

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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)

**DISCLOSEABLE TRANSACTION IN RELATION TO FORMATION OF
JOINT VENTURE WITH CRYSTAL GROUP
AND
CONTINUING CONNECTED TRANSACTIONS**

DISCLOSEABLE TRANSACTION

The Board is pleased to announce that on 19 August 2010, Pacific GT (an indirect wholly-owned subsidiary of the Company) and Crystal Peak entered into the Shareholders' Agreement in relation to the establishment of a joint venture company, which will be held as to 75% by Pacific GT and 25% by Crystal Peak upon Completion, for the purpose of undertaking fabric manufacturing business in Vietnam. The transactions contemplated under the Shareholders' Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

Upon Completion, the JV Company will become an indirect non-wholly owned subsidiary of the Company and Crystal Peak will become a substantial shareholder of such subsidiary of the Company; and as a result, members of the Crystal Group will become connected persons of the Company. The Group currently sells, and will continue to sell, knitted fabric manufactured or owned by the Group to the Crystal Group. Such transactions between the Group and the Crystal Group will, upon Completion, become continuing connected transactions for the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Against this background, on the same date as the date of the Shareholders' Agreement, the Company entered

* *For identification only*

into the Master Agreement with Crystal International in respect of such transactions with effect from the Effective Date; and the Shareholders' Agreement provides that Completion is conditional upon an ordinary resolution having been passed at the EGM by the Independent Shareholders for approving the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

The EGM will be convened to seek the Independent Shareholders' approval of the Master Agreement, the Continuing Connected Transactions and the Annual Caps. Karl Thomson Financial Advisory Limited has been appointed as the independent financial adviser for advising the independent board committee and the Shareholders in respect of the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

A circular containing, among others, further details of the Master Agreement, the Continuing Connected Transactions and the Annual Caps, the letter of advice from the independent financial adviser and the letter from the independent board committee together with the notice of the EGM, will be dispatched to the Shareholders as soon as practicable in accordance with the Listing Rules, no later than the 15th business day after the date hereof (i.e. on or before 9 September 2010).

SHAREHOLDERS' AGREEMENT

Date

19 August 2010

Parties

- (1) Pacific GT
- (2) Crystal Peak
- (3) The JV Company

To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, as at the date hereof, each of Crystal Peak and its ultimate beneficial owners is a third party independent of the Company and its connected persons.

Business of the JV Company

The sole business of the JV Group shall be knitted fabric (excluding sweater) manufacturing and trading in Vietnam and such other activities as the JV Board will decide.

Shareholding of the JV Company and capital contribution

The JV Company was recently established under the laws of Hong Kong for the purpose of the transactions contemplated under the Shareholders' Agreement. As at the date hereof, it has an issued share capital of HK\$100 divided into 100 shares of par value HK\$1.00 each, which are currently wholly-owned by Pacific GT. It does not currently carry on any business activities nor does it own any asset.

At Completion, Pacific GT and Crystal Peak will initially subscribe for 2,924,900 JV Shares and 975,000 JV Shares at par for a total cash subscription price of HK\$2,924,900 and HK\$975,000, respectively. After the allotment and issue of such JV Shares, the entire issued share capital of the JV Company shall be held as to 75% by Pacific GT and as to 25% by Crystal Peak.

Any additional capital required by the JV Group will be met initially by the JV Shareholders in the form of subscription for additional JV Shares (in HK\$) and/or advances to the JV Company of unsecured and interest-free shareholder's loans (in US\$) repayable only upon the approval of the JV Board or upon termination of the Shareholders' Agreement, in such proportion that the interests in the JV Company will always be held as to 75% by Pacific GT and 25% by Crystal Peak. Any additional capital which was not taken up by a JV Shareholder shall be offered by the JV Company to the other JV Shareholder who may subscribe for such additional capital failing which the JV Company may offer all or any portion of such additional capital to one or more third parties.

Unless otherwise agreed by both of Pacific GT and Crystal Peak, the total amount of the fully paid up issued share capital of the JV Company together with the outstanding amount of the shareholder's loans shall not at any time exceed the aggregate amount of US\$120,000,000 (equivalent to approximately HK\$936,000,000), of which it is anticipated that HK\$15,600,000 (representing US\$2,000,000) will be the share capital of the Company and US\$118,000,000 will be the shareholder's loans. The amount of US\$120,000,000 is estimated to be the total capital expenditure of the JV Company over the four-year period after the Effective Date.

The Group will finance Pacific GT's total capital commitment to be made to the JV Company as contemplated under the Shareholders' Agreement in the amount of US\$90,000,000 (equivalent to approximately HK\$702,000,000, being 75% of the US\$120,000,000) from its internal resources and/or bank borrowings.

Further financing for the JV Company

Other than capital contribution from the JV Shareholders, the JV Company may also obtain financing to meet the funding requirements of the JV Group from time to time for working capital or other financial support by such means as the JV Board determines from time to time.

To the extent that guarantees or other securities are required in respect of any borrowings of the JV Company from banks, financial institutions or other third parties, they shall be furnished in the first instance by the JV Group and thereafter, if required and if the JV Shareholders shall unanimously agree, by each of the JV Shareholders severally on equivalent terms save and except that their liability in respect of such borrowings under such guarantees or other securities shall be pro-rata to their respective shareholdings in the JV Company.

Management of the JV Company

The JV Board will be responsible for making decisions relating to the JV Company. However, prior written approvals of Pacific GT and Crystal Peak are required for certain matters, which include, among others:-

- any alteration to the memorandum and articles of association or the equivalent constitutional documents of any member of the JV Group;
- changing the size or structure of the authorised or issued share capital of any member of the JV Group; creating or granting any option, warrant, right or other interest to subscribe for or acquire any JV Share or share of its subsidiaries;
- any amalgamation, merger, demerger or other corporate reconstruction of any member of the JV Group;
- materially changing the business of the JV Group;
- the registration of any person as a JV Shareholder or a shareholder of any other member of the JV Group;
- entering into any proposed partnership and/or joint venture arrangement;
- increasing the total capital commitment of the JV Shareholders to an amount greater than US\$120,000,000; or increasing the amount of the issued share capital of the JV Company to an amount greater than HK\$15,600,000;
- repaying any shareholder's loan other than in the same proportion as the shareholder's loans were made.

The JV Board will initially comprise four (4) directors to be appointed by Pacific GT and two (2) directors to be appointed by Crystal Peak. Three (3) directors (inclusive of at least two (2) directors appointed by Pacific GT) will form a quorum for a board meeting. The chairman of the JV Board (who will be a director nominated by Pacific GT) will have a casting vote. All matters to be determined by the JV Board shall be by majority decision. Each JV Shareholder will be entitled to appoint at least one (1) director of each subsidiary of the JV Company.

The quorum for a general meeting of the JV Company shall be constituted by at least two (2) shareholders comprising Pacific GT and Crystal Peak.

Restriction on transfer of the JV Shares, right of first refusal, tag-along and drag-along rights

During a lock-up period of five (5) years commencing on the Effective Date, neither of the JV Shareholders may, except with the prior written consent of the other JV Shareholder, dispose of any JV Shares held by such JV Shareholder or any shareholder's loans owing to such JV Shareholder, unless the transferee of all (but not some only) of such JV Shares or shareholder's loans is an affiliate of the selling JV Shareholder.

If, after the said lock-up period, either JV Shareholder wishes to sell all (but not some only) of its JV Shares and shareholder's loans to a person other than its affiliates, the selling JV Shareholder shall first offer the same to the other JV Shareholder.

If the other JV Shareholder does not elect to purchase the JV Shares and shareholder's loans offered, it will have the right to participate in the sale to the proposed buyer at the same price per JV Share and dollar value of the shareholder's loans.

If Pacific GT is the selling JV Shareholder and Crystal Peak is the other JV Shareholder, if Crystal Peak does not elect to purchase the JV Shares and shareholder's loans offered by Pacific GT or exercise its right to participate in Pacific GT's sale to the proposed buyer, Pacific GT will have the right to require Crystal Peak to transfer to the proposed buyer all of Crystal Peak's JV Shares and shareholder's loans at the same price per JV Share and dollar value of the shareholder's loans.

Non-competition undertaking

Crystal Peak has undertaken to the JV Company and Pacific GT that for so long as it holds any JV Shares, and for 1 year after it ceases to hold any JV Shares, it and its affiliates will not, without the prior consent of the JV Board, carry on any knitted fabric (excluding sweater) manufacturing and/or trading in Vietnam.

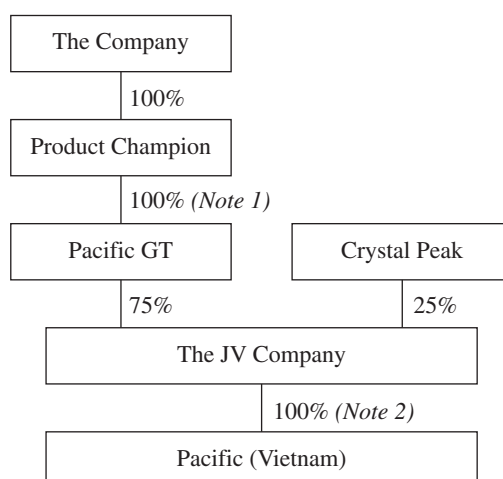
Pacific GT has undertaken to the JV Company and Crystal Peak that for so long as it holds any JV Shares, and for 1 year after it ceases to hold any JV Shares, it and its affiliates will not, without the prior consent of the JV Board, carry on any garment manufacturing and/or trading in Vietnam.

Condition precedent

Completion of the transactions contemplated under the Shareholders' Agreement is conditional upon an ordinary resolution having been passed by the Independent Shareholders at an extraordinary general meeting of the Company to be held on or before 31 December 2010 for approving the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

Shareholding structure of the JV Company

Set out below is a diagrammatic presentation of the shareholding structure of the JV Company upon completion of the transactions contemplated under the Shareholders' Agreement:-



Notes:

1. Pacific GT was recently established by Product Champion for the sole purpose of holding the proposed investment in the JV Company pursuant to the terms of the Shareholders' Agreement. As at the date hereof, Pacific GT is directly wholly-owned by Product Champion. It is anticipated that an aggregate of up to 5% of the entire issued share capital of Pacific GT will be subscribed or acquired by the Hong Kong subsidiaries of two Japanese business partners of the Group, namely, GSI Trading Hong Kong Limited (“**GSI**”) (a supplier and customer of the Group) and Toray Industries (H.K.) Limited (“**THK**”) (a supplier of the Group), within 6 months from the date of the Shareholders' Agreement, while Product Champion will hold the remaining 95% interest in Pacific GT. As at the date hereof, no legally binding agreement has been entered into between the Group and GSI or THK for giving effect to such transaction. To the best of the Directors' knowledge, information and belief, and after making all reasonable enquiries, as at the date hereof, each of GSI, THK and their respective ultimate beneficial owners is a third party independent of the Company and its connected persons. It is expected that such transaction, if materialised, will not be discloseable under Rule 13.23 of the Listing Rules.
2. As at the date hereof, Pacific (Vietnam) has not yet been established.

Duration

The term of the Shareholders' Agreement shall extend until terminated by operation of law or by mutual agreement of the JV Company and the JV Shareholders.

If, by the day two years after the Effective Date, Pacific (Vietnam) has not obtained, in terms reasonably acceptable to Pacific GT and Crystal Peak, all consents, approvals, clearances and authorisations of any relevant government entity or authority in Vietnam as may be necessary for the execution and implementation of the Shareholders' Agreement, the establishment of the Pacific (Vietnam) in Vietnam and to carry out the knitted fabric manufacturing and trading business in Vietnam, either JV Shareholder may within 30 days following the day two years after the Effective Date serve on the other JV Shareholder and the JV Company a written notice to wind-up the JV Company.

Reasons for and benefits of the Shareholders' Agreement

Vietnam is one of the major readymade garment exporters and the apparel and textile industry is the country's biggest exporter earner.

Vietnam's textile industry has a strong competitive advantage. The country has good infrastructure and efficient workforce with low operating costs. After the recent Economic Partnership Agreement signed with Japan, Vietnam also enjoys access to markets in Japan with no tariffs and quota barriers. The Directors believe that the formation of the JV Company pursuant to the Shareholders' Agreement will not only improve the Group's competitive position through geographic diversification but also provides a platform for the Group's further expansion in Japanese market.

Crystal Peak is an investment holding company wholly-owned by Crystal International, which, together with its subsidiaries, is a garment trading and manufacturing company with an annual production capacity of 200 million pieces of garment. The Crystal Group provides original equipment manufacturing and original design manufacturing services for world-renowned fashion brands including M&S, GAP and UNIQLO, etc.

Another member of the Crystal Group, Justice Faith Holdings Limited, is a joint venture partner with the Group with respect to King Jumbo Investment Limited, which holds interests in CPAT (Singapore) Private Ltd., which in turn owns fabric and garment production facilities in Bangladesh.

Crystal Group has been operating garment production facilities in Vietnam since 2004. The Company believes that the strategic partnership with the Crystal Group will allow the Group to leverage on the Crystal Group's well-established presence and experience in Vietnam to facilitate the development of the JV.

The Directors (including the independent non-executive Directors) are of the view that the terms of the Shareholders' Agreement (which were negotiated between the parties on an arm's length basis) are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Listing Rules implications for the Shareholders' Agreement

As each of the assets ratio and the consideration ratio calculated with reference to Pacific GT's total capital commitment of US\$90,000,000 (equivalent to approximately HK\$702,000,000) as contemplated under the Shareholders' Agreement exceeds 5% but is less than 25%, the transactions under the Shareholders' Agreement constitute a discloseable transaction for the Company under Chapter 14 of the Listing Rules.

MASTER AGREEMENT

Background

Upon Completion, the JV Company will become an indirect non-wholly owned subsidiary of the Company and Crystal Peak will become a substantial shareholder of such subsidiary of the Company; and as a result, members of the Crystal Group will then become connected persons of the Company.

The Group currently sells, and will continue to sell, knitted fabric manufactured or owned by the Group to the Crystal Group. Such transactions between the Crystal Group and the Group will, upon Completion, become continuing connected transactions for the Company under Chapter 14A of the Listing Rules. Against this background, on the same date as the date of the Shareholders' Agreement, the Company entered into the Master Agreement with Crystal International in respect of such transactions.

Date

19 August 2010

Parties

- (1) The Company
- (2) Crystal International

Transactions

Pursuant to the Master Agreement, the Group and the Crystal Group will enter into transactions relating to the sale and purchase of knitted fabric manufactured or owned by the Group on normal commercial terms and subject to and upon the terms and conditions contained in the purchase orders to be agreed between the relevant parties, setting out, among other things, the identity of the products, specifications, quantity, price, payment terms, delivery time, place of delivery and transfer of title. The prices for the products will be determined among the parties from time to time on an arm's length basis and comparable to the prevailing market rates or at rates similar to those offered by the Group to independent third parties.

Term

The Master Agreement will take effect from the Effective Date and will continue until 31 March 2013, which term will be automatically renewed for a further term of three years subject to compliance by the Company with any applicable requirements under the Listing Rules. The Master Agreement may be terminated at any time by either party after giving three months' prior written notice to the other party.

Historical transaction amounts of the Continuing Connected Transactions

Set out below are the aggregate annual amounts of sales of knitted fabrics from the Group to the Crystal Group for each of the three years ended 31 March 2010:-

	Year ended 31 March		
	2008	2009	2010
	HK\$192,474,000	HK\$318,331,000	HK\$329,270,000

Annual Caps

The Annual Caps for each of the three years ending 31 March 2013 are set out below:-

	Year ending 31 March		
	2011	2012	2013
	HK\$494,000,000	HK\$667,000,000	HK\$900,000,000

The proposed Annual Caps for each of the three financial years ending 31 March 2013 have been calculated based on (i) the historical sales amount from the Group to Crystal Group for the last three financial years ended 31 March 2010 and (ii) a compound annual growth rate of approximately 35% for the three financial years ending 31 March 2013. In addition, certain buffers have been incorporated to allow for the increase in sales volume and increase in price of products as anticipated by the management of the Company.

Reasons for and benefits of the Master Agreement

Members of the Crystal Group have been customers of the Group over 10 years. The aggregate sales of knitted fabric manufactured or owned by the Group to the Crystal Group amounted to approximately 4.5%, 6.7% and 5.6% of the Group's revenue for each of the three years ended 31 March 2008, 2009 and 2010. As such sales to the Crystal Group have represented an important source of revenue for the Group, the Directors consider that it is in the interests of the Company and the Shareholders as a whole for the Group to continue such sales.

The Directors (excluding the independent non-executive Directors who will provide their advice after they have received and considered the advice from an independent financial adviser) are of the view that the Master Agreement and the Continuing Connected Transactions are in the ordinary and usual course of business of the Group and on normal commercial terms; and that the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Listing Rules implications for the Master Agreement

Each of the applicable percentage ratios calculated with reference to the largest Annual Cap is more than 5%. Accordingly, the transactions contemplated under the Master Agreement will, upon Completion, be continuing connected transactions for the Company subject to the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened to seek the Independent Shareholders' approval of the Master Agreement, the Continuing Connected Transactions and the Annual Caps. Karl Thomson Financial Advisory Limited has been appointed as the independent financial adviser for advising the independent board committee and the Shareholders in respect of the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

A circular containing, among others, further details of the Master Agreement, the Continuing Connected Transactions and the Annual Caps, the letter of advice from the independent financial adviser and the letter from the independent board committee together with the notice of the EGM, will be dispatched to the Shareholders as soon as practicable in accordance with the Listing Rules, no later than the 15th business day after the date hereof (i.e. on or before 9 September 2010).

DEFINITIONS

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

“Annual Caps”	the proposed maximum aggregate annual values in respect of the Continuing Connected Transactions for each of the three years ending 31 March 2013
“associate(s)”	has the meaning ascribed to it in the Listing Rules
“Board”	the board of Directors of the Company
“Business Day”	a day, other than a Saturday or Sunday, on which banks are generally open in Hong Kong for business
“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

“Completion”	completion of the subscription of JV Shares by Pacific GT and Crystal Peak on the Effective Date pursuant to the Shareholders’ Agreement
“connected person(s)”	has the meaning ascribed to it in the Listing Rules
“Continuing Connected Transactions”	the transactions contemplated under the Master Agreement which will, upon Completion, constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules
“Crystal Group”	Crystal International, its subsidiaries and associates
“Crystal International”	Crystal International Limited, a company incorporated in Bermuda with limited liability
“Crystal Peak”	Crystal Peak International Limited, a company incorporated under the laws of the British Virgin Islands
“Directors”	the director(s) of the Company
”Effective Date”	the date on which Completion takes place, which will fall on the first Business Day following 14 days after the satisfaction or waiver of the condition precedent to the transactions contemplated under the Shareholders’ Agreement, or such other date as may be agreed by Pacific GT and Crystal Peak in writing
“EGM”	an extraordinary general meeting of the Company to be held to consider and, if thought fit, approve the Master Agreement, the Continuing Connected Transactions and the Annual Caps
“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 Shareholders”	Shareholders who are not required to abstain from voting under the Listing Rules at the EGM on the ordinary resolution for approving the Master Agreement, the Continuing Connected Transactions and the Annual Caps
“JV Board”	the board of directors of the JV Company
“JV Company”	PCGT Limited, a company incorporated under the laws of Hong Kong in July 2010
“JV Group”	the JV Company and its subsidiaries (including Pacific (Vietnam))
“JV Share(s)”	share(s) of par value HK\$1.00 in the share capital of the JV Company
“JV Shareholder”	a shareholder of the JV Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the Master Agreement dated 19 August 2010 and made between the Company and Crystal International relating to the sale and purchase of knitted fabric manufactured or owned by the Group
“Pacific GT”	Pacific GT Limited, a company incorporated under the laws of the British Virgin Islands
“Pacific (Vietnam)”	a company to be established by the JV Company under the laws of the Vietnam with the name Pacific (Vietnam) Textiles Limited (or as otherwise agreed by the Parties), which is expected to engage in the fabric manufacturing and related activities in Vietnam
“Product Champion”	Product Champion Ltd., wholly-owned subsidiary of the Company incorporated under the laws of the British Virgin Islands
“Shareholders”	the shareholders of the Company

“Shareholders Agreement”	the shareholders’ agreement dated 19 August 2010 and made between Pacific GT, Crystal Peak and the JV Company in relation to the JV Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars, the lawful currency of the United States
“Vietnam”	the Socialist Republic of Vietnam
“%”	per cent

For the purpose of illustration only and unless otherwise stated, conversion of US\$ into HK\$ in this announcement is based on the exchange rate of US\$1 = HK\$7.8 and rounded to thousand. Such conversion 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.

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

Hong Kong, 19 August 2010

As at the date of this announcement, the executive Directors are Mr. WAN Wai Loi (Chairman), Mr. TSANG Kang Po, Mr. LAM Wing Tak, Dr. LAM King Man and Mr. LAM Hing Chau, Leon, the non-executive Directors are Mr. CHOI Kin Chung, Mr. IP Ping Im and Mr. LAU Yiu Tong and the independent non-executive Directors are Mr. CHAN Yue Kwong, Michael, Mr. NG Ching Wah and Mr. SZE Kwok Wing, Nigel.