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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 IN RELATION TO THE SALE OF FABRICS TO THE TORAY GROUP

On 30 March 2021, the Company and Toray entered into the Master Agreement in relation to the sale of fabrics manufactured or owned by the Group to the Toray 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 for a term of three years commencing from 1 April 2021 and ending on 31 March 2024.

As at the date of this announcement, Toray is a substantial shareholder of the Company, holding approximately 28.73% of the issued share capital of the Company, and hence is a connected person of the Company. Accordingly, the transactions contemplated under the Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 March 2024 for the transactions contemplated under the Master Agreement exceed 0.1% but all the applicable percentage ratios are less than 5%, the transactions contemplated under the Master Agreement and the proposed annual caps for such transactions are subject to the reporting, annual review and announcement requirements but are exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE MASTER AGREEMENT

On 30 March 2021, the Company and Toray entered into the Master Agreement in relation to the sale of fabrics manufactured or owned by the Group to the Toray Group. The principal terms of the Master Agreement are set out below:

Date	30 March 2021
Parties	(i) the Company; and (ii) Toray

Nature of transactions	Pursuant to the Master Agreement, the Group and the Toray Group shall enter into the transactions relating to the sale of fabrics manufactured or owned by the Group to the Toray Group. The sale shall be conducted 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. The purchase orders will set out, among other things, the type and specification of the fabrics, quantity, price, payment terms, delivery date, shipping terms, etc..
Term and termination	The term of the Master Agreement commences on 1 April 2021 and continues until 31 March 2024, which 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.
Pricing policy	<p>The prices for the fabrics 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.</p> <p>The standard price of fabrics of the Group is determined by reference to the Group's cost of raw materials, knitting method and technique required for the fabrics, specifications of products (including elasticity, colors, etc.) and other relevant production costs. The final price for each transaction may be negotiated based on further detailed product requirements or specifications, quantity, weight, lead time, prevailing market conditions etc. subject to the incorporation of a reasonable profit margin.</p>

Historical Transaction Amounts

For the six months ended 31 March 2019, the year ended 31 March 2020 and the year ending 31 March 2021, the aggregate sales of fabrics from the Group to the Toray Group amounted to approximately HK\$17 million (audited), HK\$47 million (audited) for 2019 and 2020 respectively and estimated to be approximately HK\$36 million for 2021 (subject to audit).

Proposed Annual Caps

It is proposed that the annual caps for the transactions contemplated under the Master Agreement shall be HK\$100 million, HK\$100 million and HK\$100 million for each of the three years ending 31 March 2024 respectively. The proposed annual caps have been determined by the Board with reference to: (i) the historical sales amount of fabrics from the Group to the Toray Group for the six months ended 31 March 2019 and the two years ending 31 March 2021; and (ii) the projected steady and moderate growth rate on the sale of fabrics from the Group to the Toray Group for the three years ending 31 March 2024, based on the expected growth generated from the increase in the Group's overall production capacity as a result of the establishment of a production site in Vietnam as disclosed in the Company's announcement dated 30 December 2019 to meet the overall demand of the Group's customers for fabrics. 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.

While the proposed annual caps for the three years ending 31 March 2024 of HK\$100 million have been determined with reference to the historical transaction amounts relating to the sale of fabrics from the Group to the Toray Group for the six months ended 31 March 2019 and the two years ending 31 March 2021, the Board has given much weight to the historical transaction amounts of approximately HK\$17 million and HK\$47 million for 2019 and 2020 respectively since the Group's overall sales of fabrics for that two periods were closer to the Group's expectation and were not or less affected by the global pandemic of COVID-19.

REASONS FOR AND BENEFITS OF THE TRANSACTIONS

Members of Toray have been customers of the Group's fabrics since October 2018. The Company believes that the entering into of the Master Agreement will enable the Group to continue to expand its business portfolio and to achieve a stable source of income on sale of fabrics, and 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. In addition, members of the Group have been customers of the Toray Group for yarns for nearly 20 years. The Company believes that the entering into of the Master Agreement will enable the Group to leverage its business relationship with the Toray Group and to maintain a stable source of supply of yarns which the Group has been benefiting from over the years.

The terms of the Master Agreement have been arrived at after arm's length negotiations between the parties. The Directors (including the independent non-executive Directors) are of the view that the terms of the Master Agreement and the transactions contemplated thereunder (including the proposed annual caps) are fair and reasonable, on normal commercial terms or better, in the ordinary and usual course of business of the Group, and in the interests of the Company and the Shareholders as a whole.

INTERNAL CONTROL MEASURES

The Company has established the following internal control measures to ensure that the transactions entered into under the Master Agreement will be conducted in accordance with the pricing policies of the Group and on normal commercial terms or better:

- a) the managers overseeing the sales and marketing of fabrics monitor the market conditions and selling prices of fabrics to different customers on a regular basis to ensure the prices for the fabrics to be sold to the Toray Group will reflect the pricing policies of the Group;
- b) the management of the Company will discuss and assess the terms and conditions and the pricing mechanism of the transactions contemplated under the Master Agreement on a regular basis to ensure that they are on normal commercial terms or better;
- c) the finance department of the Company reviews monthly the transactions entered into under the Master Agreement and submits such information for the Board's review, including but not limited to the historical transaction amount, to ensure that the relevant transactions are carried out in accordance with the terms of the Master Agreement as well as the pricing policy and will not exceed the respective annual caps;
- d) the terms of the continuing connected transactions entered into under the Master Agreement are subject to review by the internal audit department of the Company every year; and
- e) the auditors of the Company and the independent non-executive Directors will conduct annual review on the transactions entered into under the Master Agreement in accordance with the Listing Rules.

INFORMATION OF THE PARTIES

The Group is principally engaged in manufacturing and trading of textile products.

Toray is a company incorporated under the laws of Japan, the shares of which are listed on The Tokyo Stock Exchange in Japan (stock code: 3402). The Toray Group's principal businesses include fiber and textiles production and trading. It also engages in other businesses such as production of resins and chemicals, films, carbon fiber composite materials, water treatment and environment solution related products. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, there is no beneficial owner who ultimately owns or controls 10% or more of the total shares in Toray.

IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, Toray is a substantial shareholder of the Company, holding approximately 28.73% of the issued share capital of the Company, and hence is a connected person of the Company. Accordingly, the transactions contemplated under the Master Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios in respect of the proposed annual caps for the three years ending 31 March 2024 for the transactions contemplated under the Master Agreement exceed 0.1% but all the applicable percentage ratios are less than 5%, the transactions contemplated under the Master Agreement and the proposed annual caps for such transactions are subject to the reporting, annual review and announcement requirements but are exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

None of the Directors has a material interest in the Master Agreement and the transactions contemplated thereunder, and none of the Directors has abstained from voting on the Board resolution(s) for considering and approving the same.

DEFINITIONS

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

“Board”	the board of Directors
“Company”	Pacific Textiles Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (stock code: 1382)
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the master agreement dated 30 March 2021 entered into between the Company and Toray in relation to the sale of fabrics manufactured or owned by the Group to the Toray Group
“PRC”	the People’s Republic of China which, for the purpose of this announcement, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
“Shares”	ordinary shares of HK\$0.001 each in the share capital of the Company
“Shareholders”	holder of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Toray”	Toray Industries, Inc., a company incorporated in Japan, the shares of which are listed on The Tokyo Stock Exchange in Japan (stock code: 3402). It is a substantial shareholder of the Company, holding approximately 28.73% of the issued share capital of the Company as at the date of this announcement
“Toray Group”	Toray and its subsidiaries
“%”	per cent

By order of the Board
Pacific Textiles Holdings Limited
WAN WAI LOI
Chairman & CEO

Hong Kong, 30 March 2021

As at the date of this announcement, the Executive Directors are Mr. WAN Wai Loi, Mr. Masaru OKUTOMI, Mr. TOU Kit Vai and Mr. Toshiya ISHII; the Non-executive Director is Mr. LAU Yiu Tong; and the Independent Non-executive Directors are Dr. CHAN Yue Kwong, Michael, Mr. NG Ching Wah, and Mr. SZE Kwok Wing, Nigel.

* *For identification purposes only*