According to such plans, the LTE Group will continuously develop and expand its existing product lines and will continue to increase the number of retail stores. Based on information provided by the LTE Group, the number of retail stores of the LTE Group in the PRC has already increased by approximately 700 since the beginning of 2023 to a total of approximately 3,000 retail stores in the PRC as at the Latest Practicable Date and, based on their expansion plan, the LTE Group will establish approximately 3,000 new retail stores in the PRC by the end of 2026. In other words, it is the intention of the LTE Group that the number of retail stores in the PRC will be almost doubled over the course of the next three years. Based on such information, the management of the Group is confident that the LTE Group's demand for the OEM Services will continue to grow in the coming years.

Taking into account the above factors, the Directors are of the view that the proposed annual caps for the fees to be received by the LTO Group from the LTE Group under the OEM Services Master Agreement are fairly and reasonably determined.

LETTER FROM THE BOARD

Reasons for and Benefits of entering into the OEM Services Master Agreement

LTE Group's past experience and success in the retail of footwear and apparel products has been an instrumental factor for the LTO Group to enter into the OEM Services Master Agreement, as it is expected that the apparel business will continue to be the growth driver of the LTE Group. LTE Group has been identified as one of the strategic customers of the Group and the continued collaboration between the LTO Group and the LTE Group could benefit the long-term development of the Group, which is also in line with one of the key missions of the Company: "mutual growth with customers".

Over the past years of collaboration, the LTO Group has become increasingly familiar with the standards and specifications of the products requested by the LTE Group and would be able to respond quickly and in a cost-effective manner to any new requirement, due to their long-term business relationship. Over the past several years, the service fee income for OEM Services earned from the LTE Group has remained relatively steady and continued to form part of the recurring income stream of the Group. By conducting the transactions contemplated under the OEM Services Master Agreement, it will enable the Group to secure the existing business and revenue stream.

The Directors (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) believe that the continued cooperation with the LTE Group is vital to the business development of the Group in the PRC market and should be maintained beyond the expiry of the Previous OEM Services Master Agreement.

The OEM Services Master Agreement sets out a framework to allow the Group to continue providing OEM Services to the LTE Group for the three years ending 31 December 2026. This continuing relationship is expected to bring synergy effect to both parties, as the OEM Services Master Agreement will enable the LTO Group to continue the optimization of productivity in the PRC.

Based on the above, the Directors (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) are of the view that the transactions contemplated under the OEM Services Master Agreement are and will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the OEM Services Master Agreement were negotiated on an arm's length basis and are fair and reasonable and in the interest of the Group and the Shareholders as a whole. In addition, the Directors are also of the view that the proposed annual caps were fairly and reasonably determined.

OBM PRODUCTS PURCHASE MASTER AGREEMENT

On 8 December 2023 (after trading hours), LTO also entered into the OBM Products Purchase Master Agreement with LTE in relation to the purchase of OBM Products by the LTE Group from the LTO Group from time to time.

LETTER FROM THE BOARD

Principal Terms

The principal terms of the OBM Products Purchase Master Agreement are as follows:

- Date:** 8 December 2023
- Parties:** (i) LTO, for itself and on behalf of the LTO Group; and
(ii) LTE, for itself and on behalf of the LTE Group
- Term:** Subject to the Independent Shareholders' approval of the OBM Products Purchase Master Agreement and the transactions contemplated thereunder, the term of the OBM Products Purchase Master Agreement shall commence on 1 January 2024 and shall end on 31 December 2026, unless terminated earlier by an instrument signed by both parties or by either party by giving the other party not less than 30-day written notice.
- Subject Matter:** The LTE Group shall purchase OBM Products from the LTO Group pursuant to OBM Purchase Order(s) to be placed by the LTE Group with the LTO Group from time to time during the term.
- OBM Purchase Orders:** Each OBM Purchase Order should set out, among other things, the quantity and price of the products, payment terms, delivery time and place of delivery as shall be agreed by both parties provided always that:
- (a) the prices for the OBM Products shall be negotiated on an arm's length basis and shall be charged on a similar basis as the LTO Group sells such OBM Products to other independent third party customers;
 - (b) each OBM Purchase Order shall be on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, and the terms and conditions shall be no less favourable to the LTO Group than those offered to independent third party customers for such OBM Products; and
 - (c) each OBM Purchase Order shall be in compliance with the provisions of the OBM Products Purchase Master Agreement.

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Payment Terms: For each OBM Purchase Order, a credit period of 30 days (or such other credit period as the parties may agree in writing on a case by case basis) will be granted to the LTE Group after shipment of the relevant OBM Products.

Pricing Policy

As per the terms of the OBM Products Purchase Master Agreement, the general pricing principles in respect of the sale of the OBM Products will be charged on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, on similar basis as the LTO Group sells such OBM Products to other independent third party customers and shall be on terms which are no less favourable to the LTO Group than those provided to independent third party customers on a wholesale basis.

Subject to the general pricing principles disclosed above, the price for the OBM Products under each OBM Purchase Order will be charged at 25% of the suggested retail price of the relevant OBM Products as determined by the LTO Group, or otherwise on terms no more favourable than those terms offered to independent third party customers on a wholesale basis.

On the other hand, in determining the suggested retail price of the OBM Products, the general pricing policy is that the LTO Group shall target to achieve a gross profit margin of not less than 30% by selling the OBM Products to its customers at 25% of the suggested retail price.

As the business of designing, manufacturing and selling of OBM Products is a new business venture of the Group, in determining the above pricing policy, the management of the LTO Group considered various market research data from industry websites. Based on the data available on the internet, the gross profit margin of comparable OBM apparel companies is within the range of 28.5% to 33.1%. Considering the nature and quality of the OBM Products expected to be offered by the LTO Group, the management of the LTO Group is of the view that the target gross profit margin of not less than 30% is reasonable and in line with market conditions.

As the suggested retail price will be determined by applying a gross profit margin of not less than 30% after taking into account the charging basis of 25% of the suggested retail price, the pricing policy seeks to ensure that the LTO Group will achieve a gross profit margin of not less than 30% for the sale of OBM Products to the LTE Group.

Having said that, the prices to be offered to the LTE Group under each OBM Products Purchase Order will be separately negotiated on an arm's length basis in accordance with the terms of the OBM Products Purchase Master Agreement. As market conditions may change over time, the LTO Group may from time to time offer more competitive prices to its customers, including independent third party customers and the LTE Group. In case a transaction with the LTE Group under any OBM Purchase Order is not charged at 25% of the suggested retail price, the management personnel of the relevant business unit of the LTO Group will take steps to ensure that the terms of the relevant OBM Products Purchase

LETTER FROM THE BOARD

Order will be no more favorable than those offered to independent third party customers on a wholesale basis with similar purchase volume before accepting such OBM Products Purchase Order. Such steps will include (i) specifically comparing and reviewing the prices for similar OBM Products offered to independent third party customers on a wholesale basis in recent transactions at the relevant time, and making sure that prices for the OBM Products under the relevant OBM Products Purchase Order will be at least the same or higher, if applicable; and/or (ii) conduct further market research to make sure that the gross profit margin will be reasonable in line with market conditions. For such transactions, the relevant third party transactions used for comparison will be put on record to facilitate the annual review of the independent non-executive Directors of the Company in relation to the continuing connected transactions contemplated under the OBM Products Purchase Master Agreement. The Directors are of the view that such procedures are reasonably sufficient to ensure that the terms of the OBM Purchase Orders will be no more favorable than those offered by the LTO Group to independent third party customers on a wholesale basis.

The Directors consider that the pricing policy in respect of the OBM Products Purchase Master Agreement will ensure that the prices for the OBM Products under each OBM Purchase Order will be on normal commercial terms or better to the LTO Group.

Proposed Annual Caps

There is no historical transaction amounts with respect to the sale of OBM Products by the LTO Group to the LTE Group.

The proposed annual caps for the amounts to be received by the LTO Group from the LTE Group under the OBM Products Purchase Master Agreement will be US\$6,000,000 (approximately HK\$46,800,000), US\$10,000,000 (approximately HK\$78,000,000) and US\$16,000,000 (approximately HK\$124,800,000) for each of the years ending 31 December 2024, 2025 and 2026, respectively.

The proposed annual caps in respect of the transactions under the OBM Products Purchase Master Agreement as set out above were determined by the Board after considering the expected delivery schedules for the OBM Products as detailed in the paragraph below, and taking into account (i) the estimated costs and estimated suggested retail price of the range of OBM Products to be offered by the LTO Group under the OBM Products Purchase Master Agreement; (ii) production capacity of the Group in the PRC; and (iii) future market trends forecasted by the Company.

Prior to the entering into of the OBM Products Purchase Master Agreement, the LTE Group provided the LTO Group with the expected delivery schedules for OBM Products to be supplied to the LTE Group for each of the years ending 31 December 2024, 2025 and 2026 based on their projection of the development and expansion of the business of the LTE Group. Based on the projections provided by the LTE Group, it is estimated that the purchase amounts for OBM Products from the LTO Group will be approximately US\$5.9 million, US\$8.9 million and US\$15.4 million for the three years ending 31 December 2024, 2025 and 2026 respectively. The said amounts provided by the LTE Group represents approximately 98.3%, 89.0% and 96.3% of the proposed annual caps for the corresponding years. Based on information provided by LTE Group, the Directors are of the view that the

LETTER FROM THE BOARD

said projected purchase amounts could be achieved in the next three years in view of the LTE Group's development plan for their apparel business and their aggressive retail network expansion plan as mentioned in the paragraph headed "OEM Services Master Agreement — Historical Figures and Proposed Annual Caps — (iii) Expected delivery schedules for the OEM Products" in this Circular.

Taking into account the above factors, the Directors are of the view that the proposed annual caps for the fees to be received by the LTO Group from the LTE Group under the OBM Products Purchase Master Agreement are fairly and reasonably determined.

Reasons for and Benefits of entering into the OBM Products Purchase Master Agreement

The Group has been proactively seeking for opportunities to broaden its revenue streams and has recently started engaging in the design, manufacturing and/or sale of OBM Products. Given the proven track record of the production quality of the LTO Group and the continued successful collaboration between the LTO Group and the LTE Group over the past years, the LTE Group has expressed its interest and intention to purchase OBM Products from the LTO Group from time to time in accordance with retail network expansion plan of the LTE Group.

By entering into the OBM Products Purchase Master Agreement, it would provide the flexibility for the LTE Group to purchase OBM Products from the LTO Group in the form of OBM Purchase Orders within the boundaries of the Listing Rules considering the potential bulk purchase volume of the LTE Group. Such arrangement will also further strengthen the cooperative relationship between the LTO Group and the LTE Group, bringing new growth potential for the Group.

Based on the above, the Directors (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) are of the view that the transactions contemplated under the OBM Products Purchase Master Agreement are and will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the OBM Products Purchase Master Agreement were negotiated on an arm's length basis and are fair and reasonable and in the interest of the Group and the Shareholders as a whole. In addition, the Directors are also of the view that the proposed annual caps were fairly and reasonably determined.

SALES AND SERVICES FRAMEWORK AGREEMENT

On 8 December 2023 (after trading hours), LTO has also entered into the Sales and Services Framework Agreement with LTE in relation to the design, manufacturing, sales and distribution of Authorized Products by the LTO Group and the provision of the Sales Services by the LTE Group to the LTO Group in relation to such Authorized Products from time to time.

LETTER FROM THE BOARD

Principal Terms

The principal terms of the Sales and Services Framework Agreement are as follows:

- Date:** 8 December 2023
- Parties:** (i) LTO, for itself and on behalf of the LTO Group; and
(ii) LTE, for itself and on behalf of the LTE Group
- Term:** Subject to the Independent Shareholders' approval of the Sales and Services Framework Agreement and the transactions contemplated thereunder, the term of the Sales and Services Framework Agreement shall commence on 1 January 2024; and shall end on 31 December 2026, unless terminated earlier by an instrument signed by both parties or by either party by giving the other party not less than 30-day written notice.
- Subject matter:** The LTE Group shall (i) authorize the LTO Group to design, manufacture, sell and distribute Authorized Products through online or offline sales channels of the LTO Group to customers within the PRC from time to time and (ii) provide Sales Services in respect of such Authorized Products pursuant to Sales and Services Agreements to be entered into between LTE Group and the LTO Group from time to time during the term.
- Sales and Services Agreements:** Each Sales and Services Agreement shall provide that the LTE Group shall (i) authorize the LTO Group to design, manufacture, sell and distribute specified Authorized Products through online or offline sales channels of the LTO Group to customers within the PRC from time to time; and (ii) set out the detailed scope of the Sales Services to be provided by the LTE Group in respect of such Authorized Products, provided always that:
- (a) the term of each Sales and Services Agreement shall not exceed the term of the Sales and Services Framework Agreement and shall be terminated automatically upon the expiry or termination of the Sales and Services Framework Agreement;

LETTER FROM THE BOARD

- (b) under each Sales and Services Agreement, the LTO Group shall pay to the LTE Group a service fee equivalent to 15% of the sales proceeds of the LTO Group's sales of Authorized Products within the PRC in each quarter of the term of the Sales and Services Agreement;
- (c) the terms and conditions shall be on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, and the terms and conditions shall be no less favourable to the LTO Group than those offered by independent third party service providers; and
- (d) each Sales and Services Agreement shall be in compliance with the provisions of the Sales and Services Framework Agreement.

Payment Terms:

The service fee shall be settled on a quarterly basis. The settlement date falls on the 20th day of the month after the end of each quarter. Provided that, in the event that the Authorized Products are sold at a price lower than 25% of their marked price mutually agreed by both parties in any quarter of the term, no service fee shall be payable for the relevant quarter.

Pricing Policy

As per the terms of the Sales and Services Framework Agreement, the LTO Group shall pay to the LTE Group a service fee equivalent to 15% of the sales proceeds of the LTO Group's sales of Authorized Products within the PRC in each quarter of the term. However, LTE agreed that, in the event that the Authorized Products are sold at a price lower than 25% of their marked price mutually agreed by both parties in any quarter of the term, no service fee shall be charged by the LTE Group in respect of the relevant quarter.

As the business of designing, manufacturing and selling of Authorized Products is a new business venture of the Group, in determining the above pricing policy, the management of the LTO Group considered various market research data from industry websites. In particular, the management of the LTO Group noted that for businesses of a similar nature, selling and distribution expenses would range from 19.2% to 40.4% of the total revenue of the relevant companies. For the LTO Group, the selling and distribution expenses to be incurred in relation to the sale and distribution of Authorized Products will comprise of (i) the service fee equivalent to 15% of the sale proceeds of the Authorized Products to be paid to the LTE Group under the relevant Sales and Services Agreement, which covers advertising and promotion expenses; and (ii) other selling and distribution expenses to be borne by the LTO Group such as logistics costs, sales staff costs and retail store rental, the estimated amount of which will be equivalent to approximately 8% of the

LETTER FROM THE BOARD

sale proceeds in respect of the Authorized Products. Accordingly, the estimated total selling and distribution expenses to be incurred by the LTO Group in relation to the sale of the Authorized Products will be equivalent to approximately 23% of the sale proceeds of the Authorized Products, which is within the market range. As such, the management of the LTO Group considered that the rate of the service fee payable to the LTE Group in accordance with the Sales and Services Framework Agreement is on normal commercial terms or better to the LTO Group.

The marked price of each Authorized Product will be mutually agreed by the LTO Group and the LTE Group. In determining the marked price of the Authorized Products to be manufactured by the LTO Group, the general pricing policy is that the LTO Group shall target to achieve a gross profit margin of not less than 44.5% by selling the Authorized Products to its customers at 25% of the marked price.

In conducting market research as mentioned above, the management of the LTO Group noted that the gross profit margin of five companies listed on the Main Board of the Stock Exchange which are principally engaged in comparable businesses selling similar products is within the range of approximately 35.9% to 61.2%, with an average of approximately 44.0%. Considering the that the target gross profit margin of not less than 44.5% which is above the average of the market, the management of the LTO is of the view that the said gross profit margin is reasonable and in line with the market conditions.

Under normal circumstances, the Authorized Products will be sold by the LTO Group to external retail customers within the range of 50 to 80% of the marked price, subject to further discount based on the actual market conditions. In exceptional circumstances, for example, in case certain Authorized Products are aged for over 180 days, the LTO Group may decide to the Authorized Products at a stock clearance price lower than 25% of their marked price in order to avoid overstocking, in which case the target gross profit margin of 44.5% may not be achieved. Nevertheless, in such scenario, the LTE Group has agreed to waive the service fee payable under the Sales and Services Framework Agreement in relation to such clearance sales, thereby reducing the selling and distribution expenses to be incurred by the LTO Group.

The Directors consider that the pricing policy as set out above will ensure that the service fees payable to the LTE Group under each Sales and Services Agreement will be on normal commercial terms or better to the LTO Group.

Proposed Annual Caps

There is no historical transaction amounts with respect to the rights to be granted to the LTO Group under Sales and Services Agreements and/or the Sales Services to be provided by the LTE Group to the LTO Group thereunder.

The proposed annual caps for the aggregate service fees to be paid by the LTO Group to the LTE Group under the Sales and Services Framework Agreement will amount to US\$1,500,000 (approximately HK\$11,700,000), US\$4,500,000 (approximately HK\$35,100,000) and US\$8,000,000 (approximately HK\$62,400,000) for each of the years ending 31 December 2024, 2025 and 2026, respectively.

LETTER FROM THE BOARD

The proposed annual caps in respect of the transactions under the Sales and Services Framework Agreement as set out above were determined by the Board after considering the projected sales of Authorized Products for the three years ending 31 December 2024, 2025 and 2026 respectively as detailed in the paragraph below, and taking into account (i) the estimated costs and estimated suggested retail price of the range of Authorized Products to be manufactured and sold by the LTO Group under the Sales and Services Framework Agreement; and (ii) future market trends forecasted by the Company.

In formulating the business plan of the LTO Group in entering the retail industry in the PRC, the management personnel of the relevant business unit of the LTO Group projected the expected sales of Authorized Products for brand(s) owned or licensed by the LTE Group for the three years ending 31 December 2024, 2025 and 2026 respectively. Based on such projections, it is estimated that the expected retail sales of Authorized Products by the LTO Group will be approximately US\$8.1 million, US\$23.2 million and US\$51.5 million for each of the three years ending 31 December 2024, 2025 and 2026. As such, the corresponding services fee payable to LTE Group under the Sales and Services Framework Agreement, will be approximately US\$1.2 million, US\$3.5 million and US\$7.7 million for the years ending 31 December 2024, 2025 and 2026, respectively. The said amounts represent approximately 80.7%, 77.4% and 96.5% of the proposed annual caps for the corresponding years. The Directors are of the view that the said projected sales could be achieved in the next three years given the anticipated market recovery.

Taking into account the above factors, the Directors are of the view that the proposed annual caps for the fees to be paid the LTE Group under the Sales and Services Framework Agreement are fairly and reasonably determined.

Reasons for and Benefits of entering into the Sales and Services Framework Agreement

In light of the keen competition in the apparel products manufacturing industry, the Group has recently made a decision to enter the apparel retail industry in the PRC in its search for new opportunities to expand its income streams.

As mentioned above, as the LTE Group has been identified as one of the strategic customers of the Group, the Group has been exploring new business opportunities and collaboration with the LTE Group that align with the Group's strategic goals and values. In view of the Group's recent decision to engage in the business of apparel retailing, the LTE Group has expressed its interest and intention to grant rights to the LTO Group to design, manufacture, sale and distribute various Authorized Products for brand(s) owned or licensed by the LTE Group in the PRC.

In order to capture the business potential offered by the LTE Group and seize the opportunities to widen our revenue base, the Group decided to enter into the Sales and Services Framework Agreement with the LTE Group. By entering into the Sales and Services Framework Agreement, it would provide the flexibility for the LTO Group to enter into Sales and Services Agreement with the LTE Group for different ranges of Authorized Products from time to time within the boundaries of the Listing Rules.

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In addition, as the Group has only recently engaged in the new business of apparel retailing, the LTE Group has offered to provide the Sales Services to the LTO Group to advise and assist the LTO Group the sales and promotion of the Authorized Products. As the LTE Group possesses abundant knowledge and experience in the retail industry, through collaborating with the LTE Group, the LTO Group will be better positioned to engage in the apparel retailing business under the guidance and assistance of the LTE Group. Such value-added Sales Services will not only potentially boost the sale of Authorized Products by the LTO Group but also help to facilitate a more efficient and expeditious management mode, thereby strengthening the sales capabilities of the LTO Group in the long run.

This cooperation model will further strengthen the cooperative relationship between the LTO Group and the LTE Group, which will also enable the Group to strengthen its business footprint beyond the manufacturing industry and potentially create a new growth driver for the Group.

Based on the above, the Directors (excluding the independent non-executive Directors who will provide their view after receiving the advices from the Independent Financial Adviser) are of the view that the transactions contemplated under the Sales and Services Framework Agreement are and will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Sales and Services Framework Agreement were negotiated on an arm's length basis and are fair and reasonable and in the interest of the Group and the Shareholders as a whole. In addition, the Directors are also of the view that the proposed annual caps were fairly and reasonably determined.

DIRECTORS' MATERIAL INTERESTS

Dr. Tan Siu Lin, an executive Director, has a material interest in the transactions contemplated under each of the Agreements and has therefore abstained from voting on the Board resolutions approving each of the Agreements and the transactions respectively contemplated thereunder. Mr. Tan Cho Lung, Raymond, son of Dr. Tan Siu Lin and an executive Director, has also voluntarily abstained from voting on the relevant Board resolutions.

LETTER FROM THE BOARD

INTERNAL CONTROL MEASURES

The Company has established various internal control measures in order to ensure that the transactions under the Agreements are in accordance with the pricing policies, and the terms of the OEM Orders, the OBM Purchase Orders and the Sales and Services Agreements are and will be on normal commercial terms or on terms no more favourable than those terms offered by the Group to independent third parties in its ordinary and usual course of business.

Such internal control measures mainly include the following:

- Designated staff will oversee the transactions under the Agreements and review the terms of such transactions on a regular basis to ensure that the fees charged for such transactions will reflect the pricing policies of the Group.
- The management of the Company will regularly assess and discuss the terms and conditions and the pricing mechanism of the transactions contemplated under the Agreements to ensure the OEM Orders, the OBM Purchase Orders and the Sales and Services Agreements are on normal commercial terms and no more favourable than those offered to independent third parties or no less favourable than those offered by independent third parties.
- The finance department of the relevant business units will also review annually the pricing policies of the transactions under the Agreements to ensure that the transactions are charged on the same bases and the same rates for similar services rendered to/by independent third parties.
- The finance department of the Company is responsible for collecting data and statistics of the continuing connected transactions under the Agreements on a monthly basis to ensure the annual caps approved are not exceeded. The year-to-date actual transaction amounts will also be reported during the audit committee meeting of the Company as part of ongoing monitoring of the continuing connected transactions of the Group.
- The internal audit team of the Company will conduct regular review of the transactions in accordance with the established terms and the pricing policy under the Agreements and perform sampling inspections to ensure the related internal control procedures were properly followed. The internal audit assessment on the adequacy and effectiveness of such internal control measures will be reported to the audit committee of the Company.
- All abovementioned personnel involved in the Group's internal control procedures are independent of LTE Group and its associates.

LETTER FROM THE BOARD

- 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 Agreements) of the Company conducted during the preceding financial year pursuant to the Listing Rules.
- In addition, the independent non-executive Directors 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 and in the interest of the Shareholders as a whole.

INFORMATION ON THE PARTIES

LTO is an investment holding company and a direct wholly-owned subsidiary of the Company. The Group is principally engaged in the manufacturing and trading of apparel and accessories.

LTE is an investment holding company and an indirect wholly-owned subsidiary of LTG. 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.

LTG is an investment holding company and is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, an executive Director of the Company. No other connected person of the Company holds any interest in the shares of LTG. Dr. Tan Henry (son of Dr. Tan Siu Lin and an independent third party) ultimately owns 49% of the interests in LTG. No other person holds 30% or more of the voting power of LTG. The remaining interests are ultimately owned as to 15% and 6%, respectively, by Mr. Tan Willie (son of Dr. Tan Siu Lin) and Mr. Tan Jeffrey Shaw Ying who are both independent third parties.

IMPLICATIONS UNDER THE LISTING RULES

LTE is an indirect wholly-owned subsidiary of LTG, and LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. Therefore, LTG is a connected person of the Company. LTE is a deemed associate of LTG, and hence a connected person of the Company. As a result, the transactions contemplated under each of the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. No other connected person of the Company holds any interest in the shares of LTG.

LETTER FROM THE BOARD

Despite the relevant transactions contemplated under the OEM Services Master Agreement and the OBM Products Purchase Master Agreement on one hand and the Sales and Services Framework Agreement on the other are of income nature and expense nature respectively, the transactions under the Agreements are required to be aggregated pursuant to Rule 14A.81 to Rule 14A.83 of the Listing Rules on the basis that the transactions are entered into with the associates of the same connected person i.e. LTG.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the proposed annual caps for the aggregate fees for the transactions contemplated under the Agreements for each of the years ending on 31 December 2024, 2025 and 2026 is more than 5% and more than HK\$10,000,000 on an annual basis, the transactions contemplated under the Agreements will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

EGM

The Company will hold the EGM for the Independent Shareholders to consider and, if thought fit, approve the Agreements and the transactions contemplated thereunder, and the proposed annual caps thereof.

A notice convening the EGM which will be held at the Boardroom, Rooms 1001–1005, 10th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 January 2024 at 2:30 p.m. is set out on pages EGM-1 to EGM-4 of this circular for the Shareholders to consider and, if thought fit, pass the ordinary resolutions to approve each of the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof.

Pursuant to Rule 13.39(4) of the Listing Rules and Article 66(1) of the Articles, any vote of Shareholders at a general meeting must be taken by poll except where the chairman, in good faith, allows a resolution which relates purely to a procedural or administration matter to be voted or by a show of hands. Therefore, all proposed resolutions put to vote at the EGM shall be taken by way of poll and the Company will announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

Any Shareholder with a material interest in the Agreements and the transactions respectively contemplated thereunder shall not vote on the resolutions to be proposed at the EGM. Dr. Tan Siu Lin and Mr. Tan Cho Lung, Raymond and their respective associates, who hold 30,539,382 Shares in aggregate, representing approximately 2.95% of the issued share capital of the Company as at the Latest Practicable Date, will be required to abstain from voting on the resolutions in relation to the transactions and the proposed annual caps under the Agreements to be proposed at the EGM as a result of having material interests therein. To the best of the Directors' knowledge and belief having made all reasonable enquiries, as at the Latest Practicable Date, no other Shareholder has a material interest in the Agreements and the transactions contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM for the relevant resolutions.

LETTER FROM THE BOARD

A form of proxy for use at the EGM is also enclosed herewith. Whether or not you intend to attend the EGM, you are advised to read the notice and complete the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and return the form of proxy to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investors Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM if you so wish.

RECOMMENDATIONS

Your attention is drawn to (i) the letter from the Independent Board Committee set out on pages IBC-1 to IBC-2 of this circular which contains its recommendations to the Independent Shareholders on the terms of each of the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof; and (ii) the letter from the Independent Financial Adviser set out on pages IFA-1 to IFA-35 of this circular which contains, among other matters, its advice to the Independent Board Committee and the Independent Shareholders in relation to the terms of each of the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof together with the principal factors and reasons considered by it in concluding its advice.

Having considered the factors mentioned above, the Directors (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) are of the view that the terms of each of the Agreements, the transactions respectively contemplated thereunder, and the proposed annual caps thereof are on normal commercial terms and in the ordinary course of business of the Company, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (excluding the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee in this circular) recommends that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve each of the Agreements and the transactions respectively contemplated thereunder and the proposed annual caps thereof.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in Appendix I to this circular and the notice of the EGM.

Yours faithfully,
For and on behalf of the Board
Tan Cho Lung, Raymond
*Chief Executive Officer
and Executive Director*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

The following is the text of a letter from the Independent Board Committee to the Independent Shareholders in relation to the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof for inclusion in this circular:



LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

29 December 2023

To the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

(1) OEM SERVICES MASTER AGREEMENT (2) OBM PRODUCTS PURCHASE MASTER AGREEMENT AND (3) SALES AND SERVICES FRAMEWORK AGREEMENT

We refer to the circular of the Company dated 29 December 2023 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We have been appointed by the Board as members of the Independent Board Committee to give a recommendation to the Independent Shareholders in respect of the terms of Agreements, namely the OEM Services Master Agreement, the OBM Products Purchase Master Agreement and the Sales and Services Framework Agreement, the transactions respectively contemplated thereunder and the proposed annual caps thereof.

We wish to draw your attention to (i) the letter from the Board as set out on pages 5 to 25 of the Circular and (ii) the letter from the Independent Financial Adviser containing details of the advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, together with the principal factors and reasons it has taken into consideration, as set out on pages IFA-1 to IFA-35 of the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having considered the terms of each of the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof, and the advice of Independent Financial Adviser in relation thereto, the Independent Board Committee considers that the terms of each of the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof are on normal commercial terms and in the ordinary and usual course of business of the Company, are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Independent Board Committee recommends that the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve each of the Agreements, the transactions respectively contemplated thereunder and the proposed annual caps thereof.

Yours faithfully,
For and on behalf of
the Independent Board Committee

Chan Henry

Lee Cheuk Yin, Dannis
Independent Non-Executive Directors

Wang Ching

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the full text of the letter of advice from Lego Corporate Finance Limited to the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions respectively contemplated thereunder, which has been prepared for the purpose of inclusion in this circular.



29 December 2023

To the Independent Board Committee and the Independent Shareholders

Dear Sirs or Mesdames,

**CONTINUING CONNECTED TRANSACTIONS
IN RELATION TO
(1) OEM SERVICES MASTER AGREEMENT;
(2) OBM PRODUCTS PURCHASE MASTER AGREEMENT; AND
(3) SALES AND SERVICES FRAMEWORK AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Agreements and the transactions respectively contemplated thereunder, details of which are set out in the letter from the Board (the “**Letter from the Board**”) contained in the circular issued by the Company to the Shareholders dated 29 December 2023 (the “**Circular**”), of which this letter forms part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Reference is made to the Announcement in relation to the Agreements and the transactions respectively contemplated thereunder.

On 8 December 2023 (after trading hours), LTO (a direct wholly-owned subsidiary of the Company) and LTE (a connected person of the Company) entered into (i) the OEM Services Master Agreement in relation to the provision of OEM Services by the LTO Group to the LTE Group from time to time (the “**OEM Services Transactions**”); (ii) the OBM Products Purchase Master Agreement in relation to the purchase of OBM Products by the LTE Group from the LTO Group from time to time (the “**OBM Products Purchase Transactions**”); and (iii) the Sales and Services Framework Agreement in relation to the design, manufacturing, sales and distribution of Authorized Products by the LTO Group and the provision of the Sales Services by the LTE Group to the LTO Group in relation to such Authorized Products from time to time (the “**Sales and Services Transactions**”).

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

LTE is an indirect wholly-owned subsidiary of LTG, and LTG is ultimately owned as to 30% by a discretionary family trust founded by Dr. Tan Siu Lin, being an executive Director of the Company and he controls the composition of the board of directors of the discretionary trustee of the said family trust. Therefore, LTG is a connected person of the Company. LTE is a deemed associate of LTG, and hence a connected person of the Company. As a result, the transactions contemplated under each of the Agreements constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. No other connected person of the Company holds any interest in the shares of LTG.

Despite the relevant transactions contemplated under the OEM Services Master Agreement and the OBM Products Purchase Master Agreement on one hand and the Sales and Services Framework Agreement on the other are of income nature and expense nature respectively, the transactions under the Agreements are required to be aggregated pursuant to Rule 14A.81 to Rule 14A.83 of the Listing Rules on the basis that they are entered into with the associates of the same connected person i.e. LTG.

As one or more of the applicable percentage ratios (as defined under the Listing Rules) in respect of the highest proposed annual caps for the aggregate fees for the transactions contemplated under the Agreements for each of the years ending on 31 December 2024, 2025 and 2026 is more than 5% and more than HK\$10,000,000 on an annual basis, the transactions contemplated under the Agreements will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely, Mr. Lee Cheuk Yin, Dannis, Mr. Chan Henry, and Dr. Wang Ching, has been established to advise the Independent Shareholders as to (i) whether the terms of the Agreements (including the proposed annual caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned; (ii) whether the transactions contemplated under the Agreements are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote on the relevant ordinary resolutions to be proposed at the EGM. We, Lego Corporate Finance Limited, have been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in such regard.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years prior to the Latest Practicable Date, there was no engagement between the Company and us. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangement exists whereby we had received or will receive any fees or benefits from the

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Company or any other party to the transactions. Accordingly, we consider that we are eligible to give independent advice in respect of the Agreements and the transactions respectively contemplated thereunder.

BASIS OF OUR OPINION

In formulating our opinion and recommendations to the Independent Board Committee and the Independent Shareholders, we have relied on the information, facts and representations contained or referred to in the Circular and the information, opinions and representations provided or expressed to us by the Directors and/or the management of the Company (the “**Management**”). We have assumed that all the information, facts and representations contained or referred to in the Circular, and all the information, opinions and representations provided or expressed by the Directors and/or the Management, for which they are solely responsible, were true, accurate and complete in all material respects at the time when they were provided and continue to be so as at the Latest Practicable Date and that they may be relied upon in formulating our opinion. Should there be any material change after the despatch of the Circular and up to the date of the EGM, the Shareholders would be notified as soon as possible. We have also assumed that all such opinions and statements of intention or belief expressed by the Directors and/or the Management and those as set out or referred to in the Circular were reasonably made after due and careful enquiries.

The Directors have confirmed to us that no material facts have been withheld or omitted from the information provided, representations made or opinions expressed. We have no reason to suspect that any relevant information has been withheld or omitted, nor are we aware of any facts or circumstances which would render the information provided, representations made or opinions expressed to us untrue, inaccurate or misleading. We consider that we have been provided with, and have reviewed, sufficient information currently available, and that we have performed all the necessary steps to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided, representations made or opinions expressed by the Directors and/or the Management, nor have we conducted any form of in-depth investigation into the businesses, affairs, operations, financial position or future prospects of the Group. Our opinion is necessarily based on the financial, economic, market and other conditions in effect, and the information made available to us, as at the Latest Practicable Date.

The Circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement therein or the Circular misleading.

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This letter is issued for the information of the Independent Board Committee and the Independent Shareholders solely in connection with their consideration of the Agreements and the transactions respectively contemplated thereunder. Except for its inclusion in the Circular, this letter is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purposes without our prior written consent.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in respect of the Agreements and the transactions respectively contemplated thereunder, we have considered the following principal factors and reasons:

1. Information on the parties and the Brand

1.1. The Group

The Company is an investment holding company incorporated in the Cayman Islands with limited liability, the shares of which have been listed on the Main Board of the Stock Exchange since 15 July 2004. The Group is principally engaged in the manufacturing and trading of apparel and accessories and its manufacturing plants are primarily located in the PRC, Cambodia, the Philippines, India and Myanmar.

Set out below is the summary of the financial results of the Group (i) for the year ended 31 December 2021 (“FY2021”) and the year ended 31 December 2022 (“FY2022”) as extracted from the annual report of the Company for FY2022 (the “Annual Report 2022”); and (ii) for the six months ended 30 June 2022 (“6M2022”) and the six months ended 30 June 2023 (“6M2023”) as extracted from the interim report of the Company for 6M2023 (the “Interim Report 2023”):

	For the year ended 31 December		For the six months ended 30 June	
	2021 US\$'000 (audited)	2022 US\$'000 (audited)	2022 US\$'000 (unaudited and restated)	2023 US\$'000 (unaudited)
Revenue	795,659	858,861	462,813	340,222
— Apparel	475,623	520,119	250,471	216,799
— Accessories	320,036	338,742	212,342	123,423
Gross profit	123,644	128,333	75,476	47,155
Segment profit/(loss)	26,521	28,909	15,405	3,336
— Apparel	12,570	636	480	(7,160)
— Accessories	13,951	28,273	14,925	10,496
Profit for the year/period	11,174	12,357	6,560	22

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For the years ended 31 December 2021 and 2022

According to the Annual Report 2022, the total revenue of the Group grew from approximately US\$795.7 million for FY2021 to approximately US\$858.9 million for FY2022, representing a growth of approximately 7.9%, which was mainly due to the increase in revenue of the apparel division of the Group. Despite the increase in revenue of the apparel division, the segment profit of such division amounted to approximately US\$0.6 million for FY2022, representing a decrease of approximately 94.9% or US\$11.9 million as compared to that of FY2021, which was mainly attributable to (i) the substantial operating loss of a sport activewear division; and (ii) the start-up losses relating to the on-demand manufacturing business and personal protective equipment business.

Gross profit of the Group increased from approximately US\$123.6 million for FY2021 to approximately US\$128.3 million for FY2022, representing an increase of approximately 3.8%, which was generally in line with the growth in revenue.

Net profit of the Group increased from approximately US\$11.2 million for FY2021 to approximately US\$12.4 million for FY2022, which was mainly attributable to (i) the robust performance of the accessories division of the Group; (ii) certain brand customers placed large inventory orders in advance to guard against possible supply chain disruptions; and (iii) the ongoing implementation of stringent cost control measure across the Group throughout FY2022. The accessories segment profit increased by approximately 102.7% or US\$14.3 million to approximately US\$28.3 million for FY2022 as compared to that for FY2021, mainly due to the turnaround of the accessories segment in Myanmar notwithstanding the political tension since the coup d'état started in February 2021.

For the six months ended 30 June 2022 and 2023

For 6M2023, the Group recorded a decline in its total revenue and gross profit by approximately 26.5% and 37.5%, respectively, as compared to the corresponding period in 2022. The Group's net profit also decreased from US\$6.5 million for 6M2022 to a net profit of approximately US\$22,000 for 6M2023, representing a decrease of approximately 99.7%.

According to the Interim Report 2023, the significant deterioration of the financial performance of the Group for 6M2023 was mainly attributable to the adverse impacts of COVID-19 pandemic, which resulted in excess inventory of the Group's certain key customers. The supply chains were disrupted due to the advent of COVID-19 pandemic, particularly during the period when COVID-19 pandemic became widespread with lockdowns enforced all over the globe. Due to fear of supply chain ruptures, most brand owners have aggressively increased their inventory level and led to inventory gluts in the post-COVID-19 period.

1.2. The LTO Group

LTO is an investment holding company and a direct wholly-owned subsidiary of the Company. The LTO Group is principally engaged in the manufacturing and trading of apparel and accessories.

1.3. The LTE Group

LTE is an investment holding company and an indirect wholly-owned subsidiary of LTG. 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.

As advised by the Management, the LTE Group has formed a joint venture company with a famous American footwear brand (the “**Brand**”) to expand sales and distribution of the products of the Brand in the PRC since 2007. As further advised by the Management, the OEM Services provided by the LTO Group to the LTE Group under the Previous OEM Services Master Agreement and the services to be provided by the LTO Group to the LTE Group under the OEM Services Master Agreement and OBM Products Purchase Master Agreement are related to the sales of apparel products under the Brand by the LTE Group in the PRC.

1.4. Information on the Brand

Found in the United States, the Brand is one of the famous footwear brands in the United States and the PRC. According to the website of the Brand and press releases related to the Brand, it has been awarded Kids Brand of the Year at the Drapers Footwear Awards 2023 and won the Outdoor Footwear Brand of the Year and Accessory Brand of the Year at the 2022 Footwear Industry Awards. Additionally, the Brand won Men’s Brand of the Year in 2020.

The Brand designs, develops and markets a diverse range of lifestyle footwear for men, women and children, with its lines of sports and casual apparel products. The holding company of the Brand is listed on the New York Stock Exchange. Based on the annual report of the holding company of the Brand for the year ended 31 December 2022, total revenue of the Brand amounted to approximately US\$4.6, US\$6.3 and US\$7.4 billion for the years ended 31 December 2020, 2021 and 2022, respectively. According to the third quarterly results announcement of the holding company of the Brand for the nine months ended 30 September 2023, the Brand had a total of 4,992 points of sale as at 30 September 2023 globally.

2. Outlook of the PRC apparel market

Continued growth of the PRC apparel market

According to the public information available from the National Bureau of Statistics of the PRC (中華人民共和國國家統計局), the disposable income per resident increased from approximately RMB28,228.0 in 2018 to RMB36,883.0 in 2022, representing a compound annual growth rate (“CAGR”) of approximately 6.9%. We also noted that the average quarterly growth rate of disposable income per resident decreased from approximately 10.9% in 2021 to approximately 3.6% in 2022 and recovered to approximately 5.2% for the first three quarters of 2023.

The consumption level per resident increased from approximately RMB25,245.0 in 2018 to RMB31,718.0 in 2022, representing a CAGR of approximately 5.9%. We also noted that the average quarterly growth rate of the consumption level per resident decreased from approximately 15.7% in 2021 to approximately 1.95% in 2022 and recovered to approximately 6.8% for the first three quarters of 2023.

In addition, the expenditure on clothing per resident increased from approximately RMB1,289 in 2018 to RMB1,365 in 2022, representing a CAGR of approximately 1.4%. We also noted that the average quarterly growth rate of expenditure on clothing per resident decreased from approximately 18.2% in 2021 to approximately -0.9% in 2022 and recovered to approximately 2.9% for the first three quarters of 2023.

Despite the downward trend of the PRC economy in 2022 resulted in decreasing average quarterly growth rate of (i) disposable income per resident; (ii) consumption level per resident; and (iii) expenditure on clothing per resident, there was a gradual recovery in 2023, which was in line with the performance of the Group. The five years growth trend of the respective index also reflected a steady long-term growth of the PRC apparel market.

Regulatory support on the sports industry by the PRC government

According to 《戶外運動產業發展規劃(2022–2025年)》 (Development plan on outdoor sports industry (2022–2025)*) issued by eight departments of the PRC government in October 2022, the PRC government would promote outdoor sports industry and support outdoor sports goods manufacturing industry, in particular, encouraging outdoor sports goods manufacturing companies to extend its supply chain. The PRC government targets to increase the scale of outdoor sports industry to approximately RMB3.0 trillion by 2025. All local government entities were encouraged to adopt flexible and diversified market measures to promote sports consumption, enrich sports events and optimise citizens’ participation.

In addition, according to 《關於構建更高水準的全民健身公共服務體系的意見》 (Opinions on building a higher level of national fitness public service system*) issued by the General Office of the State Council (國務院辦公廳) in March 2022, the PRC government aims to increase the proportion of citizens who regularly participate in sports to 38.5% by 2025 and further to 45.0% by 2035. Various promotions including establishing more spots for fitness training and hosting more sports competition to drive participation will be launched. According to the conference meeting held by General Administration of Sports of China (國家體育總局) in November 2023, the promotions mentioned above was implemented and the PRC government will continue to promote the national fitness public service system. The increasing citizens' participation rate in sports is expected to increase the market demand of sportswear.

Taking into consideration that (i) the economy of the PRC in 2022 was impacted by the COVID-19 outbreaks resulted in a downward trend of (a) disposable income per resident; (b) consumption level per resident; and (c) expenditure on clothing per resident; (ii) the economy is gradually recovering in 2023; (iii) the five years growth trend of the respective index reflected a steady long-term growth of the PRC apparel market; and (iv) the expected increase in demand of sportswear resulted from the promotion on sports industry and fitness public service system by the PRC government, the LTO Group is expected to benefit from the recovery of the PRC apparel market, particularly sportswear, through the continued provision of the OEM Services, sales of OBM Products to the LTE Group and the Sales Services provided by the LTE Group.

3. The OEM Services Master Agreement

3.1. Reasons for and benefits of entering into the OEM Services Master Agreement

As discussed under the sub-section headed “1.1. The Group” above, the Group is principally engaged in the manufacturing and trading of apparel and accessories. Therefore, the manufacturing and sale of the OEM Products by the LTO Group under the OEM Services Master Agreement are in line with the principal business of the Group.

As disclosed in the Letter from the Board, LTE Group's past experience and success in the retail of footwear and apparel products has been an instrumental factor for the LTO Group to enter into the OEM Services Master Agreement, as it is expected that the apparel business will continue to be the growth driver of the LTE Group. LTE Group has been identified as one of the strategic customers of the Group and the continued collaboration between the LTO Group and the LTE Group could benefit the long-term development of the Group where the Group would be able to enjoy strong demand and stable purchase orders from the LTE Group given the sizeable business scale and market share of the LTE Group, which is also in line with one of the key missions of the Company “mutual growth with customers”.

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We also understand from the Management that the LTO Group has become increasingly familiar with the standards and specifications of the products requested by the LTE Group and would be able to respond quickly and in a cost-effective manner to any new requirement, due to their long-term business relationship. Over the past several years, the service fee income for OEM Services earned from the LTE Group has remained relatively steady and continued to form part of the recurring income stream of the Group. By conducting the transactions contemplated under the OEM Services Master Agreement, it will enable the Group to secure the existing business and revenue stream on normal commercial terms.

Having considered the above reasons and benefits and the terms of the OEM Services Master Agreement being on normal commercial terms and fair and reasonable as discussed below, we are of the view that the OEM Services Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

3.2. Principal terms of the OEM Services Master Agreement

The principal terms of the OEM Services Master Agreement, details of which are set out under the section headed “OEM Services Master Agreement — Principal Terms” in the Letter from the Board, are summarised below:

Date:	8 December 2023
Parties:	(i) LTO, for itself and on behalf of the LTO Group; and (ii) LTE, for itself and on behalf of the LTE Group
Term:	Subject to the Independent Shareholders’ approval of the OEM Services Master Agreement and the transactions contemplated thereunder, the term of the OEM Services Master Agreement shall commence on 1 January 2024 and shall end on 31 December 2026, unless terminated earlier by an instrument signed by both parties or by either party by giving the other party not less than 30-day written notice.
Subject Matter:	The LTO Group shall provide the OEM Services to the LTE Group pursuant to the OEM Order(s) to be placed by the LTE Group with the LTO Group from time to time during the term

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OEM Orders:

Each OEM Order should set out, among other things, the specifications, quantity and price of the products, payment terms, delivery time and place of delivery as shall be agreed by both parties provided always that:

- (a) the prices for the OEM Products under each OEM Order shall be negotiated on an arm's length basis and charged on a similar basis as the LTO Group transacts business with other independent third party customers;
- (b) each OEM Order shall be on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, and the terms and conditions shall be no less favourable to the LTO Group than those provided to independent third party customers for similar products in terms of specifications, particulars and complexity; and
- (c) each OEM Order shall be in compliance with the provisions of the OEM Services Master Agreement.

Payment Terms:

For each OEM Order, a credit period of 30 days (or such other credit period as the parties may agree in writing on a case by case basis) will be granted to the LTE Group after shipment of the relevant OEM Products.

Pricing Policies:

As per the terms of the OEM Services Master Agreement, the general pricing principles in respect of the provision of the OEM Services will be charged on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, on similar basis as the LTO Group transacts business with other independent third party customers and shall be on terms which are no less favourable to the LTO Group than those provided to independent third party customers.

Subject to the general pricing principles disclosed above, the service fee for the provision of OEM Services will be charged on a cost-plus basis, representing the actual costs plus an average gross profit margin of not less than 12% or on terms no more favourable than those terms offered to independent third party customers for similar products in terms of specifications, particulars and complexity. In determining the costs, the Company will take into account the actual costs incurred including, among others, the cost of raw materials, the cost of labour and other costs directly attributable to the manufacturing of the apparel. In determining the margin, LTO Group will take into account the following factors: (i) the prevailing market prices of similar products obtained through internal checks; (ii) the service fee charged to other independent third party customers for similar products; (iii) specifications, particulars and complexity of products; and (iv) urgency of the delivery schedule of the products.

In determining the above pricing policy, the Group considered the average gross profit margin for the historical transactions entered into between the LTO Group and the LTE Group in relation to OEM Services under the Previous OEM Services Master Agreement, as well as the average gross profit margin for transactions entered into with independent third party customer(s) for comparable products with similar specifications and complexity. For the historical transactions entered into with the LTE Group in each of the years ended 31 December 2021, 2022 and the ten months ended 31 October 2023, the average gross profit margin was not less than 12%. On the other hand, the average gross profit margin for similar transactions entered into with the relevant independent third party customer(s) was lower than 12% for the corresponding years/period. As such, the Directors are of the view that the cost-plus margin of 12% is on normal commercial terms or better to the Group.

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Having said that, the prices to be offered to the LTE Group under each OEM Order will be separately negotiated on an arm's length basis in accordance with the terms of the OEM Services Master Agreement. As market conditions may change over time, the LTO Group may from time to time offer more competitive prices to its customers, including independent third party customers and the LTE Group. In case a transaction with the LTE Group under any OEM Order is not charged at a cost-plus basis of not less than 12%, the management personnel of the relevant business unit of the LTO Group will take steps to ensure that the terms of the relevant OEM Order will be no more favorable than those offered to independent third party customers of the Group for similar products before accepting such OEM Order. Such steps will include specifically comparing and reviewing the service fee offered to independent third party customers for similar products in recent transactions at the relevant time, and making sure that the cost-plus margin to be offered to the LTE Group under the relevant OEM Order will be at least the same or higher. For such transactions, the relevant third party transactions used for comparison will be put on record to facilitate the annual review of the independent non-executive Directors of the Company in relation to the continuing connected transactions contemplated under the OEM Services Master Agreement. The Directors are of the view, and we concur, that such procedures are reasonably sufficient to ensure that the terms of the OEM Orders will be no more favorable than those offered by the LTO Group to independent third party customers.

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For our due diligence purpose, we have obtained and reviewed the OEM Services Master Agreement and compared the terms thereunder with those under the Previous OEM Services Master Agreement. It is noted that the principal terms of the OEM Services Master Agreement are similar to those of the Previous OEM Services Master Agreement.

In assessing the fairness and reasonableness of the above pricing policies, we have obtained from the Company and reviewed (i) the gross profit margin analysis from the Management which sets out the Group's average gross profit margin for sales transactions with the LTE Group in respect of the Brand's products (the "**Historical LTE OEM Transactions**") for each of the years ended 31 December 2021 and 2022 and the ten months ended 31 October 2023; (ii) the Group's average gross profit margin for sales transactions with another renowned brand which is the only independent third party customer of the Group in respect of comparable products of footwear and activewear (the "**Comparable Brand OEM Transactions**") for the corresponding years/period; and (iii) the sales ledger of the Comparable Brand OEM Transactions for each of the years ended 31 December 2021 and 2022 and the ten months ended 31 October 2023. We noted that the Group's average gross profit margin for the Historical LTE OEM Transactions for each of the years ended 31 December 2021 and 2022 and the ten months ended 31 October 2023 was not less than 12% and higher than the average gross profit margin for the Comparable Brand OEM Transactions for the corresponding years/period. Furthermore, we have obtained and reviewed (i) six samples of sales invoices in respect of the Historical LTE OEM Transactions during the term of the Previous OEM Services Master Agreement; and (ii) six samples of sales invoices in respect of the Comparable Brand OEM Transactions during the same period. Based on our review of the sample sales invoices and our discussion with the Management, we are satisfied that (i) the products concerned are of similar categories and complexity; and (ii) the samples are exhaustive, fair and representative given that they were selected from the sales ledger and they have covered each of the years ended/ending 31 December 2021, 2022 and 2023.

Based on the sample sales agreement in respect of the Historical LTE OEM Transactions that we have obtained and reviewed, we noted that the credit period thereof was 30 days, which was consistent with the 30 days credit period granted to the LTE Group under the Previous OEM Services Master Agreement. Based on the sample sales record in respect of the Comparable Brand OEM Transactions that we have obtained and reviewed, we noted that the credit period thereof was 60 days, which is longer than the credit period granted to the LTE Group. Accordingly, we consider that the payment terms under the OEM Services Master Agreement are no less favourable to the Group than such Comparable Brand OEM Transactions and are on normal commercial terms or better.

In light of the above and in particular that the pricing policies are fair and reasonable, we concur with the Directors' view that the terms of the OEM Services Master Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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3.3. Review on the historical transaction amount

As extracted from the Letter from the Board, the following table sets out (i) the historical transaction amount for the provision of the OEM Services by the LTO Group to the LTE Group under the Previous OEM Services Master Agreement incurred for the two years ended 31 December 2021 and 2022 and the ten months ended 31 October 2023; and (ii) the existing annual caps for each of the three years ended/ending 31 December 2021, 2022 and 2023:

	For the year ended/ending 31 December		
	2021	2022	2023
	US\$'000	US\$'000	US\$'000
Historical transaction amount	93,611	55,252	57,642 (Note 1)
Existing annual cap	115,000	160,000	200,000
Utilisation rate	81.4%	34.5%	28.8% (Note 2)

Notes:

1. It represents the actual transaction amount incurred for the ten months ended 31 October 2023.
2. For illustrative purpose only, if calculated by annualising the actual transaction amount incurred for the ten months ended 31 October 2023, the utilisation rate of the annual cap for the year ending 31 December 2023 would be approximately 34.6%, without taking into account other factors such as the potential fluctuation in production costs of the LTO Group, demand for products from the LTE Group and seasonal factor. Thus, the actual transaction amount for the year ending 31 December 2023 and the corresponding utilisation rate may vary.

As disclosed in the Letter from the Board, the relatively low utilisation rate of the annual caps for the year ended 31 December 2022 and the ten months ended 31 October 2023 was mainly due to the sluggish retail market in the PRC as a result of the strict epidemic prevention and control measures during the outburst of COVID-19. Though anti-epidemic restrictions were eased in the late 2022 and eventually scrapped in early 2023, there was a slower-than-expected recovery in the market and a lag in the consumer confidence. As advised by the Management, since the beginning of 2022, the rebound of Omicron variant of COVID-19 in the PRC had impacted the business operations of both the Group and the LTE Group, including the decrease in sales order from the LTE Group, the disruption of the pace of new shop opening of the LTE Group and the disruption in logistics services in delivering the OEM Products to the LTE Group. Further COVID-19 outbreaks in October and November 2022 resulting in lock-down of multiple cities in the PRC, together with the surge in COVID-19 confirmed cases in the PRC in late 2022 and early 2023, had also immensely affected the business operations of the Group.

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Based on our discussion with the Management as to their bases of considering the transaction amount with the LTE Group will recover to the expected normal situation as in 2021 and our observation on the historical trend of the Group's transaction amount with the LTE Group, it is noted that:

- (i) following the outbreak of the COVID-19 pandemic in the PRC having been gradually contained in 2023, the Group recorded a strong recovery regarding the transaction amount with the LTE Group in 2023. The growth of such transaction amount for the second and third quarters in 2023 were approximately 65.3% and 42.1%, respectively, as compared to the corresponding quarters in 2022, which suggested a sign of ongoing recovery from 2022 and early 2023;
- (ii) the Group's transaction amount with the LTE Group demonstrated a significant growth of 121.3% in the third quarter in 2023 as compared to the second quarter in 2023, indicated a strong signal of resumption of normal level of business activities during the period;
- (iii) the Group's relatively higher transaction amount with the LTE Group during the third quarter of 2023 as compared to the first half of 2023 also reflected the normal seasonality pattern as it is the usual purchase pattern of the LTE Group to have more orders delivered in the second half year than the first half year mainly due to the long public holiday during the Chinese New Year in the PRC and the delivery of autumn and winter products with generally higher selling prices. Such seasonality pattern is consistent with our understanding from our review of the Group's quarterly transaction amounts with the LTE Group; and
- (iv) the Group currently has already received secured orders amounting to approximately US\$29.3 million from the LTE Group for the OEM Services since November 2023 (representing approximately 15% of the annual cap for the year ending 31 December 2023) which were delivered as at the Latest Practicable Date or will be delivered by the end of 2023 and early 2024, which suggested that the Group's level of business activities with the LTE Group in the fourth quarter of 2023 may increase taking in account the recovering economic conditions, the current business status with the LTE Group and the general seasonality pattern.

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3.4. Assessment of the proposed annual caps

As extracted from the Letter from the Board, the following table sets out the proposed annual caps for the aggregate fees to be received by the LTO Group from the LTE Group under the OEM Services Master Agreement for each of the three years ending 31 December 2026 (the “OEM Services Annual Caps”):

	For the year ending 31 December		
	2024	2025	2026
	US\$'000	US\$'000	US\$'000
Proposed annual cap	110,000	160,000	220,000

As stated in the Letter from the Board, the above proposed annual caps have been determined by the Board after considering (i) the anticipated market recovery; (ii) historical growth of OEM Services provided to the LTE Group; and (iii) expected delivery schedules for the OEM Products, and taking into account the production capacity of the Group in the PRC.

In assessing the fairness and reasonableness of the OEM Services Annual Caps, we have discussed with the Management regarding the following principal bases and assumptions adopted in determining such proposed annual caps:

(i) the historical growth and anticipated growth of the business with the LTE Group

When determining the OEM Services Annual Caps, the Management has considered the apparel style development plan and the retail network expansion plan of the LTE Group in the coming years. As advised by the Management, the number of retail stores of the LTE Group in the PRC has already increased by approximately 700 in since the beginning of 2023 and the LTE Group has currently established approximately 3,000 retail stores in the PRC. The Management expected a continuing strong growth in points of sales of the LTE Group, as evidenced by the business expansion plan of the LTE Group in establishing approximately 3,000 new retail stores in the PRC by the end 2026, which would almost double the total number of retail stores currently established in the PRC. Accordingly, the Management is confident that the demand of the LTE Group for the OEM Services will be strengthened.

As discussed under the paragraph headed “3.3 Review on the historical transaction amount” above, the PRC has gradually recovered from the COVID-19 outbreaks, which is reflected in the recovery of the transaction amount under the Previous OEM Services Master Agreement in 2023. The growth of the relevant transaction amount for the second and third quarters in 2023 were approximately 65.3% and 42.1%, respectively, as compared to the corresponding quarters in 2022, which suggested a sign of ongoing recovery from 2022 and early 2023. In the third quarter of 2023, there has already been a significant growth of 121.3% in the purchase amount of OEM Products from the LTE Group, as compared to the

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second quarter in 2023. In addition, as mentioned above, the Group currently has already received secured orders amounting to approximately US\$29.3 million from the LTE Group for the OEM Services since November 2023 (representing approximately 15% of the annual cap for the year ending 31 December 2023) which were delivered as at the Latest Practicable Date or will be delivered by the end of 2023 and early 2024.

(ii) Purchase projections provided by the LTE Group

We noted that the proposed annual caps for the three years ending 31 December 2026 were primarily determined based on the expected delivery schedules for products to be supplied to the LTE Group for each of the three years ending 31 December 2024, 2025 and 2026, which was projected and provided by the LTE Group to the LTO Group (the “**OEM Three-year Purchase Projections**”).

We have reviewed the OEM Three-year Purchase Projections and noted that the LTE Group has indicated the expected purchase volume and unit price for the major apparel products for each of the three years ending 31 December 2024, 2025 and 2026. The indicative total purchase amounts under the OEM Three-year Purchase Projections are at least US\$100 million, US\$140 million and US\$230 million for the years ending 31 December 2024, 2025 and 2026, respectively. Such indicative purchase amounts represented a high utilisation rate of approximately 90.9%, 87.5% and 104.5% of the proposed annual caps for the corresponding years. In particular, we understood that the Management has taken a prudent approach in determining the proposed annual cap for the year ending 31 December 2026 by virtue of the fact that such proposed annual cap is lower than the corresponding indicative purchase amount.

Furthermore, we noted that the indicative total purchase amounts under the OEM Three-year Purchase Projections of approximately US\$100 million, US\$140 million and US\$230 million for the years ending 31 December 2024, 2025 and 2026, respectively, represent year-on-year growth of approximately 40.0% from 2024 to 2025 and approximately 64.3% from 2025 to 2026. Having taken into account (i) the recovery of the PRC apparel market and the supportive regulatory policies on the sports industry in the PRC; (ii) the recovery of the Brand’s business performance in the PRC, which is reflected in the growth of the Brand’s revenue of approximately 12.9% attributable to the PRC for the nine months ended 30 September 2023, as compared to the corresponding period in 2022; (iii) that the indicative total purchase amount are at least US\$100 million, US\$140 million and US\$230 million for the years ending 31 December 2024, 2025 and 2026, respectively, under the OEM Three-year Purchase Projections; (iv) the implementation of apparel style development plan and retail network expansion plan of the LTE Group which are expected to further drive the LTE Group’s purchases from the LTO Group during the term of the OEM Services Master Agreement, in particular, the expected doubling of the number of retail stores of the LTE Group by the end of 2026 as mentioned above; (v) that OEM Three-year

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Purchase Projections were estimated and provided by the LTE Group, being the Group's downstream business partner and the Brand's business partner in the PRC, which is expected to have better understanding on the market demand for its products; (vi) that the OEM Services Annual Caps were determined with a prudent approach; and (vii) that the proposed annual caps under Previous OEM Services Master Agreement were determined according to the purchase projections provided by the LTE Group, which achieved a high utilisation rate of approximately 81.4% in 2021, being the year prior to the significant impact of COVID-19 pandemic on the business operation of the LTO Group in 2022 and 2023, we are satisfied with the representativeness and reasonableness of the OEM Three-year Purchase Projections from the perspective of determining of the proposed annual caps.

(iii) future market trends forecasted by the Company

We noted that the Management has also taken into account the future market trends in determining the proposed annual caps. In this regard, we noted that, according to the third quarter financial results announcement of the holding company of the Brand, the Brand has been actively expanding its international exposure and product offering. Its sales record had a growth of 12.9% in the PRC for the nine months ended 30 September 2023 as compared to the corresponding period in 2022 and its inventory levels were reduced significantly by US\$436.0 million or 24.0% as compared to 31 December 2022. According to the latest annual report of the Brand, the Brand has recorded a revenue of approximately US\$924.5 million, US\$1,247.9 million and US\$1,062.7 million for the years ended 31 December 2020, 2021 and 2022, respectively.

In light of (i) the revenue of the Brand increased by approximately 35.0% from 2020 to 2021; (ii) despite the revenue decreased of the Brand in 2022, the sales in the PRC was recovering and recorded a growth of 12.9% for the nine months ended 30 September 2023 as compared to the corresponding period in 2022; (iii) the points of sales of the Brand increased from 4,537 as at 31 December 2022 to a total of 4,992 as at 30 September 2023 globally; (iv) LTE Group expected to establish 700 new stores in the PRC by the end of 2023 and 3,000 new stores in the PRC by the end 2026, which would almost double the total number of retail stores currently established in the PRC; and (v) in spite of the negative impact of COVID-19 has distorted the market in 2022 and early 2023, there is a sign of recovery of the PRC apparel market together with the supportive measures of the PRC government as discussed in the paragraph headed "2. Outlook of the PRC apparel market" in this letter, it is expected that more business opportunities will be created between the Group and LTE Group. We are of the view that the above future market trends forecasted by the Company form a reasonable basis in determining the proposed annual caps.

We also noted that the Group recorded a growing trend in the sales of apparel in recent years against the backdrop of the COVID-19 pandemic and global economic downturn. In particular, the revenue from the sales of apparel increased from approximately US\$407.9 million for the year ended 31 December 2020 to approximately US\$502.1 million for the year ended 31 December 2022, which was the similar level that the Group achieved for the year ended 31 December 2019 before COVID-19 pandemic.

Based on the above, we are of the view that the OEM Services Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

4. The OBM Products Purchase Master Agreement

4.1. Reasons for and benefits of entering into the OBM Products Purchase Master Agreement

As discussed under the sub-section headed “1.1. The Group” above, the Group is principally engaged in the manufacturing and trading of apparel and accessories. Therefore, the manufacturing and sale of the OBM Products by the LTO Group under the OBM Products Purchase Master Agreement are in line with the principal business of the Group.

As disclosed in the Letter from the Board, the Group has been proactively seeking for opportunities to broaden its revenue streams and has recently started engaging in the design, manufacturing and/or sale of OBM Products. Given the proven track record of the production quality of the LTO Group and the continued successful collaboration between the LTO Group and the LTE Group over the past years, the LTE Group has expressed its interest and intention to purchase OBM Products from the LTO Group from time to time in accordance with retail network expansion plan of the LTE Group.

By entering into the OBM Products Purchase Master Agreement, it would provide the flexibility for the LTE Group to purchase OBM Products from the LTO Group in the form of OBM Purchase Orders within the boundaries of the Listing Rules considering the potential bulk purchase volume of the LTE Group. Such arrangement will also further strengthen the cooperative relationship between the LTO Group and the LTE Group, bringing new growth potential and revenue stream to the Group.

Having considered the above reasons and benefits and the terms of the OBM Products Purchase Master Agreement being on normal commercial terms and fair and reasonable as discussed below, we are of the view that the OBM Products Purchase Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

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4.2. Principal terms of the OBM Products Purchase Master Agreement

The principal terms of the OBM Products Purchase Master Agreement, details of which are set out under the section headed “OBM Products Purchase Master Agreement — Principal Terms” in the Letter from the Board, are summarised below:

- Date:** 8 December 2023
- Parties:** (i) LTO, for itself and on behalf of the LTO Group;
and
(ii) LTE, for itself and on behalf of the LTE Group
- Term:** Subject to the Independent Shareholders’ approval of the OBM Products Purchase Master Agreement and the transactions contemplated thereunder, the term of the OBM Products Purchase Master Agreement shall commence on 1 January 2024 and shall end on 31 December 2026, unless terminated earlier by an instrument signed by both parties or by either party by giving the other party not less than 30-day written notice.
- Subject Matter:** The LTE Group shall purchase OBM Products from the LTO Group pursuant to OBM Purchase Order(s) to be placed by the LTE Group with the LTO Group from time to time during the term.
- OBM Purchase Orders:** Each OBM Purchase Order should set out, among other things, the quantity and price of the products, payment terms, delivery time and place of delivery as shall be agreed by both parties provided always that:
- (a) the prices for the OBM Products shall be negotiated on an arm’s length basis and shall be charged on a similar basis as the LTO Group sells such OBM Products to other independent third party customers;
 - (b) each OBM Purchase Order shall be on normal commercial terms, negotiated on an arm’s length basis between the LTO Group and LTE Group, and the terms and conditions shall be no less favourable to the LTO Group than those offered to independent third party customers for such OBM Products; and

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(c) each OBM Purchase Order shall be in compliance with the provisions of the OBM Products Purchase Master Agreement.

Payment Terms:

For each OBM Purchase Order, a credit period of 30 days (or such other credit period as the parties may agree in writing on a case by case basis) will be granted to the LTE Group after shipment of the relevant OBM Products.

Pricing Policies:

As per the terms of the OBM Products Purchase Master Agreement, the general pricing principles in respect of the sale of the OBM Products will be charged on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, on similar basis as the LTO Group sells such OBM Products to other independent third party customers and shall be on terms which are no less favourable to the LTO Group than those provided to independent third party customers on a wholesale basis.

Subject to the general pricing principles disclosed above, the price for the OBM Products under each OBM Purchase Order will be charged at 25% of the suggested retail price of the relevant OBM Products as determined by the LTO Group, or otherwise on terms no more favourable than those terms offered to independent third party customers on a wholesale basis.

On the other hand, in determining the suggested retail price of the OBM Products, the general pricing policy is that the LTO Group shall target to achieve a gross profit margin of not less than 30% by selling the OBM Products to its customers at 25% of the suggested retail price.

As the suggested retail price will be determined by applying a gross profit margin of not less than 30% after taking into account the charging basis of 25% of the suggested retail price, the pricing policy seeks to ensure that the LTO Group will achieve a gross profit margin of not less than 30% for the sale of OBM Products to the LTE Group.

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Having said that, the prices to be offered to the LTE Group under each OBM Products Purchase Order will be separately negotiated on an arm's length basis in accordance with the terms of the OBM Products Purchase Master Agreement. As market conditions may change over time, the LTO Group may from time to time offer more competitive prices to its customers, including independent third party customers and the LTE Group. In case a transaction with the LTE Group under any OBM Purchase Order is not charged at 25% of the suggested retail price, the management personnel of the relevant business unit of the LTO Group will take steps to ensure that the terms of the relevant OBM Products Purchase Order will be no more favorable than those offered to independent third party customers on a wholesale basis with similar purchase volume before accepting such OBM Products Purchase Order. Such steps will include (i) specifically comparing and reviewing the prices for similar OBM Products offered to independent third party customers on a wholesale basis in recent transactions at the relevant time, and making sure that prices for the OBM Products under the relevant OBM Products Purchase Order will be at least the same or higher, if applicable; and/or (ii) conduct further market research to make sure that the gross profit margin will be reasonable and in line with the market conditions. For such transactions, the relevant third party transactions used for comparison will be put on record to facilitate the annual review of the independent non-executive Directors of the Company in relation to the continuing connected transactions contemplated under the OBM Products Purchase Master Agreement. The Directors are of the view, and we concur, that such procedures are reasonably sufficient to ensure that the terms of the OBM Purchase Orders will be no more favorable than those offered by the LTO Group to independent third party customers on a wholesale basis.

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For our due diligence purpose, we have obtained and reviewed the OBM Products Purchase Master Agreement.

In assessing the fairness and reasonableness of the above pricing policies, we have identified, on a best effort and exhaustive basis, two comparable companies (the “**OBM Comparable Companies**”) based on the following selection criteria: (i) the comparable company is listed on the Stock Exchange which is principally engaged in design, manufacturing and/or sales of apparel/garment products; and (ii) the comparable company has separately disclosed OBM as one of its reportable business segments in its prospectus and/or latest annual report. As the OBM Comparable Companies are engaged in the same industry as the Group and the gross profit margin of their OBM business segment can be identified from their respective prospectus and/or latest annual report, we consider that the OBM Comparable Companies can provide a general reference on the gross profit margin of similar OBM business. We noted that (i) the average gross profit margin of the OBM segment of the OBM Comparable Companies during their respective track record period as disclosed in their respective prospectus ranged from approximately 28.5% to 33.1% with an average of approximately 30.8%; and (ii) the gross profit margin of the OBM segment of one of the OBM Comparable Companies as disclosed in its latest annual report for the financial year ended 31 December 2022 was approximately 27.4%, suggesting that the pricing basis of the suggested retail price of the OBM Products to achieve a gross profit margin of not less than 30% is in line with the market condition. Given that (i) 30% only represents the minimum gross profit margin to be achieved by the LTO Group, which is consistent with the average gross profit margin of the OBM segment of the OBM Comparable Companies as disclosed in their prospectus and higher than the gross profit margin of the OBM segment of one of the OBM Comparable Companies as disclosed in its latest annual report as discussed above; and (ii) there could be potential upside to the actual gross profit margin of the OBM Products subject to other factors such as production costs and complexity of design and production, we consider that the pricing policies in relation to the OBM Products are on normal commercial terms or better.

In respect of the payment terms, we noted from the latest annual report of the OBM Comparable Companies that the credit period granted by the OBM Comparable Companies to their customers generally ranged from 30 to 90 days, which is the same as, or longer than, the 30-day credit period granted by the LTO Group to the LTE Group. Accordingly, we consider that the payment terms under the OBM Products Purchase Master Agreement are on normal commercial terms or better.

In light of the above and in particular that the pricing policies are fair and reasonable, we concur with the Directors’ view that the terms of the OBM Products Purchase Master Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

4.3. Review on the historical transaction amount

As stated in the Letter from the Board, there is no historical transaction amount with respect to the sales of the OBM Products by the LTO Group to the LTE Group.

4.4. Assessment of the proposed annual caps

As extracted from the Letter from the Board, the following table sets out the proposed annual caps for the aggregate amounts to be received by the LTO Group from the LTE Group under the OBM Products Purchase Master Agreement for each of the three years ending 31 December 2026 (the “**OBM Products Purchase Annual Caps**”):

	For the year ending 31 December		
	2024	2025	2026
	US\$'000	US\$'000	US\$'000
Proposed annual cap	6,000	10,000	16,000

As stated in the Letter from the Board, the above proposed annual caps have been determined by the Board after considering the expected delivery schedules for the OBM Products, and taking into account (i) the estimated costs and estimated suggested retail price of the range of OBM Products to be offered by the LTO Group under the OBM Products Purchase Master Agreement; (ii) production capacity of the Group in the PRC; and (iii) future market trends forecasted by the Company.

In assessing the fairness and reasonableness of the OBM Products Purchase Annual Caps, we have discussed with the Management regarding the following principal bases and assumptions adopted in determining such proposed annual caps:

(i) the historical growth and anticipated growth of the business with the LTE Group

When determining the OBM Products Purchase Annual Caps, the Management has considered the estimated demand of the LTE Group for OBM Products taking into account the retail network expansion plan of the LTE Group in the coming years. For further details, please refer to the sub-section “3.4 Assessment of the proposed annual caps — (i) the historical growth and anticipated growth of the business with the LTE Group” above.

(ii) Purchase projections provided by the LTE Group

We noted that the proposed annual caps for the three years ending 31 December 2026 were primarily determined based on the expected delivery schedules for OBM Products to be supplied to the LTE Group for each of the years ending 31 December 2024, 2025 and 2026, which was projected and provided by the LTE Group to the LTO Group (the “**OBM Three-year Purchase Projections**”).

We have reviewed the OBM Three-year Purchase Projections and noted that the LTE Group has indicated the expected purchase volume and unit price for the major apparel products for each of the three years ending 31 December 2024, 2025 and 2026. The total sales of LTE Group under the OBM Three-year Purchase Projections are approximately US\$23.5 million, US\$35.7 million and US\$61.6 million for the years ending 31 December 2024, 2025 and 2026, respectively, indicating estimated purchase amounts for OBM Products from the LTO Group, being 25% of the total sales of the LTE Group, of approximately US\$5.9 million, US\$8.9 million and US\$15.4 million for the years ending 31 December 2024, 2025 and 2026, respectively, representing a high utilisation rate of approximately 98.3%, 89.0% and 96.3% of the proposed annual caps for the corresponding years.

Furthermore, we noted that the indicative total purchase amounts under the OBM Three-year Purchase Projections of approximately US\$5.9 million, US\$8.9 million and US\$15.4 million for the years ending 31 December 2024, 2025 and 2026, respectively, represent year-on-year growth of approximately 50.8% from 2024 to 2025 and approximately 73.0% from 2025 to 2026. Having taken into account (i) the recovery of the PRC apparel market and the supportive regulatory policies on the sports industry in the PRC; (ii) the recovery of the Brand's business performance in the PRC, which is reflected in the growth of the Brand's revenue of approximately 12.9% attributable to the PRC for the nine months ended 30 September 2023, as compared to the corresponding period in 2022; (iii) that the indicative total purchase amount of approximately US\$5.9 million, US\$8.9 million and US\$15.4 million for the years ending 31 December 2024, 2025 and 2026, under the OBM Three-year Purchase Projections; (iv) the implementation of retail network expansion plan of the LTE Group which are expected to further drive the LTE Group's purchases with the LTO Group during the term of the OBM Products Purchase Master Agreement, in particular, the expected doubling of the number of retail stores of the LTE Group by the end of 2026 as mentioned above; and (v) that OBM Three-year Purchase Projections were estimated and provided by the LTE Group, being the Group's downstream business partner and the Brand's business partner in the PRC, which is expected to have better understanding on the market demand for the OBM Products, we are satisfied with the representativeness and reasonableness of the OBM Three-year Purchase Projections from the perspective of determining of the proposed annual caps.

(iii) future market trends forecasted by the Company

We noted that the Management has also taken into account the future market trends in determining the proposed annual caps. For further details, please refer to the sub-section "3.4 Assessment of the proposed annual caps — future market trends forecasted by the Company" above.

We also noted that the Group recorded a growing trend in the sales of apparel in recent years against the backdrop of the COVID-19 pandemic and global economic downturn. In particular, the revenue from the sales of apparel increased from approximately US\$407.9 million for the year ended 31 December 2020 to approximately US\$502.1 million for the year ended 31 December 2022, which was the similar level that the Group achieved for the year ended 31 December 2019 before COVID-19 pandemic.

Based on the above, we are of the view that the OBM Products Purchase Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

5. The Sales and Services Framework Agreement

5.1 Reasons for and benefits of entering into the Sales and Services Framework Agreement

As stated in the Letter from the Board, in light of the keen competition in the apparel products manufacturing industry, the Group has recently made a decision to enter the apparel retail industry in the PRC in its search for new opportunities to expand its income streams.

As mentioned above, as the LTE Group has been identified as one of the strategic customers of the Group, the Group has been exploring new business opportunities and collaboration with the LTE Group that align with the Group's strategic goals and values. In view of the Group's recent decision to engage in the business of apparel retailing, the LTE Group has expressed its interest and intention to grant rights to the LTO Group to design, manufacture, sale and distribute various Authorized Products for brand(s) owned or licensed by the LTE Group in the PRC.

In order to capture the business potential offered by the LTE Group and seize the opportunities to widen the Group's revenue base, the Group decided to enter into the Sales and Services Framework Agreement with the LTE Group. By entering into the Sales and Services Framework Agreement, it would provide the flexibility for the LTO Group to enter into Sales and Services Agreement with the LTE Group for different ranges of Authorized Products from time to time within the boundaries of the Listing Rules.

In addition, as the Group has only recently engaged in the new business of apparel retailing, the LTE Group has offered to provide the Sales Services to the LTO Group to advise and assist the LTO Group the sales and promotion of the Authorized Products. As the LTE Group possesses abundant knowledge and experience in the retail industry, through collaborating with the LTE Group, the LTO Group will be better positioned to engage in the apparel retailing business under the guidance and assistance of the LTE Group. Such value-added Sales Services will not only potentially boost the sale of Authorized Products by the LTO Group but also help to facilitate a more efficient and expeditious management mode, thereby strengthening the sales capabilities of the LTO Group in the long run.

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This cooperation model will further strengthen the cooperative relationship between the LTO Group and the LTE Group, which will also enable the Group to strengthen its business footprint beyond the manufacturing industry and potentially create a new growth driver for the Group.

Having considered the above reasons and benefits and the terms of the Sales and Services Framework Agreement being on normal commercial terms and fair and reasonable as discussed below, we are of the view that the Sales and Services Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

5.2 Principal terms of the Sales and Services Framework Agreement

The principal terms of the Sales and Services Framework Agreement, details of which are set out under the section headed “Sales and Services Framework Agreement — Principal Terms” in the Letter from the Board, are summarised below:

Date:	8 December 2023
Parties:	(i) LTO, for itself and on behalf of the LTO Group; and (ii) LTE, for itself and on behalf of the LTE Group
Term:	Subject to the Independent Shareholders’ approval of the Sales and Services Framework Agreement and the transactions contemplated thereunder, the term of the Sales and Services Framework Agreement shall commence on 1 January 2024; and shall end on 31 December 2026, unless terminated earlier by an instrument signed by both parties or by either party by giving the other party not less than 30-day written notice.
Subject matter:	The LTE Group shall (i) authorise the LTO Group to design, manufacture, sell and distribute Authorized Products through online or offline sales channels of the LTO Group to customers within the PRC from time to time and (ii) provide Sales Services in respect of such Authorized Products pursuant to Sales and Services Agreements to be entered into between LTE Group and the LTO Group from time to time during the term.

**Sales and Services
Agreements:**

Each Sales and Services Agreement shall provide that the LTE Group shall (i) authorise the LTO Group to design, manufacture, sell and distribute specified Authorized Products through online or offline sales channels of the LTO Group to customers within the PRC from time to time; and (ii) set out the detailed scope of the Sales Services to be provided by the LTE Group in respect of such Authorized Products, provided always that:

- (a) the term of each Sales and Services Agreement shall not exceed the term of the Sales and Services Framework Agreement and shall be terminated automatically upon the expiry or termination of the Sales and Services Framework Agreement;
- (b) under each Sales and Services Agreement, the LTO Group shall pay to the LTE Group a service fee equivalent to 15% of the sales proceeds of the LTO Group's sales of Authorized Products within the PRC in each quarter of the term of the Sales and Services Agreement;
- (c) the terms and conditions shall be on normal commercial terms, negotiated on an arm's length basis between the LTO Group and LTE Group, and the terms and conditions shall be no less favourable to the LTO Group than those offered by independent third party service providers; and
- (d) each Sales and Services Agreement shall be in compliance with the provisions of the Sales and Services Framework Agreement.

Payment Terms:

The service fee shall be settled on a quarterly basis. The settlement date falls on the 20th day of the month after the end of each quarter. Provided that, in the event that the Authorized Products are sold at a price lower than 25% of their marked price mutually agreed by both parties in any quarter of the term, no service fee shall be payable for the relevant quarter.

Pricing Policies:

As per the terms of the Sales and Services Framework Agreement, the LTO Group shall pay to the LTE Group a service fee equivalent to 15% of the sales proceeds of the LTO Group's sales of Authorized Products within the PRC in each quarter of the term. However, LTE agreed that, in the event that the Authorized Products are sold at a price lower than 25% of their marked price mutually agreed by both parties in any quarter of the term, no service fee shall be charged by the LTE Group in respect of the relevant quarter.

The marked price of each Authorized Product will be mutually agreed by the LTO Group and the LTE Group. In determining the marked price of the Authorized Products to be manufactured by the LTO Group, the general pricing policy is that the LTO Group shall target to achieve a gross profit margin of not less than 44.5% by selling the Authorized Products to its customers at 25% of the marked price.

Under normal circumstances, the Authorized Products will be sold by the LTO Group to external retail customers within the range of 50 to 80% of the marked price, subject to further discount based on the actual market conditions. In exceptional circumstances, for example, in case certain Authorized Products are aged for over 180 days, the LTO Group may decide to sell the Authorized Products at a stock clearance price lower than 25% of their marked price in order to avoid overstocking, in which case the target gross profit margin of 44.5% may not be achieved. Nevertheless, in such scenario, the LTE Group has agreed to waive the service fee payable under the Sales and Services Framework Agreement in relation to such clearance sales, thereby reducing the selling and distribution expenses to be incurred by the LTO Group.

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For our due diligence purpose, we have obtained and reviewed the Sales and Services Framework Agreement. We have also obtained and reviewed the budget plan from the Management regarding the sales of Authorized Products.

We understand from the Management that the selling and distribution expenses in relation to the Authorized Products will comprise of (i) the services fee to be paid to the LTE Group, which include advertising and promotion expenses; and (ii) other selling and distribution expenses to be borne by the LTO Group, including logistics costs, sales staff costs and retail stores rents.

Further to our discussion with the Management, we understand that LTE Group's past experience and success in the retail industry is valuable to the LTO Group as mentioned in the sub-section headed "5.1 Reasons for and benefits of entering into the Sales and Services Framework Agreement" above, in addition, there are no comparable quotations provided by the independent third parties due to the uniqueness of the Sales Services provided by the LTE Group. Thus, in assessing the fairness and reasonableness of the above pricing policies, we have identified, on a best effort and exhaustive basis, seven companies listed on the Main Board of the Stock Exchange with a market capitalisation over HK\$300 million, which are principally engaged in designing, manufacturing and retailing and wholesale of apparel products (the "Sales and Services Comparable Companies"). We consider the Sales and Services Comparable Companies to be appropriate to reflect the selling and distribution expenses on business of similar nature and noted that the ratio of selling and distribution expenses to revenue of six of the Sales and Services Comparable Companies (excluded one outlier with a ratio of approximately 9.3%) ranged from approximately 19.2% to 40.4%, with an average of approximately 29.4%, suggesting that a ratio of total selling and distribution expenses in relation to Authorized Products to its revenue, being 23.0%, which comprises of 15% services fee to LTE Group and 8% of other selling and distribution expenses to be borne by the LTO Group, (i) is in line with the market condition; and (ii) is below the average of the market. If excluding 8% of other selling and distribution expenses to be borne by the LTO Group, the ratio of selling and distribution expenses to revenue of the six Sales and Services Comparable Companies would have ranged from approximately 11.2% to 32.4%, with an average of approximately 21.4%, indicating the 15% services fee payable to the LTE Group is in line with the market condition and below the average of the market. In light of (i) the ratio of the total selling and distribution expenses to the revenue of the Authorized Products being 23% is fair and reasonable as explained above; (ii) 15% of the services fee payable to the LTE Group is in line with the market condition and below the average of the market as explained above; and (iii) the components of 8% of other selling and distribution expenses to be borne by the LTO Group are similar to those of the selling and distribution expenses (other than advertising and promotion expenses) of the Sales and Services Comparable Companies, we are of the view that the 15% of the services fee payable to the LTE Group is fair and reasonable.

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We noted that if the Authorized Products are sold at a price lower than 25% of their marked price mutually agreed by the LTE Group and LTO Group in any quarter of the term, no service fee shall be payable for the relevant quarter. We understand from the Management that such payment term guarantees LTO group to achieve a positive gross profit margin of not less than 44.5% through the Sales Services provided by the LTE Group, which is favourable to the Group. As advised by the Management, the Authorized Products are mainly casual sportswear. In assessing the fairness and reasonableness of the above mechanism of using the benchmark percentage of 25% of the marked price of the Authorized Products to achieve a gross profit margin of not less than 44.5%, we have identified, on a best effort and exhaustive basis, five companies listed on the Main Board of the Stock Exchange which are principally engaged in retailing and distribution of sportswear with a market capitalisation ranging from HK\$300 million to HK\$50 billion. We noted from the respective annual report of the comparable companies for the latest financial year that the gross profit margin for the year of such comparable companies ranged from approximately 35.9% to 61.2%, with an average of approximately 44.0%, suggesting that the target gross profit margin of the LTO Group, being not less than 44.5%, (i) is in line with the market condition; and (ii) is above the average of the market. As such, we are of the view that such target gross profit margin is fair and reasonable and, in turn, the benchmark percentage of 25% is fair and reasonable.

In light of the above and in particular that the pricing policies are fair and reasonable, we concur with the Directors' view that the terms of the Sales and Services Framework Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

5.3 Review on the historical transaction amount

As stated in the Letter from the Board, there is no historical transaction amount with respect to the rights to be granted to the LTO Group under the Sales and Services Agreements and/or the Sales Services to be provided by the LTE Group to the LTO Group thereunder.

5.4 Assessment of the proposed annual caps

As extracted from the Letter from the Board, the following table sets out the proposed annual caps for the aggregate service fees to be paid by the LTO Group to the LTE Group under the Sales and Services Framework Agreement for each of the three years ending 31 December 2026 (the “**Sales and Services Annual Caps**”):

	For the year ending 31 December		
	2024	2025	2026
	US\$'000	US\$'000	US\$'000
Proposed annual cap	1,500	4,500	8,000

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As stated in the Letter from the Board, the above proposed annual caps have been determined by the Board after considering the projected sales of Authorized Products for the three years ending 31 December 2024, 2025 and 2026 respectively, and taking into account (i) the estimated costs and estimated suggested retail price of the range of Authorized Products to be manufactured and sold by the LTO Group under the Sales and Services Framework Agreement; and (ii) future market trends forecasted by the Company.

In assessing the fairness and reasonableness of the Sales and Services Annual Caps, we have discussed with the Management regarding the following principal bases and assumptions adopted in determining such proposed annual caps:

(i) the estimated sales quantity of the Authorized Products

We noted that the proposed annual caps for the three years ending 31 December 2026 were primarily determined based on the expected sales of the Authorized Products for each of the years ending 31 December 2024, 2025 and 2026, which was projected by the Company (the “**Authorized Products Three-year Sales Projections**”).

We have reviewed the Authorized Products Three-year Sales Projections and noted that the Company expected the retail sales of Authorized Products by the LTO Group would amount to approximately US\$8.1 million, US\$23.2 million and US\$51.5 million for each of the three years ending 31 December 2024, 2025 and 2026. The corresponding services fee payable to LTE Group, being 15% of the sales, are approximately US\$1.2 million, US\$3.5 million and US\$7.7 million for the years ending 31 December 2024, 2025 and 2026, respectively, representing a high utilisation rate of approximately 80.7%, 77.4% and 96.5% of the proposed annual caps for the corresponding years.

Having taken into account (i) the recovery of the PRC apparel market and the supportive regulatory policies on the sports industry in the PRC; (ii) the recovery of the Brand’s business performance in the PRC, which is reflected in the growth of the Brand’s revenue of approximately 12.9% attributable to the PRC for the nine months ended 30 September 2023, as compared to the corresponding period in 2022; and (iii) that the indicative services fee of approximately US\$1.2 million, US\$3.5 million and US\$7.7 million for the years ending 31 December 2024, 2025 and 2026 under the Authorized Products Three-year Sales Projections, we are satisfied with the representativeness and reasonableness of the Authorized Products Three-year Sales Projections from the perspective of determining of the proposed annual caps.

(ii) future market trends forecasted by the Company

We noted that the Management has also taken into account the future market trends in determining the proposed annual caps. For further details, please refer to the sub-section “3.4 Assessment of the proposed annual caps — future market trends forecasted by the Company” above.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Based on the above, we are of the view that the Sales and Services Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned.

6. Internal control measures

We have discussed with and understand from the Management that the Group has established the following internal control measures to monitor the transactions contemplated under the Agreements:

- (i) designated staff will oversee the transactions under the Agreements and review the terms of such transactions on a regular basis to ensure that the fees charged for such transactions will reflect the pricing policies of the Group;
- (ii) the management of the Company will regularly assess and discuss the terms and conditions and the pricing mechanism of the transactions contemplated under the Agreements to ensure the OEM Orders, the OBM Purchase Orders and the Sales and Services Agreements are on normal commercial terms and no more favourable than those offered to independent third parties or no less favourable than those offered by independent third parties;
- (iii) the finance department of the relevant business units will also review annually the pricing policies of the transactions under the Agreements to ensure that the transactions are charged on the same bases and the same rates for similar services rendered to/by independent third parties;
- (iv) the finance department of the Company is responsible for collecting data and statistics of the continuing connected transactions under the Agreements on a monthly basis to ensure the annual caps approved are not exceeded. The year-to-date actual transaction amounts will also be reported during the audit committee meeting of the Company as part of ongoing monitoring of the continuing connected transactions of the Group;
- (v) the internal audit team of the Company will conduct regular review of the transactions in accordance with the established terms and the pricing policy under the Agreements and perform sampling inspections to ensure the related internal control procedures were properly followed. The internal audit assessment on the adequacy and effectiveness of such internal control measures will be reported to the audit committee;
- (vi) all abovementioned personnel involved in the Group's internal control procedures are independent of LTE Group and its associates;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (vii) 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 Agreements) of the Company conducted during the preceding financial year pursuant to the Listing Rules; and
- (viii) in addition, the independent non-executive Directors 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 and in the interest of the Shareholders as a whole.

We note from the above that the Group has adopted a set of internal control measures to assign specific responsibilities to various designated departments and management of the Group in performing regular reviews and monitoring transaction amount to ensure that the transactions contemplated under the Agreements will be conducted on normal commercial terms and in accordance with the respective pricing policies and terms of the Agreements.

Furthermore, we noted from the annual report of the Company for the year ended 31 December 2021 and Annual Report 2022 that the independent non-executive Directors have reviewed the historical transactions under the Previous OEM Services Master Agreement conducted during FY2021 and FY2022 and have confirmed that such transactions (i) were entered into in the ordinary and usual course of business of the Group; (ii) were either on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; and (iii) were in accordance with the Previous OEM Services Master Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole. Besides, the auditor of the Company has issued its unqualified letter containing its findings and conclusions in respect of such transactions conducted during FY2021 and FY2022 pursuant to Rule 14A.56 of the Listing Rules. As mentioned above, the transactions contemplated under the Agreements will be subject to the relevant annual review requirements pursuant to Rules 14A.55 to 14A.59 of the Listing Rules.

Taking the above into account, we are of the view that there are appropriate measures in place to govern the conduct of the OEM Services Transactions, OBM Products Purchase Transactions and Sales and Services Transactions, thereby safeguarding the interests of the Independent Shareholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the opinion that:

- (i) the terms of the OEM Services Master Agreement (including the proposed annual caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the OEM Services Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole;
- (ii) the terms of the OBM Products Purchase Master Agreement (including the proposed annual caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the OBM Products Purchase Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and
- (iii) the terms of the Sales and Services Framework Agreement (including the proposed annual caps) are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned, and the Sales and Services Transactions are conducted in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Agreements and the transactions respectively contemplated thereunder (including the proposed annual caps thereof).

Yours faithfully,
For and on behalf of
Lego Corporate Finance Limited
Joshua Liu
Managing Director

Mr. Joshua Liu is a licensed person registered with the Securities and Futures Commission and a responsible officer of Lego Corporate Finance Limited to carry out Type 6 (advising on corporate finance) regulated activity under the SFO. He has over 25 years of experience in the securities and investment banking industries.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(i) Interests of Directors in the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations which were required to be notified to the Company and the Stock Exchange (a) pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”), to be notified to the Company and the Stock Exchange, were as follows:

Long positions in the Shares:

Name of Director	Capacity	Number of Shares	Approximate percentage of shareholding in the Company (Note 4)
Tan Siu Lin	Trustee (Note 1)	1,840,757	0.18%
	Interest of corporation controlled by the director (Note 1)	10,992,986	1.06%
Tan Cho Lung, Raymond	Interest of corporation controlled by the director (Note 2)	15,655,639	1.51%
	Interest of spouse (Note 2)	2,050,000	0.20%
Mok Siu Wan, Anne	Beneficial owner (Note 3)	2,000,000	0.19%

Notes:

1. Dr. Tan Siu Lin as a trustee indirectly controls the entire issued capital of Wincare International Company Limited, which in turn holds directly 1,840,757 Shares. Dr. Tan Siu Lin also controls and is a subscriber and founding member of Tan Siu Lin Foundation Limited, which in turn owns directly 10,992,986 Shares.
2. Mr. Tan Cho Lung, Raymond controls the Flying Base Limited, which in turns own directly 15,655,639 Shares. A total of 2,050,000 Shares was held by an associate of Mr. Tan Cho Lung, Raymond. Mr. Tan is therefore deemed under Part XV of the SFO to be interested in all of the 2,050,000 Shares acquired by his associate.
3. Ms. Mok Siu Wan, Anne owns 2,000,000 Shares through the exercise of share options granted by the Company on 21 April 2008 and none of the 2,000,000 Shares were disposed of up to the date of this circular.
4. The percentage has been compiled based on the total number of the Shares in issue (i.e. 1,034,112,666) as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) pursuant to the Model Code, to be notified to the Company and Stock Exchange.

(ii) Interests of Substantial Shareholders under the SFO

As at the Latest Practicable Date, so far as was known to the Directors, the following persons, not being Directors or chief executive of the Company had, or were deemed to have, interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Number of ordinary shares	Approximate percentage of shareholding in the Company (Note 4)
Shangtex (Hong Kong) Limited	Beneficial owner (Note 1)	730,461,936	70.64%
Shangtex Investment Co., Ltd.	Interest of controlled corporation (Note 1)	730,461,936	70.64%
Shangtex Holding Co., Ltd	Interest of controlled corporation (Note 1)	730,461,936	70.64%
Orient International (Holding) Co., Ltd.	Interest of controlled corporation (Note 1)	730,461,936	70.64%
Shanghai Guosheng Group Co., Ltd.	Interest of controlled corporation (Note 1)	730,461,936	70.64%
Double Joy Investments Limited	Beneficial owner (Note 2)	71,975,726	6.96%
Ms. Tan Chiu Joise	Interest of controlled corporation; interest of spouse (Note 2, 3)	89,179,725	8.62%
Dr. Tan Henry	Interest of controlled corporation (Note 2, 3)	89,179,725	8.62%

Notes:

1. Based on the information recorded in the register required to be kept under section 336 of the SFO, Shangtex (Hong Kong) Limited (“**Shangtex HK**”) directly holds 730,461,936 Shares. Shangtex HK is 100% directly owned by Shangtex Investment Co., Ltd. (“**Shangtex Investment**”). Shangtex Investment is 100% directly owned by Shangtex Holding Co., Ltd (“**Shangtex**”). Orient International (Holding) Co., Ltd. (“**Orient International**”) directly holds 96.65% in Shangtex. Shanghai Guosheng Group Co., Ltd. directly holds 34% in Orient International.
2. Double Joy Investments Limited (“**Double Joy**”) is a company incorporated in the British Virgin Islands with limited liability and is owned by Ms. Tan Chiu Joise and Dr. Tan Henry in equal shares. Each of Ms. Tan Chiu Joise and Dr. Tan Henry is deemed to be interested in the 71,975,726 Shares held by Double Joy.
3. Both Dr. Tan Henry and Ms. Tan Chiu Joise are deemed to be interested in the 71,975,726 Shares held by Double Joy as mentioned in note 2 above.
4. Dr. Tan Henry wholly owns Luen Thai Capital Limited (formerly known as Hanium Industries Limited), which directly owns 17,203,999 Shares. Ms. Tan Chiu Joise is the wife of Dr. Tan Henry and is deemed to be interested in the shares which are interested by Dr. Tan Henry under Part XV of the SFO.
5. The percentage has been compiled based on the total number of the Shares in issue (i.e. 1,034,112,666) as at the Latest Practicable Date.

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person, other than the Directors and the chief executives of the Company, who had, or was deemed to have, interests or short positions in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. COMPETING INTERESTS

As at the Latest Practicable Date, so far as the Directors are aware, none of the Directors or any of their respective close associates had a controlling interest in a business which competes or is likely to compete, either directly or indirectly with the business of the Group.

4. INTERESTS IN ASSETS AND CONTRACTS

As at the Latest Practicable Date, save as disclosed in the announcement of the Company dated 20 October 2023 and in this circular, and the Company’s annual report for the year ended 31 December 2022:

- (a) none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group which is subsisting as at the Latest Practicable Date and is significant in relation to the business of the Group; and

- (b) none of the Directors had any interest, either direct or indirect, in any assets which have been, since 31 December 2022 (being the date to which the latest published audited accounts of the Group were made up), acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered into any service contract/appointment letter or has an unexpired service contract/appointment letter with any member of the Group which is not determinable by such member of the Group within one year without payment of compensation (other than statutory compensation).

6. EXPERT QUALIFICATION AND CONSENT

The following is the qualification of the expert who has made statement in this circular:

Name	Qualification
Lego Corporate Finance Limited	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO

Lego Corporate Finance Limited, the Independent Financial Adviser, has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter, recommendation, opinion and/or references to its name in the form and context in which they are included.

7. EXPERT'S INTERESTS

As at the Latest Practicable Date,

- (a) the Independent Financial Adviser did not have any direct or indirect interest in any assets which have been, since 31 December 2022, being the date to which the latest published audited consolidated accounts of the Company were made up, acquired, disposed of by, or leased to, any member of the Group, or were proposed to be acquired or disposed of by, or leased to, any member of the Group; and
- (b) the Independent Financial Adviser did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

8. LITIGATION

As at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened against any member of the Group.

9. MATERIAL ADVERSE CHANGE

Subsequent to 31 December 2022, being the date to which the latest published audited financial statements of the Group were made up, the Group's management team identified certain material unreconciled inventory items in relation to one of the Group's business units of the apparel segment located in the Philippines. During the course of ascertaining details relating to the aforesaid inventory discrepancies, management noted that these items were primarily pertained to inventories and cost of sales transacted in prior periods/years which suggested there were misstatements in the consolidated financial information of prior periods/years. The unreconciled inventory items represented material errors in the consolidated financial information of prior periods/years and, consequently, prior year adjustments were recorded to correct these errors and to reclass certain balance sheet items in prior periods/years. Such adjustments were presented in the Group's condensed consolidated interim financial statements for the period ended 30 June 2023 in the Interim Report 2023.

As at the Latest Practicable Date, save as disclosed above and as further detailed in the Interim Report 2023, the Directors confirm that there has been no material adverse change in the financial position or trading position of the Group since 31 December 2022, being the date to which the latest published audited financial statements of the Group was made up.

10. MISCELLANEOUS

- (a) The registered head office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (b) The principal share registrar and transfer office of the Company is Conyers Trust Company (Cayman) Limited at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (c) The share registrar and transfer office of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong.
- (d) The company secretary of the Company is Mr. Chiu Chi Cheung.
- (e) In the event of any inconsistency, the English text of this Circular shall prevail over the Chinese text.

11. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of Hong Kong Exchanges and Clearing Limited (www.hkexnews.hk) and the Company (www.luenthai.com) for a period of 14 days from the date of this circular:

- (a) the letter from the Board dated 29 December 2023, the text of which is set out on pages 5 to 25 of this circular;

- (b) the letter from the Independent Board Committee dated 29 December 2023, the text of which is set out on pages IBC-1 to IBC-2 of this circular;
- (c) the letter from the Independent Financial Adviser dated 29 December 2023 to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages IFA-1 to IFA-35 of this circular;
- (d) the written consent from the Independent Financial Adviser referred to under the section headed “Expert Qualification and Consent” of this Appendix I;
- (e) this circular;
- (f) the Previous OEM Services Master Agreement;
- (g) the OEM Services Master Agreement;
- (h) the OBM Products Purchase Master Agreement; and
- (i) the Sales and Services Framework Agreement.



LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Luen Thai Holdings Limited (the “**Company**”) will be held at the Boardroom, Rooms 1001–1005, 10th Floor, Nanyang Plaza, 57 Hung To Road, Kwun Tong, Kowloon, Hong Kong on Tuesday, 16 January 2024 at 2:30 p.m. for the shareholders of the Company to consider, and if thought fit, pass the following resolutions as ordinary resolutions of the Company. Capitalised terms used in this notice shall have the meanings as defined in the circular of the Company dated 29 December 2023, unless otherwise specified.

ORDINARY RESOLUTIONS

1. OEM Services Master Agreement

“**THAT:**

- (a) the OEM Services Master Agreement (as defined and described in the circular of the Company dated 29 December 2023) and the transactions contemplated thereunder be and are approved, confirmed and ratified;
- (b) the execution and delivery of the OEM Services Master Agreement and all documents in connection therewith for and on behalf of the Company be and are approved, confirmed and ratified;
- (c) the proposed annual caps in respect of the OEM Services Master Agreement for each of the years ending 31 December 2024, 2025 and 2026 as set out in the Circular be and are approved, confirmed and ratified; and
- (d) any one or more directors of the Company be and are authorised to take all steps necessary or expedient in his/their opinion to implement and/or to give effect of the OEM Services Master Agreement and the transactions thereunder.”

2. OBM Products Purchase Master Agreement

“**THAT:**

- (a) the OBM Products Purchase Master Agreement (as defined and described in the circular of the Company dated 29 December 2023) and the transactions contemplated thereunder be and are approved, confirmed and ratified;

NOTICE OF THE EGM

- (b) the execution and delivery of the OBM Products Purchase Master Agreement and all documents in connection therewith for and on behalf of the Company be and are approved, confirmed and ratified;
- (c) the proposed annual caps in respect of the OBM Products Purchase Master Agreement for each of the years ending 31 December 2024, 2025 and 2026 as set out in the Circular be and are approved, confirmed and ratified; and
- (d) any one or more directors of the Company be and are authorised to take all steps necessary or expedient in his/their opinion to implement and/or to give effect of the OBM Products Purchase Master Agreement and the transactions thereunder.”

3. Sales and Services Framework Agreement

“**THAT:**

- (a) the Sales and Services Framework Agreement (as defined and described in the circular of the Company dated 29 December 2023) and the transactions contemplated thereunder be and are approved, confirmed and ratified;
- (b) the execution and delivery of the Sales and Services Framework Agreement and all documents in connection therewith for and on behalf of the Company be and are approved, confirmed and ratified;
- (c) the proposed annual caps in respect of the Sales and Services Framework Agreement for each of the years ending 31 December 2024, 2025 and 2026 as set out in the Circular be and are approved, confirmed and ratified; and
- (d) any one or more directors of the Company be and are authorised to take all steps necessary or expedient in his/their opinion to implement and/or to give effect of the Sales and Services Framework Agreement and the transactions thereunder.”

Yours faithfully,
By Order of the Board
Luen Thai Holdings Limited
Chiu Chi Cheung
Company Secretary

Hong Kong, 29 December 2023

NOTICE OF THE EGM

Registered Office:
Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman
KY1-1111, Cayman Islands

*Head Office and Principal Place of
Business in Hong Kong:*
Rooms 1001–1005, 10/F
Nanyang Plaza
57 Hung To Road
Kwun Tong, Kowloon
Hong Kong

Notes:

1. Any Shareholder entitled to attend and vote at a meeting of the Company shall be entitled to appoint another person as his proxy to attend and vote instead of him. A Shareholder who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a Shareholder. A proxy shall be entitled to exercise the same powers on behalf of a Shareholder who is an individual and for whom he acts as proxy as such Shareholder could exercise. In addition, a proxy shall be entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such Shareholder could exercise if it were an individual Shareholder.
2. The instrument appointing a proxy shall be in writing under the hand of the appointor or of his attorney duly authorised in writing or, if the appointor is a corporation, either under seal or under the hand of an officer or attorney duly authorised.
3. The instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power or authority shall be deposited at the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong not less than 48 hours before the time for holding the meeting or adjourned meeting or poll (as the case may be) at which the person named in the instrument proposes to vote and in default the instrument of proxy shall not be treated as valid. Delivery of an instrument appointing a proxy shall not preclude a Shareholder from attending and voting in person at the meeting or poll concerned.
4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy or by representative, shall be accepted to the exclusion of the votes of the other joint holders; and for this purpose seniority shall be determined by the order in which the names stand in the register. Several executors or administrators of a deceased Shareholder in whose name any share stands shall for such purpose be deemed joint holders thereof.

NOTICE OF THE EGM

5. The register of members of the Company will be closed from Friday, 12 January 2024 to Tuesday, 16 January 2024, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, non-registered Shareholders must lodge all duly completed transfer forms accompanied by the relevant share certificates with the branch share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 11 January 2024.
6. Subject to paragraph 7 below, if a tropical cyclone warning signal No. 8 or above is expected to be hoisted or a black rainstorm warning signal is expected to be in force at any time between 7:00 a.m. and 5:00 p.m. on the date of the EGM, the EGM will be postponed and the Shareholders will be informed of the date, time and venue of the postponed EGM by an announcement posted on the respective websites of the Company and the Stock Exchange.
7. If a tropical cyclone warning signal No. 8 or above or a black rainstorm warning signal is lowered or cancelled at or before three hours before the time fixed for holding the EGM and where conditions permit, the EGM will be held as scheduled.
8. The EGM will be held as scheduled when an amber or a thunderstorm warning signal or typhoon signal No. 3 or below is in force.
9. After considering their own situations, the Shareholders should decide on their own as to whether they would attend the EGM under any bad weather condition and if they do so, they are advised to exercise care and caution.
10. The translation into Chinese language of this Notice is for reference only. In case of any inconsistency, the English version shall prevail.
11. A form of proxy for use at the EGM is enclosed herewith.

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

Executive Directors:

Wang Weimin (*Chairman*)

Tan Siu Lin (*Honorary Life Chairman*)

Tan Cho Lung, Raymond (*Chief Executive Officer*)

Zhang Min

Jin Xin

Non-executive Director:

Mok Siu Wan, Anne

Independent Non-executive Directors:

Lee Cheuk Yin, Dannis

Chan Henry

Wang Ching

Website: www.luenthai.com