



Luenthai

LUEN THAI HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 311)

Major Acquisition and Connected Transaction, and Resumption of Trading

The Directors are pleased to announce that on 3 April 2007, the Purchaser, an indirect wholly owned subsidiary of the Company, exercised in full its rights under the Option Agreement to require the Vendor, a Connected Person of the Company, to sell and transfer the Option Shares, representing 10% of the issued share capital of the Acquired Company, pursuant and subject to the terms of the Option Agreement, in consideration of HK\$1,000 and the Purchaser entering into the Sale and Purchase Agreement. The Option Price will be funded from the internal resources of the Group and paid by the Purchaser over four instalments. Upon Completion, the Acquired Company will become a 60% owned subsidiary of the Company and its financial information will continue to be consolidated in the Group's financial statements.

The terms of the Option Agreement were negotiated on an arm's length basis and the Directors consider that the Transaction is made on normal commercial terms and in the interests of the Group and the Company's shareholders as a whole.

The Vendor, a substantial shareholder of the Acquired Company, is a Connected Person of the Company by virtue of his 50% ownership in the Acquired Company, which in turn is a subsidiary of the Company by virtue of its financial information having been consolidated in the Group's financial statements.

As the Option Price, when aggregated with the consideration for the Sale and Purchase Transaction which was completed within the last 12 months is more than HK\$10,000,000, and each of the applicable percentage ratios of the Transaction, when aggregated with the Sale and Purchase Transaction which was completed within the last 12 months, exceeds 2.5%, the Transaction is subject to reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.17 of the Listing Rules.

The Transaction, when aggregated with the Sale and Purchase Transaction which was completed within the last 12 months, also constitutes a major acquisition for the Company under the Listing Rules. It is therefore, also subject to the requirements of announcement, circular and shareholders' approval under the Listing Rules.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 4 April 2007. Application has been made for the resumption of trading in the Shares with effect from 9:30 a.m. on 10 April 2007.

A circular containing, among other things, further details of the Option Agreement and other disclosures in connection with the Transaction required under the Listing Rules, will be despatched to the Shareholders in due course.

I. EXERCISE OF THE OPTION SHARES

Date of exercise: 3 April 2007
Parties: (1) The Vendor
(2) The Purchaser

The Purchaser has exercised in full its rights under the Option Agreement to require the Vendor, to sell and transfer the Option Shares, representing 10% of the issued share capital of the Acquired Company, pursuant and subject to the terms of the Option Agreement in consideration of HK\$1,000 and the Purchaser entering into the Sale and Purchase Agreement. As disclosed in an announcement of the Company dated 16 March 2006, subject to completion of the Sale and Purchase Transaction, the Option Agreement may be exercised by the Purchaser at any time after six calendar months from the date of the Option Agreement. For further details of the terms of each of the Option Agreement and the Sale and Purchase Agreement please refer to the announcement of the Company dated 16 March 2006.

The Option Price, negotiated on an arm's length basis between the parties, shall be to the multiple of the following, pro-rated for the 10% interest being acquired:

- (a) the average of the consolidated net profit after tax of the Acquired Company for the three years ending on 31 December 2008; and
- (b) the price-earnings multiple of 5.5 in respect of the Acquired Company.

Although the exact amount of the Option Price cannot currently be determined, it is subject to a minimum of US\$3,850,000 (equivalent to approximately HK\$30,030,000) and a maximum of US\$6,600,000 (equivalent to approximately HK\$51,480,000), being the range agreed between the parties after arm's length negotiation. On the basis of a price-earnings multiple that is within the prevailing industry average and the track record profitability and business prospects of the Acquired Company and its subsidiaries, the Directors are of the view that the Option Price and the basis for its calculation are fair and reasonable, and are in the interest of the Group and Company's shareholders as a whole.

Payment of the Option Price shall be made in cash and funded by the internal resources of the Group and shall be made in four instalments as follows:

- (a) the first non-refundable instalment of US\$3,850,000 (equivalent to approximately HK\$30,030,000) shall be paid upon Completion;
- (b) the second instalment shall be paid within 30 days after the Purchaser's receipt of the audited and consolidated financial statements of the Acquired Company for the year ended on 31 December 2006 or (if such financial statements shall be available at the time of the first instalment) at the same time as the first instalment is paid, and shall be calculated as follows:
(10% x 75% x price-earnings ratio of 5.5 x the consolidated net profit of the Acquired Company for the year ended on 31 December 2006) less the first instalment;
- (c) the third instalment shall be paid within 30 days after the Purchaser's receipt of the audited and consolidated financial statements of the Acquired Company for the year ending on 31 December 2007 and shall be calculated as follows:
(10% x 80% x price-earnings ratio of 5.5 x averaged consolidated net profit of the Acquired Company for the two years ending on 31 December 2007) less the first and second instalments; and
- (d) the final instalment shall be the remaining balance of the unpaid Option Price (calculated in accordance with the formula as described above, but less the first, second and third instalments).

Upon Completion, the Purchaser will become a majority shareholder of the Acquired Company holding a 60% interest and the Acquired Company will continue to be a subsidiary of the Company. The exercise of the Call Option, when aggregated with the Sale and Purchase Transaction, constitutes a major transaction for the Company, and is therefore subject to announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules. In addition, as the exercise of the Call Option, when aggregated with the Sale and Purchase Transaction, also results in a connected transaction for the Company, independent shareholders' approval is required to be obtained pursuant to Rule 14A.17 of the Listing Rules.

Up and until the date of this announcement, the Purchaser has paid an aggregate sum of US\$19.25 million to the Vendor for the Sale and Purchase Transaction.

II. INFORMATION ON THE ACQUIRED COMPANY

As at the date of this announcement, the Acquired Company is a private company duly incorporated under the laws of the British Virgin Islands on 13 February 2006 having an authorised share capital of US\$50,000 divided into 50,000 Shares, 500 of which have been issued and are fully paid up. Out of the 500 issued Shares of the Acquired Company, 250 Shares (representing 50% of the entire issued capital of the Acquired Company) have been sold by the Vendor to the Purchaser pursuant to the Sale and Purchase Agreement and 50 shares (representing 10% of the entire issued capital of the Acquired Company) shall be sold to the Purchaser pursuant to the Option Agreement. The remaining 200 issued Shares (representing 40% of the entire issued capital of the Acquired Company) shall continue be held by the Vendor. As at the date of this announcement, there are eight subsidiaries within the Acquired Group. The Acquired Group is principally engaged in the design, sourcing and distribution on a worldwide basis of garments and other textile products. The business of the Acquired Group, headquartered in Hong Kong with offices in the Asia Pacific region, has been in existence since as early as the 1990s.

The Vendor, introduced to the Company through business acquaintances, has more than 25 years of experience in the wholesale trade and apparel business, and is the founder of the Acquired Group. Subsequent to the completion of the Sale and Purchase Agreement, the Vendor continued to take a key role in the management of the Acquired Group as its chief executive officer, and will remain to be so after the Completion.

The unaudited consolidated total assets and the unaudited consolidated net asset value of the Acquired Group as at 31 December 2006 amounted to US\$23,085,944 (equivalent to approximately HK\$180,070,363) and US\$1,077,459 (equivalent to approximately HK\$8,404,180) respectively. The unaudited consolidated revenue of the Acquired Group for the year ended 31 December 2006 amounted to US\$118,828,282 (equivalent to approximately HK\$926,860,600). For the year ended 31 December 2005, the unaudited consolidated net profit before and after taxation of the Acquired Group amounted to US\$8,472,857 (equivalent to approximately HK\$66,088,285) and US\$5,236,200 (equivalent to approximately HK\$40,842,360) respectively. For the year ended 31 December 2006, the unaudited consolidated net profit before and after taxation of the Acquired Group amounted to US\$9,994,780 (equivalent to approximately HK\$77,959,284) and US\$6,376,113 (equivalent to approximately HK\$49,733,681) respectively.

Certain provision and accruals in the net asset value and net profit of the Acquired Group may need to be made pending completion of the financial audit of the Acquired Group.

III. REASONS FOR THE TRANSACTION

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

The Directors believe that the Transaction is in line with the Group's multi-product strategy to expand its apparel product categories and geographical coverage by way of selective acquisitions and joint ventures. Upon Completion, the Transaction will further consolidate the Group's leading position in the apparel industry. The Group's experience in acquiring and managing GJM (its sleepwear division), Tomwell Limited (the ladies career wear division) and Partner Joy Group Limited (its sweater division) shows the Group's proven track record as an industry leader and consolidator.

The Company announced on 16 March 2006 that the Vendor, the Purchaser and Luen Thai Overseas Limited (as guarantor), a wholly owned subsidiary of the Company, entered into, amongst other things, the Sale and Purchase Agreement and the Option Agreement. The Sale and Purchase Transaction was completed on 3 April 2006, following which the Acquired Company became a 50% owned company of the Company. The financial information of the Acquired Company was subsequently consolidated in the Group's financial statements.

On the basis that the Transaction was negotiated on arm's length basis and that the price-earnings ratio used in the calculation of the Option Price to be paid is in line with industry average, the Directors consider that the Transaction is made on normal commercial terms, that its terms are fair and reasonable, and that the Transaction and its terms are in the interests of the Group and the Company's shareholders as a whole. The Directors are also of the view that the Transaction will not create any materially adverse impact on the Group's working capital position.

As regards to the Second Option Agreement, the rights granted thereunder, including those of the Company, will not be exercisable until after six calendar months from the date of such agreement. No decision has been made by the Company as to whether or not they will exercise such option. Further announcement will be made as and when appropriate in compliance with the Listing Rules.

IV. LISTING RULES IMPLICATIONS

The Vendor, a substantial shareholder of the Acquired Company, is a Connected Person of the Company by virtue of his 50% ownership in the Acquired Company, which in turn is a subsidiary of the Company by virtue of its financial information being consolidated in the Group's financial statements.

As the Option Price, when aggregated with the consideration for the Sale and Purchase Transaction which was completed within the last 12 months is more than HK\$10,000,000, and each of the applicable percentage ratios of the Transaction, when aggregated with the Sale and Purchase Transaction which was completed within the last 12 months, exceeds 2.5%, the Transaction is subject to reporting, announcement and independent shareholders' approval requirements in accordance with Rule 14A.17 of the Listing Rules.

The Transaction, when aggregated with the Sale and Purchase Transaction which was completed within the last 12 months, also constitutes a major acquisition for the Company under the Listing Rules. It is therefore, also subject to the requirements of announcement, circular and shareholders' approval under the Listing Rules.

At the request of the Company, trading in the Shares was suspended with effect from 9:30 a.m. on 4 April 2007. Application has been made for the resumption of trading in the Shares with effect from 9:30 a.m. on 10 April 2007.

A circular containing details of the Transaction will be despatched to the shareholders of the Company as soon as practicable.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions shall have the following meanings:

“Acquired Company”	On Time International Limited, a private company incorporated under the laws of the British Virgin Islands;
“Acquired Group”	the Acquired Company and its subsidiaries;
“Company”	Luen Thai Holdings Limited, the shares of which are listed on the Stock Exchange;
“Completion”	completion of the Option Agreement in accordance with its terms and conditions;
“Connected Person”	shall have the meaning as ascribed to it under the Listing Rules;
“Directors”	directors of the Company for the time being;
“Call Option”	a call option granted by the Vendor to the Purchaser under the Option Agreement, in respect of the purchase of a 10% interest in the Acquired Company;
“Option Agreement”	an option agreement dated 10 March 2006 entered into between the Vendor and the Purchaser in relation to an option to purchase a further 10% interest in the Acquired Company;
“Option Shares”	The Shares to be purchased by the Purchaser and sold by the Vendor in accordance with the terms of the Option Agreement;
“Option Price”	the exercise price to be determined, and paid by the Purchaser, in accordance with the terms of the Option Agreement;
“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 People's Republic of China;
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange;
“Purchaser”	Fortune Investment Overseas Limited, a company incorporated under the laws of the British Virgin Islands and a wholly-owned subsidiary of the Company;
“Sale and Purchase Agreement”	a sale and purchase agreement dated 10 March 2006 entered into between the Vendor, the Purchaser and Luen Thai Overseas Limited (as guarantor);
“Sale and Purchase Transaction”	the acquisition of 50% interest in the issued capital of the Acquired Company by the Purchaser from the Vendor pursuant and subject to terms of the Sale and Purchase Agreement;
“Second Option Agreement”	an option agreement dated 10 March 2006 entered into between the Vendor and the Purchaser in relation to an option to the sale and purchase of a 40% interest in the Acquired Company;
“Share”	a share of US\$1.00 each in the capital of the Acquired Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“Transaction”	the acquisition of a 10% interest in the issued capital of the Acquired Company in accordance with the terms of the Option Agreement;
“US\$”	United States dollars, the lawful currency of the United States of America;
“Vendor”	Mr. Frank Fleischer

Unless otherwise specified, the conversion of US\$ into Hong Kong dollars is based on the exchange rate of US\$1 = HK\$7.80. The conversion is for the purpose of illustration only and does not constitute a representation that the amounts in question have been, could have been or could be converted at the above rates or any rates at all.

By order of the Board
Luen Thai Holdings Limited
Chiu Chi Cheung
Company Secretary

Hong Kong, 4 April 2007

As at the date of this announcement, the Board comprises of the following Directors:

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

Non-executive Director:
Tan Willie

Independent Non-executive Directors:
Chan Henry
Cheung Siu Kee
Seing Nea Yie

Website: www.luenthai.com