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## **THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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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)**

### **CONTINUING CONNECTED TRANSACTIONS**

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



**Karl Thomson Financial Advisory Limited**

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A letter from the Board is set out on pages 4 to 8 of this circular. A letter from the Independent Board Committee is set out on pages 9 to 10 of this circular. A letter of advice from Karl Thomson, the Independent Financial Adviser, containing its advice to the Independent Board Committee and the Independent Shareholders, is set out on pages 11 to 18 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 8 October 2010 at 10:00 a.m. is set out on pages 24 to 25 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

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## DEFINITIONS

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

“Annual Caps”	the proposed maximum aggregate annual values in respect of the transactions contemplated under the Master Agreement for each of the three years ending 31 March 2011, 2012 and 2013
“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
“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

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## DEFINITIONS

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“EGM”	an extraordinary general meeting of the Company to be held on 8 October 2010 to consider, 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 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
“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 Independent Shareholders in relation to the Master Agreement, transactions contemplated thereunder and the Annual Caps
“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
“INEDs”	the independent non-executive Directors
“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 Shares”	shares of par value HK\$1.00 in the share capital of the JV Company
“JV Shareholder”	a shareholder of the JV Company
“Latest Practicable Date”	3 September, 2010, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

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## DEFINITIONS

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“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 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
“SFO”	Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong)
“Share Options”	share option(s) to subscribe for Shares granted pursuant to the Share Option Scheme
“Share Option Scheme”	the share option scheme adopted by the Company on 27 April 2007
“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
“Share(s)”	share(s) with a nominal value of HK\$0.001 each in the capital of the 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 circular 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.*

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## LETTER FROM THE BOARD

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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)

### *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

8 September 2010

Dear Shareholders,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

As announced by the Company on 19 August 2010, Pacific GT (an indirect wholly-owned subsidiary of the Company) and Crystal Peak entered into the Shareholders' Agreement on 19 August 2010 in relation to the establishment of a joint venture company which would be held as to 75% by Pacific GT and 25% by Crystal Peak.

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,

\* For identification purpose only

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## LETTER FROM THE BOARD

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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 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 purposes of this circular are to provide you with, among other things, (i) further details of the Master Agreement, the Continuing Connected Transactions and the Annual Caps; (ii) a letter of advice from Karl Thomson to the Independent Board Committee and the Independent Shareholders on the Master Agreement, the Continuing Connected Transactions and the Annual Caps; (iii) the recommendation of the Independent Board Committee regarding the Master Agreement, the Continuing Connected Transactions and the Annual Caps to the Independent Shareholders; and (iv) a notice of the EGM.

### **MASTER AGREEMENT**

#### **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.

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## LETTER FROM THE BOARD

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### 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:-

	<b>Year ended 31 March</b>	
<b>2008</b>	<b>2009</b>	<b>2010</b>
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:-

	<b>Year ending 31 March</b>	
<b>2011</b>	<b>2012</b>	<b>2013</b>
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; (ii) a growth rate of 50% on the Annual Cap for the financial year ending 31 March 2011; and (iii) a compound annual growth rate of approximately 35% for the three financial years ending 31 March 2013. Certain buffers have been incorporated to allow for the increase in production capacity, costs of production and selling price of the final products as anticipated by the management of the Company. In particular, a higher growth rate for the financial year ending 31 March 2011 is set to take into account further increase in the price of knitted fabric given the drastic surge in cotton price during the recent quarters.

### REASONS FOR AND BENEFITS OF THE MASTER AGREEMENT

The Group is principally engaged in manufacturing and selling customised knitted fabrics with a focus on complex, value-added fabrics.

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. 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.



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## LETTER FROM THE BOARD

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The Directors (other than the INEDs whose opinion is set out in the “Letter from the Independent Board Committee” in this circular) 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.

None of the Directors has a material interest in the Master Agreement and the Continuing Connected Transactions and none of them has abstained from voting on the relevant Board resolutions approving the Master Agreement and the Continuing Connected Transactions.

### LISTING RULES IMPLICATIONS FOR THE MASTER AGREEMENT

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. 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, become 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 has been appointed as the Independent Financial Adviser for advising the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

As at the Latest Practicable Date, (i) two private companies controlled by the ultimate beneficial owners of the Crystal Group were Shareholders respectively holding 15,000,000 Shares and 40,000,000 Shares (together representing approximately 3.84% of the entire issued share capital of the Company); and (ii) Crystal Prudence Limited, a wholly-owned subsidiary of Crystal International is a Shareholder holding 15,000,000 Shares (representing approximately 1.05% of the entire issued share capital of the Company) and these Shareholders will be 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. Save as the aforesaid, none of the Shareholders will be 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.

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## LETTER FROM THE BOARD

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### EGM

Notice of the EGM is set out on pages 24 to 25 of this circular. A form of proxy for use 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 9 and 10 of this circular containing its recommendation to the Independent Shareholders, the letter of advice from Karl Thomson set out on pages 11 and 18 of this circular containing its advice to the Independent Board Committee and to the Independent Shareholders in relation to the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

Taking into account the recommendations of Karl Thomson, the Independent Board Committee concurs with the views of Karl Thomson 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. The Board therefore recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Master Agreement, the Continuing Connected Transactions and the Annual Caps to be proposed at the EGM.

### 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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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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)

8 September 2010

*To the Independent Shareholders*

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 8 September 2010 (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 Independent Shareholders whether, in our opinion, the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable and whether the Master Agreement, the Continuing Connected Transactions and the Annual Caps are in the interests of the Company and the Shareholders as a whole and to advise the Independent 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 Master Agreement, the Continuing Connected Transactions and the Annual Caps are summarized in the “Letter from the Board” set out on pages 4 to 18 of the Circular. You are strongly urged to read the “Letter of advice from Karl Thomson” set out on pages 11 to 18 of the Circular.

### RECOMMENDATION

As the Independent Board Committee, we have discussed with the management of the Company the reasons for the entering into of the Master Agreement and the Continuing Connected Transactions and the basis upon which its terms and the Annual Caps have been determined. 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”.

\* For identification purpose only

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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Taking into account the recommendations of Karl Thomson, the Independent Board Committee concurs with the views of Karl Thomson 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.

We recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the Master Agreement, the Continuing Connected Transactions and the Annual Caps 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*

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## LETTER OF ADVICE FROM KARL THOMSON

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*The following is the text of the letter of advice from Karl Thomson to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions for inclusion in this circular.*



高信融資服務有限公司

**Karl Thomson Financial Advisory Limited**

Room 701, Tower One, Lippo Centre,

89 Queensway

Hong Kong

8 September 2010

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

Dear Sir/Madam,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Master Agreement, the Continuing Connected Transactions and the Annual Caps. Details of the Continuing Connected Transactions are set out in the “Letter from the Board” contained in the circular to the Shareholders dated 8 September 2010 (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.

On 19 August 2010, Pacific GT, an indirect wholly-owned subsidiary of the Company and Crystal Peak, a wholly-owned subsidiary of Crystal International, entered into the Shareholders’ Agreement pursuant to which, a joint venture company to be owned as to 75% by Pacific GT and 25% by Crystal Peak would be formed.

According to the Listing Rules, the Crystal Group, upon the formation of the JV Company, is regarded as a connected person of the Company. As a result, future transactions between the Group and Crystal Group will constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

Against this background, on the same date as the Shareholders’ Agreement, the Company and Crystal International, the holding company of Crystal Peak, entered into the Master Agreement in respect of the Continuing Connected Transactions. Each of the applicable percentage ratios calculated

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## LETTER OF ADVICE FROM KARL THOMSON

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with reference to the largest annual cap under the Master Agreement 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.

Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Chan Yue Kwong, Michael, Mr. Ng Ching Wah and Mr. Sze Kwok Wing, Nigel, was formed, to advise the Independent Shareholders in respect to the Master Agreement, the Continuing Connected Transactions and the Annual Caps. As at the Latest Practicable Date, (i) two private companies controlled by the ultimate beneficial owners of the Crystal Group were Shareholders respectively holding 15,000,000 Shares and 40,000,000 Shares (together representing approximately 3.84% of the entire issued share capital of the Company); and (ii) Crystal Prudence Limited, a wholly-owned subsidiary of Crystal International, is a Shareholder holding 15,000,000 Shares (representing approximately 1.05% of the entire issued share capital of the Company). These Shareholders will 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.

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 Independent 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.

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 Master Agreement, the Continuing Connected Transactions and the Annual Caps, we have taken into account the following principal factors and reasons:

#### **I. Background of the Crystal Group**

The Crystal International is an international conglomerate engaging in garment trading and manufacturing. The group provides original equipment manufacturing and original design manufacturing services for world-renowned fashion brands. The Crystal Group produces 200 million pieces of garment annually and posts sales of over US\$800 million per annum.

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## LETTER OF ADVICE FROM KARL THOMSON

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### II. Reasons for and benefits of entering into the Master Agreement

The Crystal Group, being a renowned garment manufacturer with sales network all over the world, has huge demand of knitted fabric every year. For over ten years, the Group has been supplying the Crystal Group various types of knitted fabric. The sales from the Group to the Crystal Group show a steady increase every year. For many years, the Crystal Group has ranked as top five customers of the Group, attributable to more than 5% of the Group's revenue in the last financial year. The Crystal Group is in no doubt, an important and valuable customer to the Company. It will be for the benefit of the Company and its Shareholders for continuing to supply knitted fabric to the Crystal Group.

	For the year ended 31 March		
	2008	2009	2010
Sales from the Group to Crystal Group ( <i>HK\$ 000'</i> )	192,474	318,331	329,270
Growth rate (%)	—	65.39	3.44
Revenue of the Group ( <i>HK\$ 000'</i> )	4,280,646	4,734,816	5,883,412
Historical sales to total revenue (%)	4.50	6.72	5.60

### III. Terms of the Master Agreement

#### (i) Major terms of the Master Agreement

The key terms of the Master Agreement are summarized as follows:

<b>Date</b>	19 August 2010
<b>Parties</b>	(1) The Company as the seller (2) Crystal International as the purchaser
<b>Transactions</b>	Knitted fabric manufactured or owned by the Group.
<b>Price</b>	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.
<b>Term</b>	For the period from the Effective Date until 31 March 2013, and automatically renewed for a further term of three years subject to compliance by the Company with any applicable requirements under the Listing Rules.

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## LETTER OF ADVICE FROM KARL THOMSON

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For the purpose of determining the fairness and reasonableness of the Master Agreement, we have shortlisted 11 material supply agreements (the “**Comparable Agreements**”) entered into between listed companies on the Main Board of the Stock Exchange (the “**Comparable Companies**”) and their respective connected persons during the period from 1 January 2010 to the Latest Practicable Date. As these Comparable Companies are also principally engaged in manufacturing, therefore we consider the Comparable Agreements are fair and representative samples appropriate for making our comparison. Major terms and conditions of the Comparable Agreements are summarized as follows:

<b>Company</b>	<b>Date of announcement</b>	<b>Subject</b>	<b>Price</b>	<b>Terms</b>
BYD Electronic (International) Company Limited (HK285)	19 January 2010	Supply of plastic components, moulds and miscellaneous spare parts	Prevailing market prices	3 years
TPV Technology Limited (HK903)	16 March 2010	Supply of bare cells, printed circuit board, integrated circuits, backlights, panels and such other components	By reference to the prevailing market prices	3 years
China Foods Limited (HK506)	19 March 2010	Supply of imported alcohol products	Prevailing market prices	1 year
Jilin Qifeng Chemical Fiber Co., Ltd. (HK549)	27 April 2010	Supply of sodium bisulphate and palletizing auxiliaries	With reference to prevailing market prices	3 years
Vinda International Holdings Limited (HK3331)	30 April 2010	Supplying tissue paper products	Normal commercial terms or prevailing market rate those offered by the group to independent third parties	3 years
China Foods Limited (HK506)	5 May 2010	Supply of seasoning sauces, honey products, tea products, peanut products, vegetables and fruit juices	With reference to the prevailing market prices	3 years



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**LETTER OF ADVICE FROM KARL THOMSON**

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<b>Company</b>	<b>Date of announcement</b>	<b>Subject</b>	<b>Price</b>	<b>Terms</b>
China Foods Limited (HK506)	10 May 2010	Supply of raw materials and packaging materials	The price shall be agreed between the parties with reference to the prevailing market prices	3 years
BBMG Corporation (HK2009)	11 May 2010	Supply of cement production related raw materials, equipment and services	The stated-prescribed price: according to the relevant market price and by reference to the historical figures for preceding years, if any	3 years
Luoyang Glass Company Limited (HK1108)	10 June 2010	Supply of super-thin float flat glass	Prevailing market prices at the time of transaction	3 years
Nam Hing Holdings Limited (HK986)	28 June 2010	Supply of industrial laminates	Prevailing prices of similar products in the market on an order-by-order basis	3 years
Lee & Man Paper Manufacturing Limited (HK2314)	28 July 2010	Supply of industrial chemical products	Prevailing market prices in respect of independent third parties	3 years

From the above table, we recognize that major terms and conditions of the Master Agreement are similar to the Comparable Agreements. In particular, the prices of products are all determined based on “*the prevailing market prices*”. Therefore, neither the Group nor the Crystal Group could take advantages over on another by entering into such agreement as no price of the products will be pre-determined. Instead, prices will be set at the time of order making by referring to the market condition. As such, we are of the view that the terms and conditions of the Master Agreement are standard commercial terms that are in line with the usual market practice.

(ii) *Other payment terms*

From our investigation, no credit period or deposit is specified in the Master Agreement. Instead, the payment terms will be determined on normal commercial terms and to be negotiated from time to time based on each transaction.

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## LETTER OF ADVICE FROM KARL THOMSON

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As all the previous transactions between the Group and the Crystal Group did not constitute connected transactions of the Company under the Listing Rules, we therefore, are of the view that the historical transaction records are not meaningful for our investigation. However, we are advised by the management that payment terms of the future sales to the Crystal Group will remain unchanged. In particular, the credit period will be maintained between the range of 30 days to 60 days, which is inline with other independent customers with the same credit rating.

#### IV. The Annual Caps

##### (i) *The proposed Annual Caps*

According to the management of the Company, calculation of the Annual Caps was based on:

- (a) the historical sales amount from the Group to Crystal Group for the last three financial years ended 31 March 2010;
- (b) a growth rate of 50% on the Annual Caps for the financial year ending 31 March 2011; and
- (c) a compound annual growth rate of approximately 35% for the three financial years ending 31 March 2013.

Upon enquiries, the management of the Company revealed that certain buffers have been incorporated to allow for the increase in production capacity, costs of production and selling price of the final products as anticipated by the management of the Company. In particular, a higher growth rate for the financial year ending 31 March 2011 is set to take into account further increase in the price of knitted fabric given the drastic surge in cotton price during the recent quarters.

Table below sets out the historical amount of sales from the Group to the Crystal Group for the last three financial years ended 31 March 2010 and the proposed Annual Caps.

	Historical sales			Proposed Annual Caps		
	2008	2009	2010	2011	2012	2013
Historical sales/Proposed Annual Caps (HK\$000')	192,474	318,331	329,270	494,000	667,000	900,000
Annual growth rate (%)	—	65.39	3.44	—	35.02	34.93
Compound annual growth rate (%)			30.79			34.98

##### (ii) *Analysis on the proposed Annual Caps*

In the calculation of the Annual Caps, an implied growth rate of approximately 35% is adopted, which is close to the compound annual growth rate (the “CAGR”) of the historical sales of approximately 31% during the three financial years ended 31 March 2010. Moreover, for estimating

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the sales to the Crystal Group in the financial year ending 31 March 2011, a higher growth rate of approximately 50% is imposed on the sales figure of the financial year ended 31 March 2010. To assess the fairness of the size of the Annual Caps, we have considered possible increase in sales and the rising production costs in textile manufacturing.

(a) *Possible increase in sales in textile manufacturing*

For the purpose of formulating our advice, we have conducted a study on the textile manufacturing industry.

In terms of production for exportation, according to a figure released by the General Administration of Customs of the People's Republic of China on 10 July 2010, the total export of yarn and knitted related products amounts to US\$35.65 billion, representing a year to year growth rate of approximately 32.3%. The growth is mainly attributable to the increase in purchase orders from the US and Euro-zone as the global economy bottomed out from the 2008 financial crisis.

In respect of retail sales in apparel products, statistics announced by the National Bureau of Statistics of China (the "**Bureau of Statistics**") show a solid growth of 23.8% on apparel consumption from January to June 2010, outpacing the average retail consumption. According to a statistic conducted by Bureau of Statistics and Bureau of Economic Analysis of the US Department of Commerce in 2008, the per capita expenditure on apparel products in the PRC was HK\$960 per annum, while in the US, the figure was HK\$6,850. Comparing to the US market, the apparel sector in the PRC can be considered as underdeveloped. It is believed that the improving living standard amongst the mainlanders will lead to a greater demand of fine apparel products and attract more international apparel brand names to the PRC market.

Amid the stabilizing global economy and the growing importance of the PRC market to high-quality apparel products, sales of textile manufacturers like the Company will rise further.

(b) *Increasing costs of production*

Apart from the sales volume, another major element to determine the total sales amount is the price factor. The same as other manufacturers, major production of the Group is located and carried out in the PRC. In recent years, the costs of production in mainland China keep surging due to the on-going appreciation of the Renminbi and the inflationary business environment driven by the rapid economic growth. In the past three years, Renminbi has accumulated a total appreciation of more than 10% against the US dollar, whereas the inflation rate in the PRC stood stubbornly above the 2% level except for the quarters immediately after the 2008 financial crisis. With the economy continue to prosper, there is a high possibility of further increase in the production costs.

Amongst various production costs, cost of the raw material for producing knitted fabric also plays an important role in knitted fabric price setting. According to the half-year review issued by the Ministry of Industry and Information Technology of the People's Republic of China, as of June 2010 the China Cotton Index priced at RMB18,309 per ton, represented an increase of approximately 42.6% comparing to the same period last year. Meanwhile, price of cotton yarn was at RMB28,500 per ton, up by approximately 60.1% comparing with the corresponding period in 2009. The drastic increase in

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cotton price is mainly due to the demand and supply disequilibrium, which in turn, causes cotton yarn price to rise accordingly. Under the diminished stocks, the improving world economy, especially in Asia, the sandstorm in China and the unprecedented flooding in Pakistan which damaged thousands of hectares of newly planted cotton, it is expected that price of cotton will continue to rise and price of cotton yarn will very likely to follow.

To deal with the rising costs of production, especially in cotton yarn, the management of the Company has to set a sufficient cap for 2011 such that the Company can produce and market its products flexibly and at the same time, not excessive. After considering the above, we are of the view that it is reasonable and necessary for the management to post a larger percentage growth on the Annual Caps of the financial year ending 31 March 2011. Besides, a 4% buffer above the CAGR to balance the inflationary economy and the appreciation of Renminbi is rather conservative and appropriate.

### RECOMMENDATION

Having considered the abovementioned principal factors, in particular, the followings:

- (i) the stable and long-term relationship between the Group and the Crystal Group;
- (ii) the Crystal Group is an important customer to the Company;
- (iii) the terms and conditions of the Master Agreement is in line with the general market practice;
- (iv) the sizes of Annual Caps have been projected based on historical sales; and
- (v) the growth rates of the Annual Caps have been determined by the management with reasonable basis and not being excessive;

we consider that the Continuing Connected Transactions is in the interest of the Company and its Shareholders as a whole, the size of the Annual Caps is fair and reasonable, and the terms of the Master Agreement are on normal commercial terms, in the ordinary and usual course of business of the Company and are fair and reasonable so far as the Company and the Shareholders as a whole are concerned.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution in relation to the Master Agreement, the Continuing Connected Transactions and the Annual Caps to be proposed at the EGM and we also advise the same to the Independent 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	13,758,000	1,087,000	100,000,000	—	114,845,000	114,845,000	8.02%
			(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	13,977,000	820,000	101,304,000	—	116,101,000	116,101,000	8.10%
			(Note 7)				

*Notes:*

1. These Shares are directly held by Silver Bay International Holdings Limited, whose issued share capital is wholly-owned by Trustcorp Limited, 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.
2. These Shares are directly held by Far East Asia Limited, whose issued share capital is wholly-owned by Mr. Ip Ping Im.
3. Those Shares are held jointly by Dr. Lam King Man and his spouse.
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 75% owned by Mr. Lam Wing Tak and 25% owned by the spouse of Mr. Lam Wing Tak.
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.
7. These Shares are directly held by Hollywood Pacific Limited, whose issued capital is 75% owned by Mr. Wan Wai Loi and 25% owned by the spouse of Mr. Wan Wai Loi.

**Long positions in Share Options**

<b>Name of Director</b>	<b>Date of Grant</b>	<b>Exercise Price HK\$</b>	<b>Number of share options as at 01/04/2010</b>	<b>Exercisable Period</b>	<b>Number of share options as at the Latest Practice Date</b>
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.

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 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](http://www.hkexnews.hk)) and the website of the Company ([www.pacific-textiles.com](http://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 or 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 to 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:

<b>Name</b>	<b>Qualification</b>
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. GENERAL

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



**10. DOCUMENTS FOR INSPECTION**

Copies of the following documents 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 business day from the date of this circular up to and including the date of EGM:

- (a) the Master Agreement; and
- (b) the Shareholders' Agreement.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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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)**

**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, 8 October 2010 at 10:00 a.m. for the following purposes of considering and, if thought fit, passing with or without amendments, the following resolution as an ordinary resolution:

### **ORDINARY RESOLUTION**

“**THAT:**

- (a) the Master Agreement (as defined in the circular to the shareholders of the Company dated 8 September 2010), the transactions contemplated thereunder and the Annual Caps for each of the three years ending 31 March 2013 as set out in the abovementioned 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 effecting the transactions contemplated under the Master Agreement, the implementation or the exercise or enforcement of any of the rights and performance of any of the obligations thereunder.”

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

Hong Kong, 8 September 2010

\* For identification purpose only

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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**Notes:**

- (i) The resolution 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.