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LUEN THAI HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 311)

CONTINUING CONNECTED TRANSACTIONS

References are made to the announcements of the Company dated 9 September 2015, 29 September 2015, 12 October 2016 and 20 December 2016 regarding the provision of the Previous Services by the LTO Group to the LTE Group pursuant to the Original Master Agreement and to the announcement of the Company dated 20 December 2017 regarding the provision of the Previous Services by the LTO Group to the LTE Group pursuant to the 2nd Master Agreement.

The 2nd Master Agreement will expire on 31 December 2020. On 29 October 2020 (after trading hours), LTO (a direct wholly-owned subsidiary of the Company) entered into the New Master Agreement with LTE in relation to the provision of Services by the LTO Group to the LTE Group.

The proposed annual caps for the aggregate fees to be paid by the LTE Group to the LTO Group under the New Master Agreement will amount to US\$115,000,000 (approximately HK\$891,250,000), US\$160,000,000 (approximately HK\$1,240,000,000) and US\$200,000,000 (approximately HK\$1,550,000,000) for each of the years ending 31 December 2021, 2022 and 2023, respectively.

LTE is ultimately owned by the family trust of Dr. Tan Siu Lin, being an executive Director. Hence LTE is a connected person of the Company and the transactions contemplated under the New Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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 to be paid by the LTE Group to the LTO Group for the transactions contemplated under the New Master Agreement for each of the years ending on 31 December 2021, 2022 and 2023 is more than 5% and more than HK\$10,000,000 on an annual basis, the transactions contemplated under the New Master Agreement will be subject to the reporting, announcement, annual review and Independent Shareholders' approval requirement under Chapter 14A of the Listing Rules.

Both Dr. Tan Siu Lin and Mr. Tan Cho Lung, Raymond have a material interest in the transactions contemplated under the New Master Agreement. Accordingly, they have abstained from voting on the Board resolutions approving the entering into of the New Master Agreement and the transactions contemplated thereunder.

The Company will hold an EGM for the Independent Shareholders to consider and, if thought fit, approve the New Master Agreement 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 New Master Agreement 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.

A circular containing details of the New Master Agreement, a letter from the Independent Board Committee to the Independent Shareholders, a letter from Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and a notice of the EGM is expected to be despatched to the Shareholders on or before 19 November 2020.

BACKGROUND

References are made to the announcements of the Company dated 9 September 2015, 29 September 2015, 12 October 2016 and 20 December 2016 regarding the provision of the Previous Services by the LTO Group to the LTE Group pursuant to the Original Master Agreement and to the announcement of the Company dated 20 December 2017 regarding the provision of the Previous Services by the LTO Group to the LTE Group pursuant to the 2nd Master Agreement.

The 2nd Master Agreement will expire on 31 December 2020. On 29 October 2020 (after trading hours), LTO (a direct wholly-owned subsidiary of the Company) entered into the New Master Agreement with LTE in relation to the provision of Service by the LTO Group to the LTE Group. The terms of the New Master Agreement will be substantially the same as the 2nd Master Agreement, except the scope of service will only cover

manufacturing of apparel, as no design and sourcing services were provided in previous years. In other words, the scope of service will be adjusted from the Previous Services to the Service.

The principal terms of the New Master Agreement are as follows:

Date: 29 October 2020

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 New Master Agreement and the transactions contemplated thereunder, the term of the New Master Agreement shall commence on 1 January 2021; and shall end on 31 December 2023, 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: Pursuant to the New Master Agreement, the LTO Group shall provide the Service to the LTE Group. The transactions shall be conducted on normal commercial terms and subject to the terms and conditions contained in the orders. The orders should also set out the specifications, quantity and price of the products, payment terms, delivery time and place of delivery as agreed by both parties.

PRICING POLICY

The general pricing principles in respect of the provision of Service 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 principles disclosed above, the fee for the provision of Service shall 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 customer for similar products; (iii) specifications, particulars and complexity of products; and (iv) urgency of the delivery schedule of the products.

Separate agreements will be entered into by the LTO Group and the LTE Group in respect of specific model of the apparel pursuant to the New Master Agreement, in which the price of the products shall be determined on an order-by-order basis taking into account the factors mentioned above.

PAYMENT TERMS

The products to be delivered by the LTO Group to the LTE Group under each order will be at FOB (free on board) price. In respect of each 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 products concerned.

PROPOSED ANNUAL CAPS AND BASIS OF THE PROPOSED ANNUAL CAPS

As mentioned in the announcement of the Company dated 20 December 2017, the annual caps for the aggregate fees payable by the LTE Group to the LTO Group under the 2nd Master Agreement were US\$70,000,000 (approximately HK\$542,500,000), US\$120,000,000 (approximately HK\$930,000,000) and US\$200,000,000 (approximately HK\$1,550,000,000) for each of the years ended 31 December 2018 and 2019 and the year ending 31 December 2020, respectively.

For the years ended 31 December 2018, 2019 and the nine months ended 30 September 2020, the aggregate fees received or receivable by the LTO Group for its provision of the Previous Services to the LTE Group under the Original Master Agreement amounted to approximately US\$27,488,000 (approximately HK\$213,032,000), US\$29,774,000 (approximately HK\$230,748,500) and US\$38,110,000 (approximately HK\$295,352,500), respectively.

The proposed annual caps for the aggregate fees to be paid by the LTE Group to the LTO Group under the New Master Agreement will amount to US\$115,000,000 (approximately HK\$891,250,000), US\$160,000,000 (approximately HK\$1,240,000,000) and US\$200,000,000 (approximately HK\$1,550,000,000) for each of the years ending 31 December 2021, 2022 and 2023, respectively.

The determination of the above proposed annual caps in respect of the Service under the New Master Agreement is based on: (i) the anticipated growth of the business with the LTE Group based on the apparel style development plan and the retail network expansion plan of the LTE Group in the coming years; (ii) the historical steady growth of the business with the LTE Group; (iii) payment and credit terms for the potential transactions under the New Master Agreement; and (iv) expected delivery schedules for the potential transactions under the New Master Agreement provided by the LTE Group, which also provides an indicative amount of the purchase to be made by LTE Group for the three years ending 31 December 2023; (v) production capacity of the Group in the PRC; and (vi) future market trends forecasted by the Company.

INTERNAL CONTROL MEASURES

The Company has established various internal control measures in order to ensure that the transactions under the New Master Agreement are in accordance with the pricing policies and the terms of the New Master Agreement are on normal commercial terms or on terms no more favourable than those terms offered by the Group to independent third parties for similar products in its ordinary and usual course of business. Such internal control measures mainly include the following:

- Designated staff will oversee the transactions under the New Master Agreement 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 New Master Agreement to ensure they are on normal commercial terms or on terms no more favourable than other terms offered by the Group to independent third parties.
- The finance department of the relevant business units will also review annually the pricing policies of the transactions under the New Master Agreement to ensure that the transactions are charged on the same bases and the same rates for similar services rendered to independent third parties.
- The finance department of the Company is responsible for collecting data and statistics of the continuing connected transactions under the New Master Agreement 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 New Master Agreement 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.
- 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 New Master Agreement) 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.

REASONS FOR ENTERING INTO THE NEW MASTER AGREEMENT

LTE Group's past experience and success in the retail of footwear products has been an instrumental factor for the LTO Group to enter into the New Master Agreement, as it is expected that the apparel business could be another growth driver of the LTE Group. LTE Group has been identified as one of the strategic customers of the Group and the continued collaboration with 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 "growth together with customers".

The Directors (excluding the independent non-executive Directors who will provide their view after receiving the advices from the Independent Financial Adviser) believe that the cooperation with the LTE Group is vital to the business development of the Group in the PRC market and should maintain and beyond the expiry of the 2nd Master Agreement. The New Master Agreement sets out a framework to allow the Group to continue providing Services to the LTE Group for the three years ending 31 December 2023. This continuing relationship is expected to bring synergy effect to both parties, as the New Master Agreement will enable the LTO Group to continue the optimization of productivity in the PRC.

Besides, 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 earned from the LTE Group has also steadily increased. By conducting the transactions contemplated under the New Master Agreement, it will enable the Group to secure existing business and revenue stream which in turn will benefit the Group's revenue growth and future development.

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 New Master Agreement are and will be entered into in the ordinary and usual course of business of the Group and on normal commercial terms. The terms of the New Master Agreement, including the proposed annual caps, 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.

DIRECTORS' MATERIAL INTERESTS

Both Dr. Tan Siu Lin and Mr. Tan Cho Lung, Raymond have a material interest in the transactions contemplated under the New Master Agreement. Accordingly, they have abstained from voting on the board resolutions of the Company approving the entering into of the New Master Agreement and the transactions contemplated thereunder.

IMPLICATIONS UNDER THE LISTING RULES

LTE is ultimately owned by the family trust of Dr. Tan Siu Lin, being an executive Director. Hence LTE is a connected person of the Company and the transactions contemplated under the New Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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 to be paid by the LTE Group to the LTO Group for the transactions contemplated under the New Master Agreement for each of the years ending on 31 December 2021, 2022 and 2023 is more than 5% and more than HK\$10,000,000 on an annual basis, the transactions contemplated under the New Master Agreement 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 an EGM for the Independent Shareholders to consider and, if thought fit, approve the New Master Agreement and the transactions contemplated thereunder, and the proposed annual caps thereof.

Save and except for Dr. Tan Siu Lin and Mr. Tan Cho Lung, Raymond and their respective associates, which 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 abstain from voting on the resolution in relation to the transactions and revised annual caps under the New Master Agreement at the EGM as a result of having material interests therein. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, no other Shareholder has a material interest in the New Master Agreement and the transactions contemplated thereunder and therefore no other Shareholder is required to abstain from voting at the EGM for the relevant resolutions.

The Independent Board Committee has been established to advise the Independent Shareholders on the transactions contemplated under the New Master Agreement 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.

DESPATCH OF CIRCULAR

A circular containing details of the New Master Agreement, a letter from the Independent Board Committee to the Independent Shareholders, a letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, and a notice of the EGM is expected to be despatched to the Shareholders on or before 19 November 2020.

INFORMATION ON THE PARTIES

LTO is an investment holding company and the Group is principally engaged in the manufacturing and trading of apparel and accessories.

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

DEFINITIONS

“2nd Master Agreement”	the master agreement dated 20 December 2017 entered into between LTO and LTE in relation to the provision of the Previous Services by the LTO Group to the LTE Group
“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 for the Independent Shareholders to consider and, if thought fit, approve the New Master Agreement and the transactions contemplated thereunder
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“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 New Master Agreement and the proposed annual caps thereof
“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 New Master Agreement
“Independent Shareholders”	Shareholders other than those who have a material interest in the New Master Agreement 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
“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
“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
“New Master Agreement”	the master agreement dated 29 October 2020 entered into between LTO and LTE in relation to the provision of the Service by the LTO Group to the LTE Group

“Original Master Agreement”	the master agreement dated 9 September 2015 entered into between LTO and LTE in relation to the provision of the Previous Services by the LTO Group to the LTE Group
“percentage ratios”	shall have the meaning as ascribed to it under Chapter 14 of the Listing Rules
“Previous Services”	the provision of design, sourcing and manufacturing of apparel
“Service”	manufacturing of apparel
“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 announcement, amounts in US\$ have been translated into HK\$ at the exchange rate of US\$1.00 to HK\$7.75. Such translations do not constitute a representation that any amount has been, could have been or may be exchanged at such rates.

By order of the Board
Chiu Chi Cheung
Company Secretary

Hong Kong, 29 October 2020

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

Executive Directors:

Qu Zhiming (*Chairman*)
Tan Siu Lin (*Honorary Life Chairman*)
Tan Cho Lung, Raymond
(*Chief Executive Officer*)
Huang Jie
Zhang Min

Non-executive Director:

Mok Siu Wan, Anne

Independent non-executive Directors:

Seing Nea Yie
Chan Henry
Wang Ching

Website: www.luenthai.com