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BEST PACIFIC

Best Pacific International Holdings Limited

超盈國際控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 2111)

RENEWAL OF CONTINUING CONNECTED TRANSACTION MACHONG LEASE AGREEMENT

In contemplation of the expiry of the Previous Machong Lease Agreement on 30 September 2018 and to ensure the continuous use of the Property, the Board announces that on 28 September 2018, Dongguan BPT (as lessee) entered into the Machong Lease Agreement with Dongguan Clothing (as lessor), pursuant to which Dongguan Clothing has agreed to lease the Property to Dongguan BPT for a term of three years commencing on 1 October 2018 to 30 September 2021.

Dongguan BPT is an indirect wholly-owned subsidiary of the Company. As at the date of this announcement, Dongguan Clothing is owned as to 50% by Mrs. Lu (the spouse of Mr. Lu and sister of Mr. Wu), 30% by Ms. Zheng (an executive Director and the spouse of Mr. Zhang), 10% by Mr. Wu Junjie (the son of Mr. Wu) and 10% by Mr. Lu Canping (the nephew of Mr. Lu). Accordingly, Dongguan Clothing is an associate of Mr. Lu, Ms. Zheng, Mr. Zhang and Mr. Wu and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules, and the transaction contemplated under the Machong Lease Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Machong Lease Agreement is more than 0.1% but less than 5%, the Machong Lease Agreement is subject to the reporting, announcement and annual review requirements but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

BACKGROUND

Dongguan BPT has been leasing the Property from Dongguan Clothing for its daily production and operational use since 1 October 2015 pursuant to the Previous Machong Lease Agreement, details of which were disclosed in the announcement of the Company dated 25 September 2015. In contemplation of the expiry of the Previous Machong Lease Agreement on 30 September 2018 and to ensure the continuous use of the Property, the Board announces that on 28 September 2018, Dongguan BPT entered into the Machong Lease Agreement with Dongguan Clothing to renew the Previous Machong Lease Agreement.

Principal terms of the Machong Lease Agreement are summarised below.

THE MACHONG LEASE AGREEMENT

Date	:	28 September 2018
Parties	:	(i) Dongguan BPT, an indirect wholly-owned subsidiary of the Company (as lessee) (ii) Dongguan Clothing (as lessor)
Term	:	A term of three years commencing on 1 October 2018 to 30 September 2021
Location and size	:	The Property is located at Zhang Peng Village, Machong Town, Dongguan City, the PRC with a total leasing area of 21,868 sq.m.
Use	:	The Property will be used by Dongguan BPT for its daily production and operational use.
Rent	:	Under the Machong Lease Agreement, the monthly rent shall be RMB393,624 (equivalent to approximately HK\$448,731) payable in cash on or before the fifteenth day of each calendar month.

Pursuant to the Machong Lease Agreement, after the first year of lease, the parties may re-negotiate on the amount of rent, provided that the annual rent for the second year and third year of the lease shall not exceed RMB5,195,837 (equivalent to approximately HK\$5,923,254) and RMB5,715,420 (equivalent to approximately HK\$6,515,579) respectively.

Pursuant to the Machong Lease Agreement, Dongguan BPT shall pay the following to Dongguan Clothing within 10 days upon the signing date of the Machong Lease Agreement:

- (a) four months of rent, being RMB1,574,496 (equivalent to approximately HK\$1,794,925) as rental deposit; and
- (b) one month of rent, being RMB393,624 (equivalent to approximately HK\$448,731) as prepayment.

Dongguan BPT shall be responsible for all the charges for the utility services (i.e. water and electricity) to be used in respect of the Property.

Other terms and conditions : Subject to compliance with the Listing Rules, Dongguan BPT and Dongguan Clothing shall negotiate one month before the expiry of the Machong Lease Agreement on whether to continue to lease the Property and shall enter into a new lease agreement.

Dongguan Clothing has agreed to give priority to Dongguan BPT over other third parties for leasing the Property upon expiry of the Machong Lease Agreement.

The rental under the Machong Lease Agreement was determined after arm's length negotiations between the parties thereto and with reference to (i) the historical rents of the Property; (ii) the prevailing market rents of similar properties in the same or nearby areas or similar locations in the PRC; (iii) the conditions of the Property, including but not limited to the location of the Property as well as the facilities associated with the Property; and (iv) the historical trend and the expected increase in the rents in the PRC property market.

Subject to mutual agreement, Dongguan BPT and Dongguan Clothing may negotiate to amend or terminate the Machong Lease Agreement during the lease term.

HISTORICAL TRANSACTION AMOUNTS UNDER THE PREVIOUS MACHONG LEASE AGREEMENT

The historical transaction amounts under the Previous Machong Lease Agreement for the financial years ended 31 December 2015, 2016 and 2017 and the eight months ended 31 August 2018 are set out below:

	From 1 October 2015 to 31 December 2015	For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	From 1 January 2018 to 31 August 2018
Transaction amount	RMB984,060	RMB6,157,623	RMB6,181,092	RMB2,746,371

ANNUAL CAPS FOR THE MACHONG LEASE AGREEMENT

The Annual Caps for the transaction amounts payable by Dongguan BPT under the Machong Lease Agreement for the financial years ending 31 December 2018, 2019, 2020 and 2021 are set out below:

	For the financial year ending 31 December			
	2018	2019	2020	2021
	(from 1 October 2018 to 31 December 2018) (Note 1)	(from 1 January 2019 to 31 December 2019) (Note 2)	(from 1 January 2020 to 31 December 2020) (Note 3)	(from 1 January 2021 to 30 September 2021) (Note 4)
Annual Caps	RMB3,356,000 (equivalent to approximately HK\$3,825,840)	RMB7,400,000 (equivalent to approximately HK\$8,436,000)	RMB7,900,000 (equivalent to approximately HK\$9,006,000)	RMB6,087,000 (equivalent to approximately HK\$6,939,180)

Notes:

- (1) The Annual Cap of RMB3,356,000 comprises rental deposit of approximately RMB1,575,000, rent of approximately RMB1,181,000 and estimated utility fees of approximately RMB600,000.
- (2) The Annual Cap of RMB7,400,000 comprises additional rental deposit of approximately RMB158,000 (being the difference due to estimated increase in rent), rent of approximately RMB4,842,000 and estimated utility fees of approximately RMB2,400,000.
- (3) The Annual Cap of RMB7,900,000 comprises additional rental deposit of approximately RMB174,000 (being the difference due to estimated increase in rent), rent of approximately RMB5,326,000 and estimated utility fees of approximately RMB2,400,000.
- (4) The Annual Cap of RMB6,087,000 comprises rent of approximately RMB4,287,000 and estimated utility fees of approximately RMB1,800,000.

The Annual Caps were determined after considering the aggregated amount of the rental deposit, rent and estimated utility fees payable by Dongguan BPT for the relevant financial year under the Machong Lease Agreement.

Payment of the rent will be funded by internal resources of the Group.

INTERNAL CONTROL

Pursuant to the Machong Lease Agreement, the parties may re-negotiate the amount of the rent payable in the second year and third year of the lease with reference to the prevailing market rents for similar premises in the same or nearby areas or similar locations in the PRC, provided that the total rent for the relevant financial year shall not exceed the respective Annual Caps.

In the event where the parties re-negotiate the rent for the Property pursuant to the terms of the Machong Lease Agreement, the Company will adopt the following measures in order to ensure that the Machong Lease Agreement will be conducted on normal commercial terms and no less favourable to the Group than those available from Independent Third Parties.

- (a) Dongguan BPT will obtain the market rents for similar premises in the same or nearby areas or similar locations in the PRC;
- (b) Dongguan BPT will negotiate with Dongguan Clothing to agree on the new rental with reference to the Annual Caps and the market rents;
- (c) The Group has an internal system to trace, monitor and evaluate the transaction amounts under the Machong Lease Agreement regularly to ensure that the Annual Caps will not be exceeded;
- (d) The Group will comply with the annual review requirements in respect of the Machong Lease Agreement in accordance with Chapter 14A of the Listing Rules, such as engaging the Company's auditor to conduct annual review and having the independent non-executive Directors to review the transaction contemplated under the Machong Lease Agreement and give opinion/confirmation in the Company's annual reports.

By implementing the above measures, the Directors (including the independent non-executive Directors) consider that the Company has sufficient internal control and procedures to ensure that any new rental to be agreed pursuant to the Machong Lease Agreement will be on normal commercial terms and no less favourable to the Group than those available from Independent Third Parties.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MACHONG LEASE AGREEMENT

The Property is located near the production plants of Dongguan BPT in Dongguan City, thus providing easy transportation access of raw materials and products to the production plants. In contemplation of the expiry of the Previous Machong Lease Agreement on 30 September 2018 and to ensure the continuous use of the Property, Dongguan BPT and Dongguan Clothing entered into the Machong Lease Agreement to renew the Previous Machong Lease Agreement for another term of three years up to 30 September 2021. The Machong Lease Agreement secures the amount of rent payable by Dongguan BPT in the medium term and avoids increases in rent in accordance with the expected appreciation in the value of the Property. Entering into the Machong Lease Agreement also provides the Group with the stability in further renewal of the lease.

In view of the above, the Directors (including the independent non-executive Directors) are of the view that the terms of the Machong Lease Agreement (including the Annual Caps) are fair and reasonable, on normal commercial terms and in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

INFORMATION ON THE GROUP AND DONGGUAN CLOTHING

The Group is principally engaged in the manufacture and trading of elastic fabric, lace and elastic webbing.

Dongguan BPT, an indirect wholly-owned subsidiary of the Company, is principally engaged in the manufacture of elastic fabric and lace.

Dongguan Clothing is principally engaged in the manufacture and selling of apparels.

IMPLICATIONS UNDER THE LISTING RULES

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiries, as at the date of this announcement, Dongguan Clothing is owned as to 50% by Mrs. Lu (the spouse of Mr. Lu and sister of Mr. Wu), 30% by Ms. Zheng (an executive Director and the spouse of Mr. Zhang), 10% by Mr. Wu Junjie (the son of Mr. Wu) and 10% by Mr. Lu Canping (the nephew of Mr. Lu). Accordingly, Dongguan Clothing is an associate of Mr. Lu, Ms. Zheng, Mr. Zhang and Mr. Wu and is therefore a connected person of the Company pursuant to Rule 14A.07 of the Listing Rules, and the transaction contemplated under the Machong Lease Agreement constitutes a continuing connected transaction for the Company under Chapter 14A of the Listing Rules.

As the applicable percentage ratios in respect of the Machong Lease Agreement is more than 0.1% but less than 5%, the Machong Lease Agreement is subject to the reporting, announcement and annual review requirements but is exempted from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

As each of Mr. Lu (the spouse of Mrs. Lu and uncle of Mr. Lu Canping), Ms. Zheng (a shareholder of Dongguan Clothing and the spouse of Mr. Zhang), Mr. Zhang (the spouse of Ms. Zheng) and Mr. Wu (the father of Mr. Wu Junjie and brother of Mrs. Lu) has a material interest in the Machong Lease Agreement, Mr. Lu, Ms. Zheng, Mr. Zhang and Mr. Wu have abstained from voting on the board resolutions approving the Machong Lease Agreement and the transaction contemplated thereunder.

DEFINITIONS

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

“Annual Cap(s)”	the annual cap(s) for the transactions contemplated under the Machong Lease Agreement for the financial year(s) ending 31 December 2018, 2019, 2020 and/or 2021
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Best Pacific International Holdings Limited (Stock Code: 2111), a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Dongguan BPT”	Dongguan Best Pacific Textile Company Limited^ (東莞超盈紡織有限公司), a company incorporated in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“Dongguan Clothing”	Dongguan Quality Clothing Company Limited^ (東莞市質品服飾有限公司), a company incorporated in the PRC with limited liability and owned as to 50% by Mrs. Lu, 30% by Ms. Zheng, 10% by Mr. Wu Junjie (the son of Mr. Wu) and 10% by Mr. Lu Canping (the nephew of Mr. Lu)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) which is/are third party(ies) independent of the Company and its connected persons
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Machong Lease Agreement”	a lease agreement dated 28 September 2018 entered into between Dongguan BPT as lessee and Dongguan Clothing as lessor in respect of the Property for a term of three years commencing on 1 October 2018 to 30 September 2021
“Mr. Lu”	Mr. Lu Yuguang, the Chairman, executive Director and controlling shareholder of the Company, holding the direct and indirect interests in 640,500,000 Shares, representing approximately 61.78% of the issued share capital of the Company
“Mr. Wu”	Mr. Wu Shaolun, an executive Director
“Mr. Zhang”	Mr. Zhang Haitao, the chief executive officer of the Group and an executive Director, and the spouse of Ms. Zheng
“Mrs. Lu”	Ms. Wu Wanxiong, the spouse of Mr. Lu and sister of Mr. Wu
“Ms. Zheng”	Ms. Zheng Tingting, the chief operating officer of the Group and an executive Director, and the spouse of Mr. Zhang
“percentage ratio(s)”	has the meaning as ascribed to it under the Listing Rules
“PRC”	the People’s Republic of China, and for the purpose of this announcement, excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan
“Previous Machong Lease Agreement”	the lease agreement dated 25 September 2015 entered into between Dongguan BPT as lessee and Dongguan Clothing as lessor in respect of the Property for a term of three years commencing on 1 October 2015 to 30 September 2018, details of which were disclosed in the announcement of the Company dated 25 September 2015
“Property”	the property located at Zhang Peng Village, Machong Town, Dongguan City, the PRC, with a total leasing area of 21,868 sq.m.
“RMB”	Renminbi, the lawful currency of the PRC

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	the holder(s) of the Share(s)
“sq.m.”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

For illustration purpose only and unless otherwise stated, conversion of RMB into HK\$ in this announcement is based on the exchange rate of RMB1.00 to HK\$1.14. Such conversion should not be construed as a representation that any amount has been, could have been or may be exchanged at this or at any other rate.

By Order of the Board
Best Pacific International Holdings Limited
Lu Yuguang
Chairman and executive Director

Hong Kong, 28 September 2018

As at the date of this announcement, the Board comprises Mr. Lu Yuguang, Mr. Zhang Haitao, Mr. Wu Shaolun, Ms. Zheng Tingting, Mr. Cheung Yat Ming, Mr. Ding Baoshan* and Mr. Sai Chun Yu*.*

* *Independent non-executive Director*

^ *For identification purpose only*