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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 or other registered dealer in securities, bank manager, solicitor, company secretary, professional accountant or other professional advisers.

If you have sold or transferred all your shares in **Pacific Textiles Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or 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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PACIFIC TEXTILES HOLDINGS LIMITED

互太紡織控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01382)

**REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS
WITH BRANDIX LANKA LIMITED
AND
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
TEXTURED JERSEY LANKA (PRIVATE) LIMITED ON
THE MAIN BOARD OF THE COLOMBO STOCK EXCHANGE
AND
POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE PRE-IPO PRIVATE PLACEMENT AND PUBLIC OFFER OF SHARES IN
TEXTURED JERSEY LANKA (PRIVATE) LIMITED**

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



Karl Thomson Financial Advisory Limited

A letter from the Board is set out on pages 4 to 14 of this circular. A letter from the Independent Board Committee is set out on pages 15 to 16 of this circular. A letter of advice from Karl Thomson, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Shareholders, is set out on pages 17 to 35 of this circular.

A notice convening the EGM to be held at 7th Floor, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong on Friday, 29 April 2011 at 11:00 a.m. is set out on pages 40 to 41 of this circular. A form of proxy for use at the EGM is enclosed herewith. 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 it to the head office and principal place of the Company in Hong Kong at 7th Floor, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong, not less than 48 hours before the time appointed for holding of 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 or any adjourned meeting if you so wish.

* For identification purpose only

Hong Kong, 11 April 2011

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DEFINITIONS

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

“Articles”	the Articles of Association of the Company, as amended from time to time
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors
“Brandix”	Brandix Lanka Limited, a company incorporated in Sri Lanka with limited liability, which currently owns 40% interest in PT Sri Lanka
“Brandix Group”	Brandix, its subsidiaries and its associates
“Brandix Sale of Products Master Agreement”	a master agreement between the Company and Brandix dated 27 August 2007 relating to the sale of products by the Group to the Brandix Group
“Company”	Pacific Textiles Holdings Limited, an exempted company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Continuing Connected Transaction”	the transactions contemplated under the Brandix Sale of Products Master Agreement
“Directors”	the director(s) of the Company
“EGM”	an extraordinary general meeting of the Company to be held on 29 April 2011 to consider and, if thought fit, approve the proposed revised annual caps for the Continuing Connected Transaction for each of the three years ending 31 March 2013, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver
“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
“Independent Board Committee”	the independent board committee comprising all the INEDs, namely Mr. Chan Yue Kwong, Michael, Mr. Ng Ching Wah and Mr. Sze Kwok Wing, Nigel

DEFINITIONS

“Independent Financial Adviser” or “Karl Thomson”	Karl Thomson Financial Advisory Limited, a corporation licensed under the SFO (Chapter 571 of the Laws of Hong Kong) to carry out type 6 regulated activities (advising on corporate finance), the independent financial adviser appointed to advise the Independent Board Committee and the Shareholders in relation to the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver
“Independent Shareholders”	Shareholders who are not required to abstain from voting under the Listing Rules at the EGM on the ordinary resolutions for approving the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement and the PT Sri Lanka IPO
“INEDs”	the independent non-executive Directors
“Latest Practicable Date”	6 April 2011, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Minority Shareholders”	Shareholders other than the Directors (excluding INEDs), chief executive of the Company and their respective associates
“Offer Price”	the offer price per Offer Share
“Offer Shares”	the PT Sri Lanka Shares to be offered under the Pre-IPO Private Placement and the PT Sri Lanka IPO
“Practice Note 15”	Practice Note 15 to the Listing Rules
“Pre-IPO Private Placement”	the placement of part of the PT Sri Lanka Shares currently held by PTJH and Brandix to certain institutional and non-institutional investors, which will take place shortly before the PT Sri Lanka IPO
“Proposed Listing”	the proposed listing of and dealing in the PT Sri Lanka Shares on the Main Board of the Colombo Stock Exchange
“Proposed Spin-off”	proposed spin-off of PT Sri Lanka for separate listing on the Main Board of the Colombo Stock Exchange
“PT Sri Lanka”	Textured Jersey Lanka (Private) Limited, a limited liability company incorporated under the laws of Sri Lanka, which is currently owned as 60% by PTJH and 40% by Brandix

DEFINITIONS

“PT Sri Lanka Shareholders’ Agreement”	the shareholders’ agreement dated 30 March 2011 made between PTJH and Brandix relating to, among others, the Proposed Listing
“PTJH”	Pacific Textured Jersey Holdings Limited, a wholly-owned subsidiary of the Company, which currently owns 60% interest in PT Sri Lanka
“PT Sri Lanka IPO”	initial public offering of new PT Sri Lanka Shares to be issued by PT Sri Lanka for subscription by the public in Sri Lanka incidental to the Proposed Spin-off
“PT Sri Lanka Shares”	shares of PT Sri Lanka
“Rupees”	Sri Lanka rupees, the lawful currency of Sri Lanka
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share(s)”	share(s) with a nominal value of HK\$0.001 each in the capital of the Company
“Share Options”	share option(s) to subscribe for Shares granted pursuant to the share option scheme adopted by the Company pursuant to the written resolutions of the Shareholders passed on 27 April 2007
“Shareholders”	the shareholders of the Company
“Sri Lanka”	Democratic Socialist Republic of Sri Lanka
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“Waiver”	waiver from the strict compliance with the assured entitlement requirement under Practice Note 15 to be sought from the Minority Shareholders
“%”	per cent

For the purpose of illustration only and unless otherwise stated, conversion of US\$ into HK\$ and US\$ into Rupees in this circular are based on the exchange rate of US\$1 = HK\$7.8 and US\$1 = Rupees 109 and rounded to thousand. Such conversions should not be construed as a representation that any amounts have been, could have been, or may be, exchanged at this or any other rate.

LETTER FROM THE BOARD



PACIFIC TEXTILES HOLDINGS LIMITED
互太紡織控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01382)

Executive Directors

Mr. WAN Wai Loi (*Chairman*)
Mr. TSANG Kang Po (*Vice Chairman*)
Mr. LAM Wing Tak (*Chief Executive Officer*)
Dr. LAM King Man
Mr. LAM Hing Chau, Leon

Non-executive Directors

Mr. CHOI Kin Chung
Mr. IP Ping Im
Mr. LAU Yiu Tong

Independent Non-executive Directors

Mr. CHAN Yue Kwong, Michael
Mr. NG Ching Wah
Mr. SZE Kwok Wing, Nigel

Registered office

P.O. Box 309GT
Ugland House
South Church Street
George Town
Grand Cayman
Cayman Islands

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

7th Floor, Block B,
Eastern Sea Industrial Building
48-56 Tai Lin Pai Road
Kwai Chung
New Territories
Hong Kong

11 April 2011

Dear Shareholders,

**REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS
WITH BRANDIX LANKA LIMITED
AND
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
TEXTURED JERSEY LANKA (PRIVATE) LIMITED ON
THE MAIN BOARD OF THE COLOMBO STOCK EXCHANGE
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POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE PRE-IPO PRIVATE PLACEMENT AND PUBLIC OFFER OF SHARES IN
TEXTURED JERSEY LANKA (PRIVATE) LIMITED**

INTRODUCTION

Reference is made to (a) the announcement of the Company dated 10 March 2011 in respect of the proposed revised annual caps for the Continuing Connected Transaction for each of the three years ending 31 March 2013; and (b) the announcements of the Company dated 18 March 2011 and 30 March 2011 in respect of the Proposed Spin-off.

* For identification purpose only

LETTER FROM THE BOARD

The purposes of this circular are to provide you with, among other things, (i) further information on the Continuing Connected Transaction (including the proposed revised annual caps), the Proposed Spin-off, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver; (ii) a letter of advice from Karl Thomson to the Independent Board Committee and the Shareholders on the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver; (iii) the recommendation of the Independent Board Committee to the Shareholders regarding the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver; and (iv) a notice of the EGM.

THE CONTINUING CONNECTED TRANSACTION

Background

Reference is made to the Company's announcement and circular dated 26 February 2010 and 11 March 2010 respectively in relation to, among others, renewal of the continuing connected transactions between the Group and the Brandix Group under the Brandix Sale of Products Master Agreement for a term of three years ending 31 March 2013.

The Company's internal reporting revealed that the transaction amount of the aggregate sales of knitted fabrics from the Group to the Brandix Group (other than PT Sri Lanka) under the Brandix Sale of Products Master Agreement for the year ending 31 March 2011 is expected to exceed the existing annual cap of HK\$377 million for the year ending 31 March 2011. This is mainly due to the sharp increase in the costs of yarn which is the main raw materials of knitted fabrics, particularly in the fourth quarter of 2010, which has in turn resulted in an increase in the selling price by more than 10%.

The Board therefore proposed to revise the annual caps for the Continuing Connected Transaction for each of the three years ending 31 March 2013.

Major terms of the Brandix Sale of Products Master Agreement

Pursuant to the Brandix Sale of Products Master Agreement, the Company agreed to sell and procure the other members of the Group to sell, and Brandix agreed to purchase or procure the relevant members of the Brandix Group to purchase, knitted fabrics manufactured or owned by any member of the Group at prices determined on an arm's length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to any other independent third party, payment of which are required to be settled on a 45-day credit period.

The Brandix Sale of Products Master Agreement has an initial term from 24 August 2007 to 31 March 2010 and was automatically renewed for a further term of three years ending 31 March 2013.

LETTER FROM THE BOARD

Existing Annual Caps and Revised Annual Caps

Set out below are (i) the existing annual caps approved at the extraordinary general meeting of the Company held on 26 March 2010 and (ii) the proposed revised annual caps, for the Continuing Connected Transaction for each of the three years ending 31 March 2013:-

	Existing Annual Caps	Revised Annual Caps
For the year ending 31 March 2011:	HK\$377 million	HK\$450 million
For the year ending 31 March 2012:	HK\$490 million	HK\$675 million
For the year ending 31 March 2013:	HK\$637 million	HK\$1,012.5 million

The proposed revised annual caps for each of the three years ending 31 March 2013 have been estimated with reference to (i) the transaction amount for the year ended 31 March 2010 of approximately HK\$280.8 million; (ii) the transaction amount for the period from 1 April 2010 to 28 February 2011 of approximately HK\$376.7 million; and (iii) the expected annual growth rate of the transaction amount of 50%.

PROPOSED SPIN-OFF

The Company has submitted an application for the Proposed Spin-off to the Stock Exchange and the Stock Exchange has confirmed that it may proceed with the Proposed Spin-off. It is expected that PT Sri Lanka will submit the listing application to the Main Board of the Colombo Stock Exchange shortly.

PT Sri Lanka is a limited liability company incorporated in Sri Lanka. PT Sri Lanka is owned as to 60% by PTJH, a wholly-owned subsidiary of the Company and 40% by Brandix. PT Sri Lanka is principally engaged in the manufacture and sale of weft knitted fabrics in Sri Lanka.

THE PRE-IPO PRIVATE PLACEMENT AND THE PT SRI LANKA IPO

As at the Latest Practicable Date, PT Sri Lanka had an issued share capital of Rupees 1,597,229,000 (approximately HK\$114,297,000) divided into 575,002,440 shares of Rupees 10 each, which were owned as to 60% by PTJH and 40% by Brandix. Share subdivision had been effected on 25 March 2011 resulting in the increase in the total number of PT Sri Lanka Shares in issue from 159,722,900 to 575,002,440.

On 30 March 2011, PTJH and Brandix entered into the PT Sri Lanka Shareholders' Agreement whereby PTJH and Brandix agreed to effect the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Proposed Listing.

Under the Pre-IPO Private Placement, PTJH will offer 83,000,000 PT Sri Lanka Shares and Brandix will offer 33,000,000 PT Sri Lanka Shares, for sale to certain institutional and non-institutional investors. Immediately after completion of the Pre-IPO Private Placement, the shareholdings of PTJH and Brandix in PT Sri Lanka will drop from 60% to 45.57% and 40% to 34.26% respectively. Subject to the obtaining of the Independent Shareholders' approval, it is expected that the Pre-IPO Private Placement will be completed shortly before the PT Sri Lanka IPO. The Pre-IPO Private Placement will not be conditional upon the PT Sri Lanka IPO.

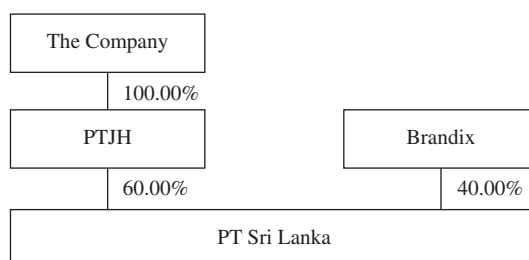
LETTER FROM THE BOARD

Under the PT Sri Lanka IPO, PT Sri Lanka will issue 80,000,000 new PT Sri Lanka Shares, to the public in Sri Lanka. Immediately after completion of the PT Sri Lanka IPO, the shareholdings of PTJH and Brandix in PT Sri Lanka will drop from 45.57% to 40.00% and 34.26% to 30.08% respectively.

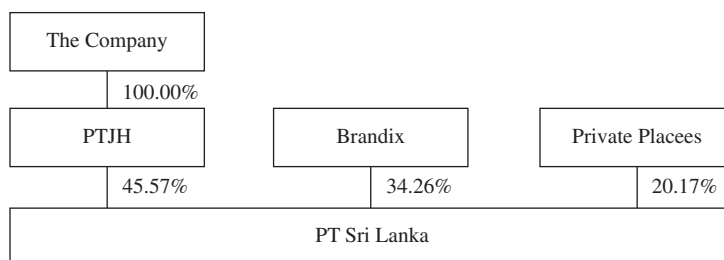
It is proposed that the placees and/or subscribers of PT Sri Lanka Shares under the Pre-IPO Private Placement and the PT Sri Lanka IPO and their respective ultimate beneficial owners will be third parties independent of the Company and its connected persons.

The shareholding structures of PT Sri Lanka as at the Latest Practicable Date, immediately after completion of the Pre-IPO Private Placement and immediately after completion of the PT Sri Lanka IPO are set out below:

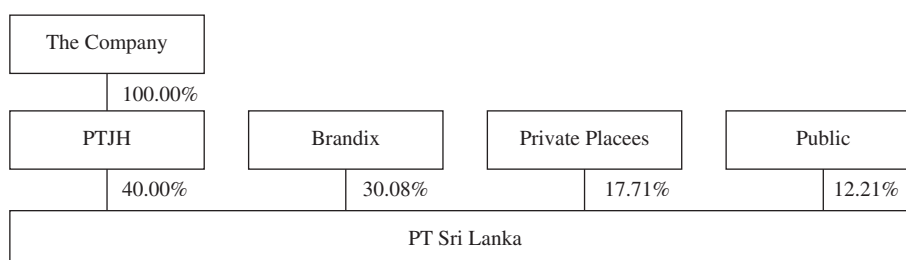
As at the Latest Practicable Date:



Upon completion of the Pre-IPO Private Placement:



Upon completion of the Pre-IPO Private Placement and the PT Sri Lanka IPO:



LETTER FROM THE BOARD

The indicative Offer Price is Rupees 15 (approximately US\$0.1376 or HK\$1.0734) per PT Sri Lanka Share, which is determined on the basis of 17.9 times of the net earnings of PT Sri Lanka for the financial year ended 31 March 2010. The placing price under the Pre-IPO Private Placement is expected to be the same as such indicative Offer Price. The final Offer Price shall be determined between the directors of PT Sri Lanka and the underwriter(s)/placement agent(s) for the PT Sri Lanka IPO subject to the then prevailing market sentiments.

Based on the indicative Offer Price, the total proceeds of sale of 83,000,000 PT Sri Lanka Shares by PTJH under the Pre-IPO Private Placement will amount to approximately US\$11.422 million (approximately HK\$89.092 million). The gain expected to accrue to the Group under the Pre-IPO Private Placement before deducting any related legal and professional fees will amount to approximately US\$9.586 million (approximately HK\$74.771 million), which is calculated by deducting the Group's total investment costs in the amount of US\$1.836 million (approximately HK\$14.321 million) in respect of the 83,000,000 PT Sri Lanka Shares from the total proceeds of sale of 83,000,000 PT Sri Lanka Shares by PTJH under the Pre-IPO Private Placement.

The total proceeds of issue of 80,000,000 new PT Sri Lanka Shares under the PT Sri Lanka IPO will amount to approximately US\$11.008 million (approximately HK\$85.862 million). It is intended that PT Sri Lanka will make use of such proceeds in the following manner:

- approximately US\$3 million (approximately HK\$23.4 million) for purchasing land and building for new factory;
- approximately US\$6 million (approximately HK\$46.8 million) for purchasing dyeing and knitting machines; and
- approximately US\$2 million (approximately HK\$15.6 million) for purchasing of other equipment.

Conditions to the Proposed Spin-off

The Proposed Spin-off is conditional upon:

- the Stock Exchange's approval of the Proposed Spin-off;
- the Independent Shareholders' approval of the Pre-IPO Private Placement and the PT Sri Lanka IPO;
- the Minority Shareholders' approval of the Waiver;
- the Colombo Stock Exchange's approval of the Proposed Listing;
- the terms and structure of the Pre-IPO Private Placement and the PT Sri Lanka IPO being agreed among PTJH, Brandix and the underwriters and placement agents.

If any of the above conditions are not fulfilled, the Proposed Spin-off will not proceed and the Company will issue an announcement accordingly as soon as practicable.

LETTER FROM THE BOARD

Financial information of PT Sri Lanka

Based on the audited financial statements of PT Sri Lanka prepared under the Sri Lanka Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka, the net profit for each of the two years ended 31 March 2010 are set out below:

	Year ended 31 March			
	2010		2009	
	US\$'000	HK\$'000	US\$'000	HK\$'000
Net profit before taxation	5,030	39,234	1,311	10,226
Net profit after taxation	5,030	39,234	1,311	10,226

The net asset value of PT Sri Lanka as at 30 September 2010 as shown in the unaudited financial statements of PT Sri Lanka drawn up to 30 September 2010 was approximately US\$22,604,000 (approximately HK\$176,311,000).

The Company was advised by its auditors that there is no material difference in PT Sri Lanka's financial information set out above if Hong Kong Financial Reporting Standards were used to prepare such information.

Financial effects of the Pre-IPO Private Placement and the PT Sri Lanka IPO

PT Sri Lanka's total assets as shown in its unaudited financial statements drawn up to 30 September 2010 accounted for 8.4% of the Company's total assets as shown in the Company's interim report for the six months ended 30 September 2010. PT Sri Lanka's profit before tax and revenue as shown in its audited accounts for the year ended 31 March 2010 accounted for 4.1% and 9.6% respectively of the Company's profit before tax and revenue as shown in the Company's audited accounts for the year ended 31 March 2010. Given the relatively small size of PT Sri Lanka as compared with the remaining Group, the Company considers that the Proposed Spin-off will not have any material adverse impact on the assets, liabilities and earnings of the Group.

PT Sri Lanka will no longer be a subsidiary of the Company immediately after completion of the Pre-IPO Private Placement. PT Sri Lanka will be accounted for as an associated company of the Company. Upon completion of the Pre-IPO Private Placement and the PT Sri Lanka IPO, approximately 40.00% of its results will be equity accounted for in the financial statements of the Group.

Business delineation

Both the Company and PT Sri Lanka are in the manufacture and sale of knitted fabrics. The Company's manufacturing plant is located in Panyu, Guangzhou, the PRC and offers warp and weft knitting along with printing services. The Company supplies fabrics mainly to the garment factories in mainland China and South East Asia with the end customers located mainly in the United States and Japan. PT Sri Lanka manufactures weft knitted fabrics only. Its manufacturing plant is located in Sri Lanka and its products are mainly sold to the garment factories in Sri Lanka with the end customers located mainly in Europe. There is no central order processing centre or arrangement to process orders from clients to determine whether the Company or PT Sri Lanka should take the production orders.

LETTER FROM THE BOARD

As the end products are fashionable goods and the businesses of the Company and PT Sri Lanka are operated with a very short delivery lead time, customers normally source fabrics from local fabric mills in order to save the transportation time. The Company considers that in view of the difference in the geographical location of the manufacturing plants and hence the geographical proximity to the customers, there is a sufficiently clear operational delineation between the businesses of the remaining Group and PT Sri Lanka after the Proposed Spin-off.

Other Arrangements in respect of PT Sri Lanka

Pursuant to the PT Sri Lanka Shareholders' Agreement, PTJH and Brandix agreed with each other the following arrangements regarding PT Sri Lanka:

- (a) within two years upon the Proposed Listing, they will not dispose of the PT Sri Lanka Shares then held by them, and within three years after the said two-year period, if one of them disposes of any of its PT Sri Lanka Shares, the other party shall dispose of such number of PT Sri Lanka Shares which will result in both parties maintaining their shareholding (in relation to each other) in the same proportion as at the time of the Proposed Listing, provided that the collective shareholding shall not fall below 51% of the total issued shares of PT Sri Lanka at any time during such three-year period; and
- (b) upon the Proposed Listing, in respect of certain important matters of PT Sri Lanka, each of PTJH and Brandix shall not vote in favor of such resolution unless the other party has given its consent in writing to vote in favor of such resolution; and if PTJH or Brandix does not give its written consent to the other party with respect to any resolution, PTJH and Brandix shall vote against such resolution.

The Company will comply with the applicable Listing Rules requirements in respect of the arrangement set out in paragraph (a) above as and when appropriate.

REASONS FOR AND BENEFITS OF THE CONTINUING CONNECTED TRANSACTION AND THE PROPOSED SPIN-OFF

The Continuing Connected Transaction

The Group is principally engaged in manufacturing and selling customised knitted fabrics with a focus on complex, value-added fabrics. Brandix engages in the development, manufacturing and marketing of textiles and apparel products. The Group has sold knitted fabrics to the Brandix Group since 2001. The Continuing Connected Transaction generates revenue for the Group and is therefore beneficial to the Group.

The Directors (including the INEDs) have confirmed that the prices of the knitted fabrics sold to the Brandix Group by the Group have been determined on an arm's length basis by reference to the prevailing market rates or at rates similar to those offered by the Group to any other independent third party.

The Directors (excluding the INEDs whose opinion is set out in the "Letter from the Independent Board Committee" in this circular) are of the opinion that the Continuing Connected Transaction is in the ordinary and usual course of business of the Group and on normal commercial terms, and the terms of the Brandix Sale of Products Master Agreement (including the proposed revised annual caps) are fair and reasonable and in the interest of the Shareholders as a whole.

LETTER FROM THE BOARD

None of the Directors or their respective associates has any interest in the Brandix Group. None of the Directors has a material interest in the Continuing Connected Transaction and none of them has abstained from voting on the relevant Board resolutions approving the proposed revised annual caps for the Continuing Connected Transaction.

The Proposed Spin-off

The Proposed Spin-off will improve the company profile and status of PT Sri Lanka and provide PT Sri Lanka with flexibility and a separate platform for raising funds from capital markets to support its growth. The Company will, through its holding of approximately 40.00% immediately upon completion of the Pre-IPO Private Placement and the PT Sri Lanka IPO, continue to enjoy the benefits from the growth and development of the business of PT Sri Lanka.

The Company will make use of the proceeds from the disposal of PT Sri Lanka Shares by PTJH under the Pre-IPO Private Placement of approximately US\$11.422 million (approximately HK\$89.092 million) for the expansion and development of the remaining business of the Group which will enhance the shareholders' investment in the Company.

The Directors (other than the INEDs whose opinion is set out in the "Letter from the Independent Board Committee" in this circular) considered that the terms of the Pre-IPO Private Placement and the PT Sri Lanka IPO are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

None of the Directors has a material interest in the Pre-IPO Private Placement and the PT Sri Lanka IPO and none of them has abstained from voting on the relevant Board resolutions approving the Pre-IPO Private Placement and the PT Sri Lanka IPO.

ASSURED ENTITLEMENT AND WAIVER

According to Practice Note 15, the Company is expected to provide its Shareholders with an assured entitlement to PT Sri Lanka Shares. PT Sri Lanka is proposed to be listed outside Hong Kong, and PT Sri Lanka Shares under any assured entitlement can only be made available to the Shareholders by way of a public offering in Hong Kong.

If assured entitlement is to be provided on the basis that PT Sri Lanka will allocate 5% of the total size of the offering under the PT Sri Lanka IPO (i.e. 4,000,000 PT Sri Lanka Shares) to be offered to the shareholders of the Company. The assured entitlement ratio would be 2.79 PT Sri Lanka Shares for every board lot of 1,000 shares of the Company. As odd lots would normally be traded below the market price, a number of shareholders of the Company will not be able to enjoy the benefit of the assured entitlement.

Both preferential offer and distribution in specie of PT Sri Lanka Shares to the shareholders of the Company are costly and unduly burdensome in the context of the PT Sri Lanka IPO. Given the size of the PT Sri Lanka IPO, the value of the assured entitlement to the Company's shareholders would not be substantial and would not worth the costs that may be incurred for providing the assured entitlement. Further, no trading facilities are expected to be provided to the shareholders in Hong Kong which means that investor interest is not expected to be significant.

LETTER FROM THE BOARD

For the reasons above, the Directors consider that strict compliance with the assured entitlement requirement under Practice Note 15 would not be for the benefit of the Company or its shareholders. The Company therefore proposes to convene the EGM to seek its Minority Shareholders' approval of the Waiver.

LISTING RULES IMPLICATIONS

The Continuing Connected Transaction

Brandix, by virtue of its 40% shareholding in PT Sri Lanka, a subsidiary of the Company, is regarded as a connected person of the Company. The Brandix Group are therefore regarded as connected persons of the Company.

Since each of the applicable percentage ratios with reference to the proposed revised annual caps exceeds 5%, the Continuing Connected Transaction is subject to the reporting, annual review, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules.

The Proposed Spin-off

As mentioned above, Brandix is a connected person of the Company and a controller of PT Sri Lanka within the meaning under Rule 14A.10(3) of the Listing Rules. Therefore, the Pre-IPO Private Placement will, should it proceed, constitute a connected transaction for the Company under Chapter 14A of the Listing Rules.

Since each of the relevant percentage ratios exceeds 5% but is less than 25%, the Pre-IPO Private Placement will, should it proceed, constitute a discloseable and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules.

The Pre-IPO Private Placement and the PT Sri Lanka IPO are subject to, among other things, the Independent Shareholders' approval, the Minority Shareholders' approval of the Waiver and the Colombo Stock Exchange's approval of the Proposed Listing. Accordingly, the Proposed Spin-off may or may not occur. Shareholders and other investors are reminded to exercise caution when dealing in the securities of the Company.

EGM

The EGM will be convened to seek the Independent Shareholders' approval of the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Minority Shareholders' Waiver. Karl Thomson has been appointed as the independent financial adviser for advising the Independent Board Committee and the Shareholders in respect of the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver.

So far as the Company is aware, none of the Brandix Group and the ultimate beneficial owner(s) of Brandix is a Shareholder, and none of the Shareholders has a material interest in, and will be required to abstain from voting under the Listing Rules at the EGM on the ordinary resolutions for approving the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement and the PT Sri Lanka IPO. The following Directors (excluding INEDs), chief

LETTER FROM THE BOARD

executive of the Company and their respective associates, who in aggregate held 992,761,000 Shares (representing 69.28% of the issue share capital of the Company) as at the Latest Practicable Date, will abstain from voting under the Listing Rules at the EGM on the ordinary resolution for approving the Waiver:

Name of Director	Number of issued Shares held by the Director and his associates	Approximate percentage of issued share capital of the Company
Choi Kin Chung	171,102,000	11.94%
Ip Ping Im	403,055,000	28.13%
Lam Hing Chau, Leon	100,000	0.01%
Lam King Man	30,697,000	2.14%
Lam Wing Tak	115,328,000	8.05%
Lau Yiu Tong	51,866,000	3.62%
Tsang Kang Po	104,489,000	7.29%
Wan Wai Loi	<u>116,124,000</u>	<u>8.10%</u>
Total:	<u>992,761,000</u>	<u>69.28%</u>

Notice of EGM is set out on pages 40 to 41 of this circular. A form of proxy for used by the Shareholders at the EGM is enclosed with this circular. Whether or not you intend to be present at the EGM, you are requested to complete the form of proxy and return it to the head office and principal place of business of the Company in Hong Kong not less than 48 hours before the time appointed for holding 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 or any adjourned meeting if you so wish.

RECOMMENDATION

Your attention is drawn to the letter of the Independent Board Committee set out on pages 15 and 16 of this circular containing its recommendation to the Shareholders and the letter of advice from Karl Thomson set out on pages 17 and 35 of this circular containing its advice to the Independent Board Committee and to the Shareholders, in relation to the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver.

Taking into account the recommendations of Karl Thomson, the Independent Board Committee concurs with the views of Karl Thomson that (i) the Continuing Connected Transaction is in the ordinary and usual course of business of the Group and on normal commercial terms; (ii) the terms of the Brandix Sale of Products Master Agreement (including the proposed revised annual caps), the Pre-IPO Private Placement and the PT Sri Lanka IPO are fair and reasonable; and (iii) the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver are in the interests of the Company and the Shareholders as a whole. The Board therefore recommend the Shareholders to vote in favour of the ordinary resolutions in relation to the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver to be proposed at the EGM.

LETTER FROM THE BOARD

GENERAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully
By order of the Board
Pacific Textiles Holdings Limited
Wan Wai Loi
Chairman

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



PACIFIC TEXTILES HOLDINGS LIMITED

互太紡織控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01382)

11 April 2011

To the Shareholders

Dear Sir/Madam,

**REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS
WITH BRANDIX LANKA LIMITED
AND
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
TEXTURED JERSEY LANKA (PRIVATE) LIMITED ON
THE MAIN BOARD OF THE COLOMBO STOCK EXCHANGE
AND
POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE PRE-IPO PRIVATE PLACEMENT AND PUBLIC OFFER OF SHARES IN
TEXTURED JERSEY LANKA (PRIVATE) LIMITED**

INTRODUCTION

We refer to the circular dated 11 April 2011 (the “Circular”) of which this letter forms part issued by the Company to the Shareholders. Terms used in this letter shall have the same meaning as defined in the Circular unless the context requires otherwise.

We, being the INEDs, have been appointed as members of the Independent Board Committee. The Independent Board Committee was established to advise the Shareholders whether, in our opinion, the terms of the Brandix Sale of Products Master Agreement (including the proposed revised annual caps), the Pre-IPO Private Placement and the PT Sri Lanka IPO are fair and reasonable and whether the Brandix Sale of Products Master Agreement (including the proposed revised annual caps), the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver are in the interests of the Company and the Shareholders as a whole and to advise the Shareholders on how to vote, taking into account the recommendations of Karl Thomson which has been appointed as the Independent Financial Adviser.

The details of the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver are summarised in the “Letter from the Board” set out on pages 4 to 14 of the Circular. You are strongly urged to read the “Letter of advice from Karl Thomson” set out on pages 17 to 35 of the Circular.

* *For identification purpose only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

RECOMMENDATION

As the Independent Board Committee, we have discussed with the management of the Company the reasons for the revision of the existing annual caps and the basis upon which the terms and the proposed revised annual caps for the Continuing Connected Transaction have been determined, the reasons for the Proposed Spin-off and the Waiver, and the terms and conditions of, the Pre-IPO Private Placement and the PT Sri Lanka IPO. We have also discussed with Karl Thomson the principal factors and reasons in arriving at its advice set out in the “Letter of advice from Karl Thomson”.

Taking into account the recommendations of Karl Thomson, the Independent Board Committee concurs with the views of Karl Thomson that (i) the Continuing Connected Transaction is in the ordinary and usual course of business of the Group and on normal commercial terms; (ii) the terms of the Brandix Sale of Products Master Agreement (including the proposed revised annual caps), the Pre-IPO Private Placement and the PT Sri Lanka IPO are fair and reasonable; and (iii) the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver are in the interests of the Company and the Shareholders as a whole.

We recommend the Shareholders to vote in favour of the ordinary resolutions in relation to the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver to be proposed at the EGM.

Yours faithfully,
The Independent Board Committee

Mr. CHAN Yue Kwong, Michael
*Independent non-executive
Director*

Mr. NG Ching Wah
*Independent non-executive
Director*

Mr. Sze Kwok Wing, Nigel
*Independent non-executive
Director*

LETTER OF ADVICE FROM KARL THOMSON

The following is the text of the letter of advice from Karl Thomson to the Independent Board Committee and the Shareholders in respect of the proposed revised annual caps for the Continuing Connected Transaction, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver for the purpose of inclusion in this circular.



高信融資服務有限公司
Karl Thomson Financial Advisory Limited
27/F., Fortis Tower,
77-79 Gloucester Road,
Wan Chai, Hong Kong

11 April 2011

To the Independent Board Committee and the Shareholders of
Pacific Textiles Holdings Limited

Dear Sir or Madam,

**REVISED ANNUAL CAPS FOR CONTINUING CONNECTED TRANSACTIONS
WITH BRANDIX LANKA LIMITED
AND
PROPOSED SPIN-OFF AND SEPARATE LISTING OF
TEXTURED JERSEY LANKA (PRIVATE) LIMITED ON
THE MAINBOARD OF THE COLOMBO STOCK EXCHANGE
AND
POSSIBLE DISCLOSEABLE AND CONNECTED TRANSACTION
IN RELATION TO
THE PRE-IPO PRIVATE PLACEMENT AND PUBLIC OFFER OF SHARES IN
TEXTURED JERSEY LANKA (PRIVATE) LIMITED**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the independent board committee and the shareholders of the Company in respect of the proposed revised annual caps for the continuing connected transactions between Pacific Textiles Holdings Limited and Brandix Lanka Limited and their respective subsidiaries under the Brandix Sale of Products Master Agreement for the financial years ending 31 March 2011, 2012 and 2013 (the “**Revised Annual Caps**”), the placement of part of the shares of Textured Jersey Lanka (Private) Limited, the initial public offering of new shares of Textured Jersey Lanka (Private) Limited and the waiver from the strict compliance with the assured entitlement requirement under Practice Note 15 of the Rules Governing the Listing

LETTER OF ADVICE FROM KARL THOMSON

of Securities on the Stock Exchange. Details of the transactions are set out in the “Letter from the Board” contained in the circular to the Shareholders dated 11 April 2011 (the “**Circular**”), of which this letter forms a part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

Brandix, by virtue of its 40% shareholdings in PT Sri Lanka, a non wholly-owned subsidiary of the Company, is regarded as a connected person of the Company. Subsidiaries and associates of Brandix, in turn, are also considered as connected persons of the Company according to the Listing Rules. Any transactions between the Group and the Brandix Group, as a result, will constitute connected transactions of the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios for the Revised Annual Caps for the selling of knitted fabrics by the Group to the Brandix Group on an annual basis exceeds 5% and the annual consideration is more than HK\$10 million, the Continuing Connected Transaction constitutes a non-exempt continuing connected transaction of the Company and is subject to the reporting, annual review, announcement and independent shareholders approval requirements under Chapter 14A of the Listing Rules.

As PTJH and Brandix are controllers of PT Sri Lanka, the disposal of the PT Sri Lanka Shares under the Pre-IPO Private Placement and Proposed Listing constitute connected transactions of the Company under Chapter 14A of the Listing Rules and are subject to Independent Shareholders’ approval.

According to Practice Note 15, the Company is expected to provide its Shareholders with an assured entitlement to PT Sri Lanka Shares. As PT Sri Lanka is proposed to be listed outside Hong Kong and no entitlement of PT Sri Lanka Shares will be assured to the Shareholders by way of a public offering in Hong Kong, the Minority Shareholders’ approval of the waiver from the strict compliance with Practice Note 15 is required.

In respect of the abovementioned transactions, the Independent Board Committee comprising all the independent non-executive Directors, namely Chan Yue Kwong, Michael, Mr. Ng Ching Wah and Mr. Sze Kwok Wing, Nigel, was formed, to advise the Shareholders as to whether the Revised Annual Caps, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver are fair and reasonable, and are in the interest of the Company and the Shareholders as a whole. To the best of the Company’s knowledge, none of the Brandix Group and the ultimate beneficial owner(s) of Brandix is a Shareholder. Therefore, no Shareholder has a material interest and none of them is required to abstain from voting on the relevant resolutions to approve the revised annual caps of the Continuing Connected Transaction, the Pre-IPO Private Placement and the PT Sri Lanka IPO at the EGM. The Directors (excluding INEDs), chief executive of the Company and their respective associates will abstain from voting under the Listing Rules at the EGM on the ordinary resolution for approving the Waiver.

Apart from the normal advisory fee payable to us in connection with our appointment as the Independent Financial Adviser to the Independent Board Committee and the Shareholders, no arrangement exists whereby we shall receive any other fees or benefits from the Company. We are independent of the Company for the purposes of Rule 13.84 of the Listing Rules.

LETTER OF ADVICE FROM KARL THOMSON

In formulating our opinion and advice, we have relied upon accuracy of the information and representations contained or referred to in the Circular and information provided to us by the Company, the Directors and the management of the Company. We have assumed that all statements and representations made or referred to in the Circular were true at the time they were made and continue to be true at the date of the despatch of the Circular. We have also assumed that all statements of belief, opinion and intention made by the Company, the Directors and the management of the Company in the Circular were reasonable made after due enquiry. We consider that we have been provided with sufficient information to form a reasonable basis for issuing our opinion. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Company, the Directors and management of the Company and have no reason to doubt that any relevant material facts have been withheld or omitted. We have not, however, conducted any independent investigation into the business and affairs or the future prospects of the Group, nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In achieving our opinion for the Revised Annual Caps, the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver, we have taken the following principal factors and reasons into consideration:

I. Background

a) *The Group*

The Company is incorporated in the Cayman Islands with limited liability whose shares are listed on the Main Board of the Stock Exchange. The subsidiaries of the Company are principally engaged in manufacturing and selling of customized knitted fabrics with a focus of complex, value-added fabrics.

Set out below is the financial information of the Group for the two years ended 31 March 2010.

	For the year ended 31 March	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5,883,413	4,734,816
Profit before income tax	968,531	429,319
Profit attributable to equity holders of the Company	803,186	376,515
	As at 31 March	
	2010	2009
	<i>HK\$'000</i>	<i>HK\$'000</i>
Total assets	4,656,284	4,385,530
Total liabilities	1,336,331	1,224,229
Net assets	3,319,953	3,161,301

LETTER OF ADVICE FROM KARL THOMSON

From the above financial figures, revenue of the Company increased from approximately HK\$4,735 million to HK\$5,883 million in the year ended 31 March 2010, representing a growth rate of approximately 24.26%. Meanwhile, the net profit attributable to equity holders of the Company increased from approximately HK\$377 million to HK\$803 million, or grew by approximately 113.32%. The substantial growth in net profit was mainly attributable to the improvement in gross profit margin and operational efficiency through enhancement of production capacities and reduction in production costs.

b) *The Brandix Group*

Brandix is a renowned woven fabric and garment accessories manufacturer in Sri Lanka. The principal businesses of Brandix cover textile production and exportation, casual wear and intimate apparel design and innovation.

c) *PT Sri Lanka*

PT Sri Lanka is an indirectly held subsidiary of the Company and owned as to 60% by the Company and 40% by Brandix. It is a company incorporated in Sri Lanka with limited liability and is principally engaged in the manufacturing and sales of weft knitted fabrics in Sri Lanka. As advised by the management, PT Sri Lanka, due to its unique geographical location, operates independently from the remaining Group. PT Sri Lanka neither shares the manufacturing plant nor the operating team with other subsidiaries of the Group. Instead, it has been managing its own plants and hired its own operating staff locally within Sri Lanka. In other words, PT Sri Lanka could barely benefited from the economy of scale by being a member of the Group due to its independent operation from the remaining Group. In terms of business, PT Sri Lanka mainly focus on the supply of weft knitted fabrics to garment factories in Sri Lanka whilst the remaining Group focuses on the mainland China and South East Asia markets.

II **The Continuing Connected Transaction**

The Group has been selling knitted fabrics to the Brandix Group since 2001. Due to the acquisition of PT Sri Lanka by Brandix on 24 August 2007, members of the Brandix Group have become connected persons of the Company under the Listing Rules. The Continuing Connected Transaction between Brandix and the Company and their respective subsidiaries, therefore, constitute continuing connected transactions of the Company under the Chapter 14A of the Listing Rules.

On 27 August 2007, the Company and Brandix entered into the Brandix Sale of Products Master Agreement in respect of the continuing connected transactions. Pursuant to the Brandix Sale of Products Master Agreement, the Group had agreed to sell knitted fabrics to Brandix parties with an initial term from 24 August 2007 to 31 March 2010 and was automatically renewed on the same terms and conditions for a further term of three years ending 31 March 2013.

II.1 *Reasons for and benefits of undergoing the Continuing Connected Transaction*

During the term of the Brandix Sale of Products Master Agreement, there has been a continuous demand of knitted products of the Company by Brandix. The breakdown of sales by major customers

LETTER OF ADVICE FROM KARL THOMSON

of the Company reveals that for many years, Brandix Group has been one of the top 10 customers in terms of revenue. In terms of percentage sales, the figures show a stable contribution of sales by the Brandix Group to the overall revenue of the Group. It is a historical fact that Brandix is an important customer to the Company in terms of the sales volume.

Table below sets out the percentage sales to Brandix Group relative to the revenue of the Company for the four financial years ended 31 March 2010.

	For the year ended 31 March			
	2007	2008	2009	2010
Sales between the Brandix Group and the Group (HK\$'000)	213,618	199,128	276,900	280,834
Revenue of the Company (HK\$'000)	4,203,357	4,280,646	4,734,816	5,883,413
% Revenue	5.08	4.65	5.85	4.77

II.2 *Terms of the transactions under Brandix Sale of Products Master Agreement*

We were advised that price of each purchase order was determined through arm's length negotiated between the two parties and was according to the prevailing market prices. Settlement term of 45 days was offered to the Brandix Group by the Group.

For the purpose of our letter of advice, we have reviewed 5 sets of purchase orders and invoices of the Brandix Group to compare with that of other independent third party customers of the Company in each month during the period from 1 April 2010 to 28 February 2011 (the "*Reviewed Period*"), totaling 55 sets of samples. Amongst the samples provided by the management, there was no significant difference between the terms of purchase offered to the Brandix Group and to the independent customers. In particular, prices of similar products sold had not shown significant deviation.

II.3 *The Revised Annual Caps*

(i) *Reasons for the revision of the annual caps*

According to the management of the Company, the main reason for the revision of the annual caps is the under-estimation of the caps due to the sharp increase in costs of yarn, the major raw material for making knitted fabrics, especially in the fourth quarter of 2010. This in turn resulted in an increase in market price of cotton yarn by more than 10%.

Based on the unaudited financial figure provided by the Company, sales to the Brandix Group amount to approximately HK\$376,716,000 during the eleven-months ended 28 February 2011, or approximately 99.92% of the existing annual cap of HK\$377 million for 2011 has been utilized. The management expects that the annual sales to Brandix will exceed the existing annual cap for the year ending 31 March 2011. To avoid any interruption on the business of the Group, the management must take an immediate action to revise the cap.

Furthermore, the existing caps for the two years ending 31 March 2012 and 2013 were determined based on the historical sales before the year ended 31 March 2010. However, they are no

LETTER OF ADVICE FROM KARL THOMSON

longer appropriate as the global economy is facing an unprecedented complexity and volatility. The annual caps for the two financial years ending 31 March 2012 and 2013 therefore, are also revised to allow for flexibilities on the future business growth of the Group and lower the possibility of further annual caps revision so as to save financial and administrative costs of the Company.

(ii) *Bases of the calculation of the Revised Annual Caps*

Set out below shows a comparison between the existing annual caps and the Revised Annual Caps for the three financial years ending 31 March 2011, 2012 and 2013.

For the year ending					
31 March	Original annual caps	% Growth	Revised annual caps	% Growth	
2011	HK\$377 million	N/A	HK\$450 million	N/A	
2012	HK\$490 million	30%	HK\$675 million	50%	
2013	HK\$637 million	30%	HK\$1,012.5 million	50%	

As disclosed in the Circular, in determining the Revised Annual Caps, the management of the Company has taken into account:

- (1) the transaction amount for the year ended 31 March 2010 of approximately HK\$280,834,000;
- (2) the transaction amount for the period from 1 April 2010 to 28 February 2011; and
- (3) the annual growth rate of the transaction amount of 50%.

Upon enquiry, we were advised that during the course of sales prediction, the management tried to estimate the total sales to Brandix Group for the year ending 31 March 2011 by annualizing the sales for the eleven-month figure. The estimated annual sales (“**Annualized Sales**”) is approximately HK\$410,963,000, representing a growth rate of approximately 46.34% (the “**Estimated Growth**”) on the actual sales figure of HK\$280,834,000 in the previous year. The revised annual cap for the year ending 31 March 2011 was arrived at by adding approximately 10% increment to the Annualized Sales; whereas the growth rate of the new annual caps for the two year ending 31 March 2012 and 2013 was revised up by 20% to 50%.

Due to the fact that the average selling price of knitted fabric has increased by more than 10%, we consider that another 10% buffer on the annual cap of the year ending 31 March 2011 is modest. Furthermore, since the revised growth rate on the annual caps for the two years ending 31 March 2012 and 2013 is of a comparable size to the Estimated Growth, we are of the opinion that the revision is reasonable.

Having considered the above, we are of the view that sizes of the Revised Annual Caps are set by logical calculations with reasonable bases.

LETTER OF ADVICE FROM KARL THOMSON

(iii) *Other factors of consideration*

In assessing the reasonableness of the Revised Annual Caps, we have also considered the following factors:

a) Volatility of the sales figures

Table below summarized the historical sales to the Brandix Group for the last five financial years ended 31 March 2010 and the eleven months ended 28 February 2011.

	For the year ended 31 March					For the period from 1 April 2010 to 28 February 2011	For the year ending 31 March 2011 <i>(note)</i>
	2006	2007	2008	2009	2010		
Sales between the Group and Brandix Group (other than PT Sri Lanka) (HK\$'000)	123,337	213,618	199,128	276,900	280,834	376,716	410,963
Growth rate (%)	N/A	73.20	-6.78	39.06	1.42	N/A	46.34

Note: The figure is arrived by annualizing the sales of the eleven months ended 28 February 2011.

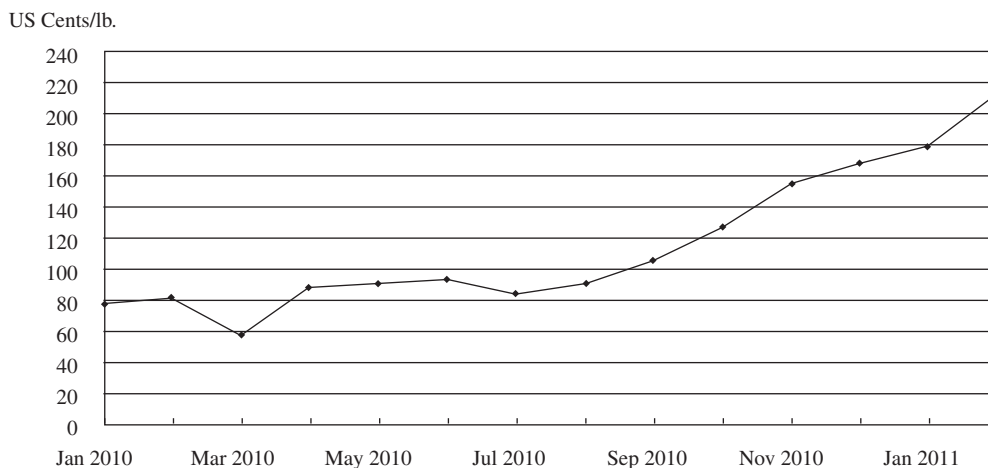
From the table above, it is historically proven that growth rates of sales to Brandix have been very volatile, ranging from -6.78% to 73.20%. It is always challenging, if not impossible, for the management of the Company to estimate the annual sales of the Continuing Connected Transaction in a great precision. Management of the Company has striven to balance between neither taking too conservative nor too aggressive caps. The former will delay the sales or in a more extreme case, cause cancellation of orders by customers; whereas the latter makes cap setting meaningless. Amid the volatile operating environment, it is expected that the fluctuation in sales to Brandix tends to be even more unpredictable. Thus, greater annual caps are required. In light of the underestimation of the annual cap in 2011, the management raises the growth rate of the annual caps, from 30% to 50%, which in our view, is appropriate under an economic outlook that is full of uncertainties.

LETTER OF ADVICE FROM KARL THOMSON

b) The surging cotton price in 2010

Upon enquiry, we were advised by the management that the substantial growth rate of sales to Brandix was not solely resulted from an increase in sales by volume, but an unexpected surge in price of cotton yarn since early 2010 has also played a significant role. For the purpose of this letter of advice, we tried to retrieve data of cotton yarn price. However, we were unable to identify any official data that was reliable for our investigation. As an alternative, we have reviewed the price of Cotton Outlook Index A, a representative offering prices on the international raw cotton market quoted from the United Nation of Conference on Trade and Development for the period from January 2010 to February 2011. Since cotton is the major raw material for producing cotton yarn, we consider price trend of cotton could act as a good reference for indicating the historical price trend of cotton yarn.

Monthly Average Price of Cotton Outlook Index A from January 2010 to February 2011



Source: United Nation of Conference on Trade and Development

During the period from January 2010 to February 2011, cotton price had almost tripled, from US\$0.774 per pound to US\$2.132 per pound and shows no significant adjustment in recent weeks. The surge in cotton price is mainly caused by a combined effect of the global shortage and the poor harvest in Pakistan and China. The rise of cotton price has driven up the price of knitted fabrics, hence increase the transaction amount between the two parties during the year, particularly in the fourth quarter of 2010.

As building up of inventory takes time, coupled with the global shortage, the demand supply gap will be widening. Analyst expected that the rising trend of cotton price would last in the near future. Therefore, a higher growth rate is now set on the estimation of the annual caps for the two financial years ending 31 March 2012 and 2013 to allow for such rise in cost of raw material.

LETTER OF ADVICE FROM KARL THOMSON

c) Potential increase in price of products

The massive quantitative easing scheme announced by the US government in mid 2010 leads to a global inflation and China, where most production of the Company is located, is no exception. China reported an inflation rate of 4.9% in 2010 according to the data released by National Bureau of Statistics of China. Moreover, dearer oil price caused by the Middle East crisis further stokes the inflation in the PRC. The inflationary economy has resulted soaring in not only costs of raw materials, but also labor costs, transportation costs and many other costs during the course of production, increasing the pressure on the Company to raise its average selling price as well. Therefore, the overall sales amount to Brandix might increase and larger annual caps are set accordingly to take into account the possible price adjustment.

III. The Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver

III.1 *Structure of the Proposed Spin-off*

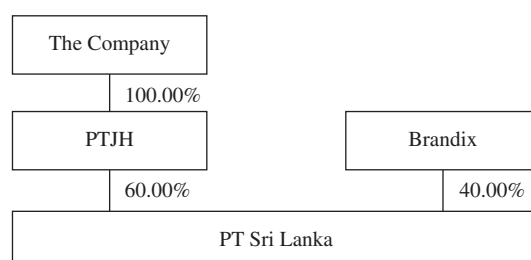
In January 2011, the Company has submitted an application for the Proposed Spin-off to the Stock Exchange and the Stock Exchange has confirmed that it may proceed with the Proposed Spin-off.

On 25 March 2011, PT Sri Lanka had effected a subdivision of shares in issue to be increased to 575,002,440 shares from 159,722,900 shares before the sub-division. As disclosed in the “Letter of the Board”, PTJH and Brandix respectively will offer 83,000,000 shares and 33,000,000 shares to certain institutional investors and non-institutional investors in and outside Sri Lanka. Immediately after the placement of shares, shareholdings of PTJH and Brandix in PT Sri Lanka will reduce from 60% to 45.57% and 40% to 34.26% respectively.

Under the PT Sri Lanka IPO, 80,000,000 new shares of PT Sri Lanka will be issued to the public in Sri Lanka. Immediately after the completion of the PT Sri Lanka IPO, the shareholdings of PTJH and Brandix in PT Sri Lanka will further reduce from 45.57% to 40% and from 34.26% to 30.08% respectively.

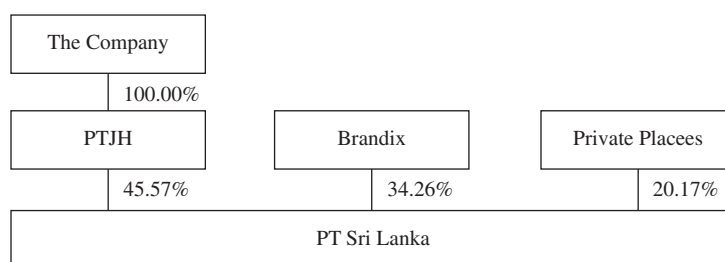
Diagrams below illustrate the shareholding structure of PT Sri Lanka before and after the Pre-IPO Placement and the PT Sri Lanka IPO

(i) *As at the Latest Practicable Date:*

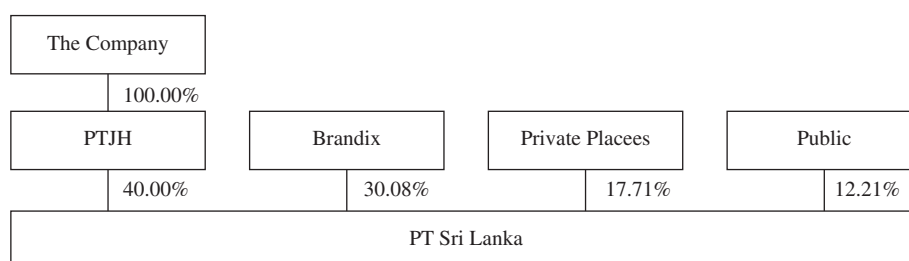


LETTER OF ADVICE FROM KARL THOMSON

(ii) *Upon completion of the Pre-IPO Private Placement:*



(iii) *Upon completion of the Pre-IPO Private Placement and the PT Sri Lanka IPO:*



III.2 *Financial information of PT Sri Lanka*

Set out below summarized the audited financial results of PT Sri Lanka for the two financial years ended 31 March 2009 and 2010.

	Year ended 31 March				Growth rate (%)
	2010		2009		
	<i>US\$'000</i>	<i>HK\$'000</i>	<i>US\$'000</i>	<i>HK\$'000</i>	
Revenue	72,384	564,595	65,204	508,591	11.01
Profit before tax	5,030	39,234	1,311	10,226	283.7
Profit after tax	5,030	39,234	1,311	10,226	283.7

The net asset value of PT Sri Lanka as at 30 September 2010 as shown in the unaudited financial statement of PT Sri Lanka was approximately US\$22,604,000, or approximately HK\$176,311,000.

In the past two years, PT Sri Lanka has achieved remarkable grows in both revenue and net profit. During the two years ended 31 March 2009 and 2010, revenue grew by 11%, whereas net profit before and after tax posted a substantial growth of nearly three-folds. The incredible increase in the net profit was mainly attributable to an enhancement in gross profit margin resulted from increase in production capacity and more efficient costs control.

LETTER OF ADVICE FROM KARL THOMSON

Given the impressive business growth of PT Sri Lanka in the recent years, the management considers that it is an appropriate time to realize the investment in the company by proposing the spin-off and the PT Sri Lanka IPO. Though the Company's interest in PT Sri Lanka will be diluted, the PT Sri Lanka IPO will enable the Company to cash in its investment at a higher valuation due to the fact that company with good track record usually received by the market as a valuable investment opportunity and investors are more willing to accept a higher price for the new shares. Should PT Sri Lanka continues to achieve high business growth, Shareholders can still enjoy the benefit of the future development of PT Sri Lanka as the Company will hold 40% of shareholding in the company upon completion of the Proposed Spin-off.

III.3 *Financial effects of the Proposed Spin-off*

(i) *Total assets value*

According to the interim report of the Company for the six-month ended 30 September 2010, the total asset of the Group was HK\$4,970,653,000 (including PT Sri Lanka), whereas PT Sri Lanka had total asset value of approximately HK\$418,353,000, representing approximately 8.4% of the Group. The Proposed Spin-off shall have very limited effect on the total asset of the remaining Group.

(ii) *Net assets value*

According to the interim report of the Company for the six-month ended 30 September 2010, the net asset value of the Group was HK\$3,583,587,000 (including PT Sri Lanka), whereas PT Sri Lanka had net asset value of approximately HK\$176,311,000, representing approximately 4.9% of the Group. The Proposed Spin-off shall have very limited effect on the net asset value of the remaining Group.

(iii) *Earnings*

According to the audited income statement of the Company for the year ended 31 March 2010, profit before tax of the Company (including PT Sri Lanka) was HK\$968,531,000, whereas PT Sri Lanka had profit before tax of HK\$39,234,000, representing 4.1% of the profit before tax of the Group. The Proposed Spin-off is expected to have no material adverse effect on the earnings given the limited contribution of income to the holding company by PT Sri Lanka.

Based on the above, the Proposed Spin-off is unlikely to cause any significant financial effects to the remaining Group.

III.4 *Business delineation and remaining business of the Group*

As advised by the management of the Company, though both engaging in knitted fabrics manufacturing, PT Sri Lanka focuses on the supply of weft knitted fabrics to the garment factories in Sri Lanka with the end customers located mainly in Europe, whereas the remaining Group offers warp and weft knitting along with printing services with apparel manufacturers in mainland China and South East Asia as target customers who have the end customers located in the United States and Japan. As the end products are fashionable goods and the businesses of the Company and PT Sri Lanka are operated with a very short delivery lead time, customers normally source fabrics from local fabric

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mills in order to save the transportation time. Due to the difference in the geographical location of the manufacturing plants and hence the geographical proximity to the customers, we consider that there is a clear delineation of business between the businesses of the remaining Group and PT Sri Lanka after the Proposed Spin-off.

Upon completion of the Proposed Spin-off, the remaining Group will continue on its principal business of knitted fabrics manufacturing with target customers in mainland China and South East Asia. For PT Sri Lanka, it will continue on expanding its customer base and business in Sri Lanka and South Asia. The management does not expect that the two companies will compete against each other for potential clients and markets in the foreseeable future. Therefore, it is unlikely that the Proposed Spin-off will have material adverse impact on the business of the remaining Group.

III.5 *Reasons for and benefits of the Proposed Spin-off, Pre-IPO Private Placement and the PT Sri Lanka IPO*

(i) Increase liquidity and improve valuation

According to the unaudited financial statement of PT Sri Lanka as of 30 September 2010, the net asset value of PT Sri Lanka was approximately US\$22,604,000. Without listing, PT Sri Lanka is merely a subsidiary of the Company, the valuation of which is only confined to its net asset value. Should the PT Sri Lanka IPO is proceeded with, shares of PT Sri Lanka will be offered at US\$0.1376 per share, or approximately HK\$1.0733 per share. The indicative price-earning ratio (“*PE*”) of 17.9 implies a valuation of approximately US\$90 million, or a premium of approximately 298% on the net asset value. Moreover, the Proposed Spin-off not only increase the valuation of PT Sri Lanka, but also enhance the liquidity of investment of the Company by making the shares of PT Sri Lanka tradable on an open trading perform. Both increase in valuation of PT Sri Lanka and the liquidity of the PT Sri Lanka Shares will ultimately enhance the value of the Company.

(ii) Enhance cash position of the remaining Group

The PT Sri Lanka IPO provides an exit opportunity for the Company to realize its investment.

Assuming the Offer Price at US\$0.1376 each, the total consideration from the Pre-IPO Private Placement and Proposed Listing amounts to approximately US\$11,422,000, or approximately HK\$89,092,000. In other words, cash position of the Group will be enhanced by the size of the consideration and provides an additional source of funding for expansion and development of the remaining Group.

(iii) Spin-off being a decision to bring mutual benefits to PT Sri Lanka and the remaining Group

After the Proposed Spin-off, PT Sri Lanka will no longer be a subsidiary of the Company, but an independent corporation which will be required to publish its own annual reports and financial results. This will unveil the performance of PT Sri Lanka to the public and allow for more transparency. With more information available, investors will have better knowledge on the business, prospect and risks of the company, making future capital raising easier to be accessed.

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For the Company, on the other hand, it will still have 40% equity interests in PT Sri Lanka after the Proposed Spin-off, thus continue to enjoy all the benefits bring along to PT Sri Lanka upon the success of the PT Sri Lanka IPO.

III.6 *The Offer Price of the Pre-IPO Private Placement and the PT Sri Lanka IPO*

As disclosed in the “Letter from the Board”, the indicative Offer Price is US\$0.1376 per PT Sri Lanka Share, which is determined on the basis of 17.9 times the net earning per share of US\$0.007687 for the financial year ended 31 March 2010. To assess the fairness of the Offer Price, we tried to shortlist the newly listed textile manufacturers on the Colombo Stock Exchange in the last three years. Based on the information disclosed on the website of the Colombo Stock Exchange, there was only one new issuer in textile industry during the period. For the purpose of comparison, we have also reviewed the terms of new listings of textile manufacturers on the Main Board of the Stock Exchange during the three years from 2008 to 2010. Out of 191 new listings, 2 companies have principal businesses similar to PT Sri Lanka.

We understand that the sample size of 3 comparable companies might not be sufficient in the statistics point of view for drawing any conclusion on the average pricing range of newly listed textile manufacturers in Sri Lanka and Hong Kong. However, as all the three companies have principal businesses similar to PT Sri Lanka and are most recent cases of initial public offerings available in the market, we consider that the comparable companies are fair and representative samples providing good references as to the recent level of market acceptance on companies participating in the same sector.

Table below summarizes the terms of the initial public offering of the abovementioned comparable companies.

	Company Name (Stock Code)	Date of Listing	Principal Businesses	Initial Public Offering Price	PE
Listed on Hong Kong Stock Exchange	Costin New Materials Group Ltd. (HK2228)	21 June 2010	Research and development, production and sales of non-woven fabric and chemical fibres which are mainly targeted for industrial applications	HK\$2.38	8.09
	Hontex International Holdings Co. Ltd. (HK946)	24 December 2009	Develop and manufacture fabrics for sports and leisure apparel in the PRC and produce garments on a original equipment manufacturer ("OEM") basis	HK\$2.15	11.77

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	Company Name (Stock Code)	Date of Listing	Principal Businesses	Initial Public Offering Price	PE
Listed on Colombo Stock Exchange	Odel PLC (ODEL:SL)	5 July 2010	Offer a wide range of products, including ladies, mens, and kids apparel products and accessories, perfumes and cosmetics	US\$0.2064 or approximately HK\$1.60992	13.6
The Proposed Listing	PT Sri Lanka	N/A	Manufacture and sale of weft knitted fabrics in Sri Lanka	US\$0.1376, or approximately HK\$1.0733	17.9

From the table above, the company listed on Colombo Stock Exchange is at a higher PE than those new issuers on the Hong Kong Stock Exchange. More importantly, PE of PT Sri Lanka, 17.9, is much higher than the PE ratios of the two comparable companies in Hong Kong, listed at PE multiplies of 8.09 and 11.77 on the Hong Kong Stock Exchange in mid 2010 and late 2009 respectively.

In light of the above analysis, initial public offering of textile manufacturers receive a more favourable terms, or a higher price to earning ratio on the Colombo Stock Exchange than the Hong Kong Stock Exchange. Thus, listing in Sri Lanka will result in a higher valuation and greater amount of fund raised by the Company, which will be more favourable to the Shareholders.

III.7 Assured entitlement and the Waiver

According to Practice Note 15, the Company is expected to provide its Shareholders with an assured entitlement to PT Sri Lanka Shares, either by way of a distribution in specie of existing shares in PT Sri Lanka, or by way of preferred application in any offering of existing or new shares in PT Sri Lanka. Despite the fact that there is no legal restriction in holding securities in Colombo Stock Exchange, the management proposes not to extend the entitlement of the PT Sri Lanka Shares to the Shareholders in Hong Kong as the Proposed Listing will be outside Hong Kong and PT Sri Lanka Shares under any assured entitlement can only be made available to the Shareholders by way of a public offering in Hong Kong.

As disclosed in the “The Letter from the Board”, should the assured entitlement is to be provided, the Shareholders will be allocated 5% of the total size of the offering under the PT Sri Lanka IPO. The assured entitlement ratio would be 2.79 PT Sri Lanka Shares for every board lot of 1,000 shares of the Company.

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III.7.1 Considerable number of odd lots resulted from assured entitlement

For the purpose of this letter of advice, we have reviewed the report of the Central Clearing and Settlement System (“CCASS”) of the Company on the website of the Stock Exchange. As at the Latest Practicable Date, 678,052,000 Shares or 47.31% of the issued share capital of the Company were held by nominees. The exact number of individual Shareholders and breakdown of shareholdings in each nominee, however, are not available to us. From the 255 entries of nominees, two held 217,681,088 (or 15.19%) and 201,323,000 (or 14.04%) Shares respectively. Apart from the two major nominees, 6 nominees held Shares ranging from around 15 million to 57 million Shares, totaling 13.98% of the issued Share capital of the Company; 14 nominees held more than 1,000,000 Shares but less than 10,000,000 Shares; and the remaining 233 nominees held Shares of less than 1,000,000. In particular, 107 nominees held less than 10,000 Shares, or 10 board lots. By the ratio of 2.79 PT Sri Lanka Shares for every board lot of 1,000 Shares, apparently all the 255 intermediaries will result in at least one Shareholder receiving odd lots of PT Sri Lanka Shares. As a usual market practice, odd lot shares are trading at prices much below the market price.

To understanding how many PT Sri Lanka Shares will be allotted to the Minority Shareholders should the assured entitlement is extended to shareholders in Hong Kong, we have summarized nominees showing shareholdings of less than 100,000 Shares on the CCASS report.

Number of Shares held	Number of nominees	Number of PT Sri Lanka Shares	Value (HK\$) <i>(note)</i>
Less than 100,000 but more than 50,000	17	Ranging from 139.5 to 279	Ranging from 149.7 to 299.4
Less than 50,000 but more than 10,000	60	Ranging from 27.9-139.5	Ranging from 29.9-149.7
Less than 10,000			
9,000	2	25.1	27.0
8,726	1	24.3	26.1
8,000	5	22.3	24.0
7,000	1	19.5	21.0
6,000	9	16.7	18.0
5,000	8	14.0	15.0
4,000	5	11.2	12.0
3,000	15	8.4	9.0
2,362	1	6.6	7.1
2,000	22	5.6	6.0
1,000	37	2.8	3.0
400	1	1.1	1.2
Sub-total	107	Less than 27.9	Less than 29.9
Total	184		

Note: Figures under this column are calculated by multiplying the Offered Price by the number of entitled PT Sri Lanka Shares according to the ratio of 2.79 PT Sri Lanka Shares to 1,000 Shares.

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From the above table, at least 17 Shareholders holding more than 50,000 but less than 100,000 Shares will be allotted PT Sri Lanka Shares ranging between 139.5 to 279; at least 60 Shareholders holding more than 10,000 but less than 50,000 Shares will be allotted PT Sri Lanka Shares ranging between 27.9 to 139.5; and at least 107 Shareholders holding less than 10,000 Shares will be allotted less than 27.9 PT Sri Lanka Shares. In terms of monetary value, depends on the amount of Shares held, these Shareholders will be entitled to PT Sri Lanka Shares worth between HK\$1.2 and HK\$299.4 should the assured entitlement is extended to them. Clearly, such amounts are insignificant comparing to the value of Shares held by these Shareholders.

III.7.2 *Additional costs to be incurred by the Company*

As a responsible management, the Board has to take careful consideration in order to balance between the costs and benefits of extending the assured entitlement to the Shareholders in Hong Kong. Should the assured entitlement is extended to Shareholders in Hong Kong, additional costs including administration costs, legal costs and costs payable to the share registrar of the Company would be incurred. Such costs, though not of a significant amount comparing to the total consideration of the Offered Shares, should also be taken into consideration and not being neglected.

III.7.3 *Possible transaction costs*

The Colombo Stock Exchange is the main stock exchange in Sri Lanka incorporated in 1985. As of the Latest Practicable Date, the Colombo Stock Exchange had 241 listed companies representing 20 business sectors with a combined market capitalization of US\$22.5 billion. There are two principal stock indices in the Colombo Stock Exchange which are the All Share Price Index (ASPI) and the Milanka Price Index (MPI). MPI composed of a select group of 25 stocks, the list which is reviewed each quarter, as opposed to the ASPI, which uses all of the 241 stocks on the exchange to calculate the index value. Due to the announcement on relaxation of the foreign exchange and investment rules to be carried out in the 2011 budget, ASPI and MPI have accumulated growth rates of 104.8% and 64% to 7,798 and 7,141 respectively since early 2010. The new government policy is believed to attract more foreign investments and boost the stock market to a new record high.

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For the purpose of this letter of advice, we have conducted an investigation on the transaction costs on Colombo Stock Exchange. Trading in shares on Colombo Stock Exchange is subject to five costs, details of which are summarized below.

	Transaction amount up to Rupees 50 million (or HK\$3,534,730)		Transaction amount over Rupees 50 million (or HK\$3,534,730)
Brokerage	0.64%	Minimum brokerage (floor)	0.2%
CSE Fees (<i>note</i>)	0.084%	CSE Fees (<i>note</i>)	0.0525%
CDS Fees (<i>note</i>)	0.024%	CDS Fees (<i>note</i>)	0.015%
SEC Fees (<i>note</i>)	0.072%	SEC Fees (<i>note</i>)	0.045%
Share Transaction Levy	0.300%	Share Transaction Levy	0.3%
Total	1.12%	Total (Floor)	0.6125%

Note: CSE fees, CDS fees and SEC fees refer to the charges collected by the Colombo Stock Exchange, Central Depository System and the Security and Exchange Commission in Colombo respectively.

From the table above, cost of trading in shares on Colombo Stock Exchange ranges between 0.6125% to 1.12%, which is relatively costly comparing to the transaction costs on the Hong Kong Stock Exchange or other more popular stock exchanges in Asia. Should the assured entitlement is extended to the Shareholders in Hong Kong, the Shareholders would inevitably subject to the transaction costs for holding and dealing of such shares on Colombo Stock Exchange, which they may not have sufficient knowledge. Such transaction costs, though are not significant to the Shareholders allotted with a relatively greater number of PT Sri Lanka Shares, are costs that should not be neglected for minority Shareholders holding a very small amount of Shares in the Company as the amount of PT Sri Lanka to be allotted to them will be very limited.

Furthermore, we have enquired three major retail banks in Hong Kong on whether custodian and dealing services will be provided to clients holding shares listed on Colombo Stock Exchange. We were advised that they only provided limited services for securities listed on overseas stock exchanges. In particular, custodian and dealing services were available to securities listed in the US and few of them also cover services for listed securities in Japan, Australia and Canada. However, none of them have service coverage for securities listed in Sri Lanka.

III.7.4 Higher allotment Ratio

Upon enquiry, the management revealed that it had considered offering a higher allotment ratio to the Shareholders. By increasing the allotment ratio, more PT Sri Lanka Shares will be allocated to the Shareholders in Hong Kong and value received by each Shareholder will be increased. Nevertheless, problems of high possibility of odd lot shares, high transaction costs in dealing the PT Sri Lanka Shares on Colombo Stock Exchange and limited dealing and custodian services for securities listed on the Colombo Stock Exchange in Hong Kong still exist and are inevitable. We, therefore, consider that raising the allotment ratio can neither solve nor mitigate the difficulties faced by the Shareholders, especially for those Shareholders holding very small amount of Shares.

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In light of the above, we are of the review that the benefits to the Shareholders of extending the assured entitlement do not justify for the costs incurred to the Company and the Shareholders for allotting and managing the PT Sri Lanka Shares. Moreover, the Shareholders can hardly enjoy the benefit of the PT Sri Lanka Shares due to (i) the high possibility of allocation of odd lot shares; (ii) high transaction costs to be incurred; and (iii) channel of custodian and dealing services not easily available for the Shareholders.

Whether or not the assured entitlement is extended to the Shareholders in Hong Kong, the Company will, after the Proposed Listing, holding 40% of the total issued share capital of PT Sri Lanka, which will still be accounted for in the financial statement of the Group as an associate company by equity. Thus, Shareholders will continue to enjoy the growth and development of PT Sri Lanka through their investment in the Company without incurring any additional costs even if the assured entitlement is not granted.

IV. Recommendation

a) *The Revised Annual Caps*

Having considered the abovementioned principal factors in relation to the Revised Annual Caps, in particular, the followings:

- i. the prolonged business relationship between the Brandix Group and the Group;
- ii. data on prices of products sold to the Brandix Group in comparison to other independent third party customers did not show significant variation during the Reviewed Period;
- iii. settlement terms offered to the Brandix Group and to other independent third party customers were similar;
- iv. sizes of the Revised Annual Caps are determined by logical calculations with reasonable bases;
- v. records of highly volatile sales between the Group and the Brandix Group; and
- vi. the unpredictable cotton price and highly inflationary economy in the PRC;

we consider that the Continuing Connected Transaction has been carried out on normal commercial terms, in the ordinary and usual course of business and the Revised Annual Caps are fair and reasonable and are in the interest of the Company and its Shareholders as a whole.

b) *The Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver*

After considering the abovementioned principal factors regarding the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver, in particular, the followings:

- i. the Proposed Spin-off is unlikely to cause any significant financial effects to the remaining Group;

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- ii. there are clear commercial benefits for both the remaining Group and PT Sri Lanka for the Proposed Spin-off and Proposed Listing;
- iii. higher valuation for listing on Colombo Exchange comparing to recent newly listed comparable companies on Hong Kong Stock Exchange; and
- iv. benefits to the Shareholders of extending the assured entitlement do not justify for the costs incurred to the Company and the Shareholders for allotting and managing the PT Sri Lanka Shares.

Accordingly, we are of the view that the Pre-IPO Private Placement and the PT Sri Lanka IPO are on normal commercial terms, fair and reasonable; and the Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver are in the interests of the Company and the Shareholders as a whole.

In light of the above, we advise the Independent Board Committee to recommend the Shareholders to vote in favour of the relevant ordinary resolutions in relation to the revision of the annual caps for the Continuing Connected Transaction, Pre-IPO Private Placement, the PT Sri Lanka IPO and the Waiver to be proposed at the EGM and we also advise the same to the Shareholders.

Yours faithfully,
For and on behalf of
Karl Thomson Financial Advisory Limited
Alex Chow
Director

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

As at the Latest Practicable Date, the interests and/or short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long positions in Shares

Name of Director/ Chief Executive	Number of issued Shares held and nature of interest					Total	Approximate percentage of issued share capital of the Company
	Personal interests	Family interests	Corporate interests	Trust interests			
Choi Kin Chung	—	—	—	171,102,000	171,102,000	171,102,000	11.94%
				(Note 1)			
Ip Ping Im	—	2,000,000	401,055,000	—	403,055,000	403,055,000	28.13%
			(Note 2)				
Lam Hing Chau Leon	100,000	—	—	—	100,000	100,000	0.01%
Lam King Man	697,000	—	30,000,000	—	30,697,000	30,697,000	2.14%
	(Note 3)		(Note 4)				
Lam Wing Tak	14,241,000	1,087,000	—	100,000,000	115,328,000	115,328,000	8.05%
				(Note 5)			
Lau Yiu Tong	51,866,000	—	—	—	51,866,000	51,866,000	3.62%
Tsang Kang Po	1,988,000	2,501,000	100,000,000	—	104,489,000	104,489,000	7.29%
			(Note 6)				
Wan Wai Loi	14,000,000	820,000	—	101,304,000	116,124,000	116,124,000	8.10%
				(Note 7)			

Notes:

- These Shares are directly held by Silver Bay International Holdings Limited, whose issued share capital is wholly-owned by KF Suisse SA, the trustee of the Cypress Pacific Trust, a discretionary trust. For the purposes of the SFO, Mr. Choi Kin Chung is the founder of the Cypress Pacific Trust. None of the Directors or proposed Directors is a director or employee of Silver Bay International Holdings Limited or KF Suisse SA.

2. These Shares are directly held by Far East Asia Limited, whose issued share capital is wholly-owned by Mr. Ip Ping Im. None of the Directors or proposed Directors is a director or employee of Far East Asia Limited.
3. These Shares are held jointly by Dr. Lam King Man and the spouse of Dr. Lam King Man.
4. These Shares are directly held by Effective Approach Technology Limited, whose issued share capital is 50% owned by Dr. Lam King Man and 50% owned by the spouse of Dr. Lam King Man.
5. These Shares are directly held by Fifth Element Enterprises Limited, whose issued share capital is wholly-owned by BLWT Company Limited. The issued share capital of BLWT Company Limited is wholly-owned by HSBC International Trustee Limited, the trustee of the family trust of Mr. Lam Wing Tak. For the purpose of the SFO, Mr. Lam Wing Tak is the founder of the family trust. Mr. Lam Wing Tak is a director of Fifth Element Enterprises Limited.
6. These Shares are directly held by Top Strong Holdings Limited, whose issued share capital is 50% owned by Mr. Tsang Kang Po and 50% owned by the spouse of Mr. Tsang Kang Po. Mr. Tsang Kang Po is a director of Top Strong Holdings Limited.
7. These Shares are directly held by Hollywood Pacific Limited, whose issued share capital is 50% owned by Mr. Wan Wai Loi and 50% owned by WWL Assets Limited. The issued share capital of WWL Assets Limited is wholly-owned by HSBC International Trustee Limited, the trustee of the family trust of Mr. Wan Wai Loi. For the purpose of the SFO, Mr. Wan Wai Loi is the founder of the family trust. Mr. Wan Wai Loi is a director of Hollywood Pacific Limited.

Long positions in Share Options

Name of Director	Date of Grant	Exercise Price HK\$	Number of Share Options as at 01/04/2010	Exercisable Period	Number of Share Options as at the Latest Practicable Date
Lam Hing Chau, Leon	18/07/2007	5.04	600,000	18/07/2010 - 17/07/2017	600,000

Save as disclosed above, none of the Directors or chief executive of the Company, as at the Latest Practicable Date, had any interests and/or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required 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 are taken or deemed to have under such provisions of the SFO); or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or proposed Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares 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. VOTING ARRANGEMENTS

Pursuant to the article 90 of the Articles, at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) a poll is duly demanded or otherwise required under the Listing Rules. A poll may be demanded by:

- (a) the chairman of the meeting; or
- (b) at least five members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and entitled to vote; or
- (c) any member or members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and representing in the aggregate not less than one-tenth of the total voting rights of all members having the right to attend and vote at the meeting; or
- (d) any member or members present in person (or in the case of a corporation, by its duly authorised representative) or by proxy and holding shares conferring a right to attend and vote at the meeting on which there have been paid up sums in the aggregate equal to not less than one-tenth of the total sum paid up on all shares conferring that right.

Pursuant to the Rule 13.39(4) of the Listing Rules, any vote of Shareholders at a general meeting of the Company must be taken by way of poll. The Chairman of the meeting will therefore demand a poll for every resolution put to the vote of the EGM in accordance with article 90 of Articles. The results of the poll will be published on the website of the Stock Exchange (www.hkexnews.hk) and the website of the Company (www.pacific-textiles.com).

4. MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2010, the date to which the latest published audited financial statements of the Company were made up.

5. SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group (excluding contracts expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation)).

6. DIRECTORS' INTEREST IN COMPETING BUSINESS

As at the Latest Practicable Date, none of the Directors of the Company and its subsidiaries and their respective associates had any interest in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

7. OTHER INTEREST

As at the Latest Practicable Date, none of the Directors or proposed Directors had any direct or indirect interest in any assets which had been, since 31 March 2010, the date to which the latest published audited accounts of the Company 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.

As at the Latest Practicable Date, no Director was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which was significant to the business of the Group taken as a whole.

8. EXPERT AND CONSENT

The following is the qualification of the expert who has given an opinion or advice contained in this circular:

Name	Qualification
Karl Thomson	a corporation licensed under the SFO to carry on type 6 (advising on corporate finance) regulated activities under the SFO

Karl Thomson has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter of advice as set out in this circular and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Karl Thomson was not beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group, nor did they have any interest, either directly or indirectly, in any assets which had been since 31 March 2010 (being the date to which the latest published audited financial statements of the Company were made up) acquired or disposed of by or leased to or were proposed to be acquired or disposed of by or leased to any member of the Group.

The letter of advice from Karl Thomson is given as at of the date of this circular for incorporation herein.

9. GENREAL

The English text of this circular shall prevail over the Chinese text, in case of any inconsistency.

10. DOCUMENTS FOR INSPECTION

Copies of the Brandix Sale of Products Master Agreement and the PT Sri Lanka Shareholders' Agreement will be available for inspection at the head office and principal place of business of the Company in Hong Kong at 7th Floor, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong during normal business hours on any day other a Saturday, Sunday and a public holiday in Hong Kong from the date of this circular up to and including the date of EGM.

NOTICE OF EXTRAORDINARY GENERAL MEETING



PACIFIC TEXTILES HOLDINGS LIMITED

互太紡織控股有限公司*

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 01382)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Pacific Textiles Holdings Limited (the “**Company**”) will be held at 7th Floor, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong on Friday, 29 April 2011 at 11:00 a.m. for the following purposes of considering and, if thought fit, passing with or without amendments, the following resolutions as ordinary resolutions:

ORDINARY RESOLUTIONS

1. “**THAT:**

- (a) the transactions contemplated under the Brandix Sale of Products Master Agreement (as defined in the circular to the shareholders of the Company dated 11 April 2011 (the “**Circular**”)) (the “**Continuing Connected Transaction**”) and the proposed revised annual caps for the Continuing Connected Transaction for each of the three years ending 31 March 2013 as set out in the Circular be and are hereby approved, confirmed and ratified; and
- (b) any one director of the Company (“**Director**”) be and is hereby authorized to do all actions and to sign, execute and deliver all such agreements, deeds and documents for and on behalf of the Company as such Director may in his discretion consider necessary or desirable for the purpose of giving effect to the revision of the proposed annual caps for the Continuing Connected Transaction, the implementation or the exercise or enforcement of any of the rights and performance of any of the obligations thereunder.”

2. “**THAT:**

- (a) the placement of part of the PT Sri Lanka Shares (as defined in the Circular) currently held by Pacific Textured Jersey Holdings Limited and Brandix Lanka Limited to certain institutional and non-institutional investors under the Pre-IPO Private Placement (as defined in the Circular) be and is hereby approved;
- (b) initial public offering of new PT Sri Lanka Shares to be issued by Textured Jersey Lanka (Private) Limited (“**PT Sri Lanka**”) for subscription by the public in Sri Lanka under the PT Sri Lanka IPO (as defined in the Circular) be and is hereby approved; and
- (c) any one Director be and is hereby authorized to do all actions and to sign, execute and deliver all such agreements, deeds and documents for and on behalf of the Company as such Director may in his discretion consider necessary or desirable for the purpose of giving effect to the Pre-IPO Private Placement and the PT Sri Lanka IPO.”

* For identification purpose only

NOTICE OF EXTRAORDINARY GENERAL MEETING

3. “**THAT:**

- (a) assured entitlement requirement in respect of the PT Sri Lanka IPO in connection with the proposed spin off of PT Sri Lanka for separate listing on Main Board of Colombo Stock Exchange (“**Proposed Spin-off**”) in accordance with Practice Note 15 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“**Practice Note 15**”) be and is hereby waived; and
- (b) any one Director be and is hereby authorized to do all actions and to sign, execute and deliver all such agreements, deeds and documents for and on behalf of the Company as such Director may in his discretion consider necessary or desirable for the purpose of giving effect to the Proposed Spin-off without strict compliance with the assured entitlement requirement under Practice Note 15.”

By order of the Board of Directors
Lam Hing Chau, Leon
Company Secretary

Hong Kong, 11 April 2011

Notes:

- (i) Each of the resolutions set out in this notice will be voted by poll.
- (ii) Any shareholder of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a shareholder of the Company.
- (iii) In order to be valid, 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 thereof shall be deposited at the head office and principal place of business of the Company in Hong Kong at 7th Floor, Block B, Eastern Sea Industrial Building, 48-56 Tai Lin Pai Road, Kwai Chung, New Territories, Hong Kong not less than 48 hours before the time for holding the extraordinary general meeting or any adjourned meeting.
- (iv) The translation into Chinese language of this notice is for reference only. In case of inconsistency, the English version shall prevail.