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**LUEN THAI HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 311)**

**NON-EXEMPT CONTINUING CONNECTED TRANSACTIONS**

As disclosed in the Announcement, the On Time Group had entered into the Transition Services Agreement dated 10 March 2006 with the Minority Shareholder and the Service Companies in respect of the provision of Transition Services by the Service Companies, the initial terms of which ended on 2 December 2006. At the time of the Announcement, the Directors expected that the Transition Services would only be provided by the Service Companies up and until mid-2007 and that the aggregate fees to be paid by the On Time Group to the Service Companies for each of the two years ended on 31 December 2007 would amount to approximately US\$3,240,000 and US\$600,000 respectively, constituting continuing connected transactions of the Company which were subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules by reason of the relevant aggregate fees paid or to be paid by the On Time Group exceeding 0.1% but falling short of 2.5% of the applicable Percentage Ratios.

The Directors announce that, due to further internal planning and restructuring of the On Time Group, the Service Companies will continue to provide the Transition Services to the On Time Group until the end of 2008 pursuant to which a renewal agreement has been entered into on 3 December 2007 for a term of 28 months from 3 December 2006, and the aggregate fees paid for the 8 months ended on 31 August 2007 have already exceeded the cap of US\$600,000. The Directors would therefore like to bring this to the attention of the shareholders of the Company. These transactions will continue to be subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

Based on the expectation that the Service Companies will continue to provide the Transition Services to the On Time Group until the end of 2008, the actual amount of fees incurred in respect of the Transition Services and the Group's projections, the Directors currently expect that the aggregate fees paid or to be paid by the On Time Group to the Service Companies for each of the three years ending on 31 December 2009 will not exceed US\$1,100,000 (which includes aggregate sum of US\$661,000 incurred for the eight months ended on 31 August 2007), US\$1,200,000 and nil respectively, resulting in the applicable Percentage Ratios to be more than 0.1% but less than 2.5%. These transactions are therefore subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

The fees paid and to be paid by the On Time Group to the Service Companies in relation to the Transition Services are determined after arm's length negotiations with reference to the turnover of the Group's Indonesian operations. The Directors (including the independent non-executive Directors) consider that the Transition Services and the terms of renewal agreement to be fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

## **1. Background**

As disclosed in the Announcement, the On Time Group had entered into the Transition Services Agreement dated 10 March 2006 with the Minority Shareholder and the Service Companies in respect of the provision of Transition Services by the Service Companies, the initial terms of which ended on 2 December 2006. At the time of the Announcement, the Directors expected that the Transition Services would only be provided by the Service Companies up and until mid-2007 and that the aggregate fees to be paid by the On Time Group to the Service Companies for each of the two years ended on 31 December 2007 would amount to approximately US\$3,240,000 and US\$600,000 respectively, constituting continuing connected transactions of the Company which were subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules by reason of the relevant aggregate fees paid or to be paid by the On Time Group exceeding 0.1% but falling short of 2.5% of the applicable Percentage Ratios.

The purpose of the transitional arrangement was to facilitate a change in ownership of the On Time Group. At the time, the parties came to a commercial agreement that they would use their respective endeavours to complete this by 2 December 2006. However, it was also noted during the commercial negotiations that the transition could probably take longer and it was anticipated that a time extension up to mid-2007 would probably be necessary. As such, it was reflected in the Announcement that mid-2007 was the reasonably expected or otherwise probable completion date of the transition and that upon such completion, the Transition Services Agreement would either be left to expire or be terminated.

The Directors announce that, due to further internal planning and restructuring of the On Time Group, the Service Companies will continue to provide the Transition Services to the On Time Group until the end of 2008 pursuant to which a renewal agreement has been entered into on 3 December 2007 for a term of 28 months from 3 December 2006, and the aggregate fees paid for the 8 months ended on 31 August 2007 have already exceeded the cap of US\$600,000. The Directors would therefore like to bring this to the attention of the shareholders of the Company. These transactions will continue to be subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

## **2. Connected Persons**

By reason of the Minority Shareholder's directorship and ownership of more than 30% in the issued share capital of On Time, he is a Connected Person of the Company. As disclosed in the Announcement, the Service Companies are wholly-owned by the Minority Shareholder and are hence the Minority Shareholder's Associates and also Connected Persons of the Company pursuant to Chapter 14A of the Listing Rules. Based on information provided by the management of the Service Companies, the Service Companies are principally engaged in the Transition Services.

## **3. Reasons for the transactions**

As disclosed in the Announcement, these transactions were entered into with a view to minimise any potential business interruptions as a result of the Group's acquisition of interests of the On Time Group and to ensure that there is a smooth transition in bringing the operations of the On Time Group in line with those of the Group. At the time of entering into the Transition Services Agreement, the Directors expected that the amount of Transition Services provided by the Service Companies would be significantly reduced in 2007 due to the setting up of a company by the On Time Group to provide services similar to those of the Service Companies. However, due to further internal planning and restructuring of the On Time Group which has caused a delay in setting up its own service provider company, the Directors believe that it would be more efficient and beneficial for the On Time Group to continue to engage the Service Companies for the provision of the Transition Services until the end of 2008 when the internal restructuring exercise is expected to be completed despite that the renewal agreement will not expire until April 2009.

During the financial year ended 31 December 2006 and the eight months ended on 31 August 2007, aggregate fees paid by the Group for the Transition Services amounted to approximately US\$3,129,000 and US\$661,000 respectively. These have been charged at 4% and 1% of the turnover of the Group's Indonesian operations as agreed by the parties to the Transition Services Agreement and the renewal agreement respectively. The reason for a decrease from 4% to 1% in the rate charged by the Service Companies is due to the Group's ability to provide services to meet some of its needs similar to those of the Transition Services since December 2007.

Based on the actual amount of fees incurred to date, the fact that the transactions are expected to continue until the end of 2008 and the expected growth in turnover of the Indonesian operations, the Directors estimate that there would likely be a 10% increase in fees payable by the Group for the year ending on 31 December 2008. The fees paid and to be paid by the On Time Group to the Service Companies in relation to the Transition Services are determined after arm's length negotiations with reference to the turnover of the Indonesian operations. The Directors (including the independent non-executive Directors) consider that the Transition Services and the terms of renewal agreement to be fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

#### **4. Implications under the Listing Rules**

The provision of the Transition Services constitutes continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Based on the expectation that the Service Companies will continue to provide the Transition Services to the On Time Group until the end of 2008, the actual amount paid for the year ended on 31 December 2006 and the eight months ended on 31 August 2007, the Directors currently expect that the aggregate fees paid or to be paid by the on Time Group to the Service Companies for each of the three years ending on 31 December 2009 in respect of the Transition Services will amount to approximately US\$1,100,000 (which includes the aggregate sum of US\$661,000 incurred for the eight months ended on 31 August 2007), and US\$1,200,000 and nil respectively, resulting in the applicable Percentage Ratios to be more than 0.1% but less than 2.5%. The Transition Services will therefore be subject to the reporting and announcement requirements under Rules 14A.45 to 14A.47 of the Listing Rules.

#### **5. General**

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

#### **6. Definitions**

“Announcement”	an announcement of the Company dated 20 November 2006;
“Associate”	shall have the meaning as ascribed to it under the Listing Rules;
“Company”	Luen Thai Holdings Limited, the shares of which are listed on the Stock Exchange;
“Connected Person”	shall have the meaning as ascribed to it under the Listing Rules;
“Directors”	directors of the Company for the time being;
“Group”	the Company and its subsidiaries;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;

“Minority Shareholder”	the 40% holder of the shares in On Time, being Mr. Frank Fleischer;
“On Time”	On Time International Limited, a private company incorporated under the laws of the British Virgin Islands and an indirect 60% owned subsidiary of the Company;
“On Time Group”	On Time and its subsidiaries;
“Percentage Ratios”	shall have the meaning as ascribed to it under the Listing Rules;
“Service Companies”	companies wholly-owned by the Minority Shareholder;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transition Services”	the services provided by the Service Companies under the Transition Services Agreement, which include (without limitation) the following up on orders received from the On Time Group for the manufacture of garment and apparel and other accessories by a number of third party factories in Indonesia and exporting the same to the end-customers of the On Time Group;
“Transition Services Agreement”	the transition services agreement dated 10 March 2006 and entered into between, inter alia, the On Time Group, the Minority Shareholder and the Service Companies; and
“US\$”	United States dollars, the lawful currency of the United States of America.

Dated 13 September 2007

As at the date hereof, the board of directors of the Company comprises the following Directors:

*Executive Directors:*

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

*Non-executive Director:*

Tan Willie

*Independent Non-executive Directors:*

Chan Henry  
Cheung Siu Kee  
Seing Nea Yie

By order of the Board

**Chiu Chi Cheung**

*Company Secretary*

Website: [www.luenthai.com](http://www.luenthai.com)