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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)

CONNECTED TRANSACTIONS

SUB-LEASE AGREEMENTS IN RELATION TO TRISCHEL FABRIC (PRIVATE) LIMITED

Sub-Lease Agreements

The Board is pleased to announce that on 1 August 2019, the JV Company entered into the Logiwiz Sub-Lease and the Weft Sub-Lease with MAS Fabric Park, each for a term of three years commencing on 1 August 2019 to 31 July 2022.

As at the date of this announcement, MAS Fabric Park is an indirect wholly-owned subsidiary of MAS Holdings, which is the holding company of the JV Partner indirectly holding 49% of the issued share capital of the JV Company and hence a substantial shareholder of the JV Company. Accordingly, MAS Fabric Park is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules, and the transactions contemplated under the Sub-Lease Agreements constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Implications under the Listing Rules

As one or more of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Sub-Lease Agreements, on the basis of the estimated value of the right-of-use asset and after aggregating with the Existing Sub-Lease and Related Agreements (details of which were disclosed in the Announcement), exceeds 1% but all of them are less than 5%, the Sub-Lease Agreements are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

INTRODUCTION

The Board is pleased to announce that on 1 August 2019, the JV Company entered into the Logiwiz Sub-Lease and the Weft Sub-Lease with MAS Fabric Park, principal terms of which are summarised below.

(1) Logiwiz Sub-Lease

Date	:	1 August 2019
Parties	:	(i) MAS Fabric Park (as lessor) (ii) JV Company (as lessee)
Term	:	Three years commencing on 1 August 2019 to 31 July 2022
Leased premises	:	MAS Fabric Park shall sub-lease the Logiwiz Premises to the JV Company. The Logiwiz Premises are situated at MAS industrial park in Nangalla and Thulhiriya Villages in the District of Kegalle, Sabaragamuwa Province, Sri Lanka with an area of approximately 70,458 sq. ft., which will be used by the JV Company as a warehouse.
Rentals and premium	:	The JV Company shall pay the following rentals and premium to MAS Fabric Park: (i) Total ground rental of US\$38,475 calculated on the basis of US\$5,130 per acre per annum, payable in 12 instalments on the first day of August, November, February and May each calendar year; (ii) Total building rental of US\$486,160.20 calculated on the basis of US\$2.30 per sq. ft. per annum, payable in 12 instalments on the first day of August, November, February and May each calendar year; and (iii) Up-front premium of US\$9,000 calculated on the basis of US\$3,600 per acre, payable on the date of the agreement.
Renovation fee	:	The JV Company shall pay the renovation fee of US\$125,277.68 to MAS Fabric Park on the date of the agreement.
Payment terms	:	The rentals, premium and renovation fee shall be paid in the United States dollars or its Sri Lanka Rupees equivalent.
Other terms and conditions	:	The JV Company may, prior to expiry of the agreement, give a 3-month notice in writing to MAS Fabric Park requesting for renewal of the sub-lease and MAS Fabric Park may, subject to the terms of the original lease between BOI and itself and at its discretion, grant a renewal of the sub-lease on terms and conditions to be agreed between the parties.

(2) Weft Sub-Lease

Date	:	1 August 2019
Parties	:	(i) MAS Fabric Park (as lessor) (ii) JV Company (as lessee)
Term	:	Three years commencing on 1 August 2019 to 31 July 2022
Leased premises	:	MAS Fabric Park shall sub-lease the Weft Premises to the JV Company. The Weft Premises are situated at MAS industrial park in Nangalla and Thulhiriya Villages in the District of Kegalle, Sabaragamuwa Province, Sri Lanka with an area of approximately 44,435 sq. ft., which will be used by the JV Company as an expansion of its existing production site.
Rentals and premium	:	The JV Company shall pay the following rentals and premium to MAS Fabric Park: (i) Total ground rental of US\$22,119.93 calculated on the basis of US\$5,130 per acre per annum, payable in 12 instalments on the first day of August, November, February and May each calendar year; (ii) Total building rental of US\$306,601.50 calculated on the basis of US\$2.30 per sq. ft. per annum, payable in 12 instalments on the first day of August, November, February and May each calendar year; and (iii) Up-front premium of US\$5,174.25 calculated on the basis of US\$3,600 per acre, payable on the date of the agreement.
Renovation fee	:	The JV Company shall pay the renovation fee of US\$106,807.51 to MAS Fabric Park on the date of the agreement.
Payment terms	:	The rentals, premium and renovation fee shall be paid in the United States dollars or its Sri Lanka Rupees equivalent.
Other terms and conditions	:	The JV Company may, prior to expiry of the agreement, give a 3-month notice in writing to MAS Fabric Park requesting for renewal of the sub-lease and MAS Fabric Park may, subject to the terms of the original lease between BOI and itself and at its discretion, grant a renewal of the sub-lease on terms and conditions to be agreed between the parties.

PRICING BASIS FOR THE SUB-LEASE AGREEMENTS

The rentals, premiums and renovation fees under the Sub-Lease Agreements were determined after arm's length negotiations between the JV Company and MAS Fabric Park and with reference to, among other things, (i) the historical rentals; (ii) the prevailing market rents of similar properties in the same or nearby areas or similar location in Sri Lanka; (iii) the condition of the leased premises, including but not limited to the location and the facilities associated with the leased properties; and (iv) the market rates for similar renovation work in Sri Lanka.

REASONS FOR ENTERING INTO THE SUB-LEASE AGREEMENTS

In view of the business growth of the JV Company, the existing production site of the JV Company will soon be insufficient to meet its business and operation needs. As such, the JV Company has been looking for appropriate premises as an expansion of its existing production site and warehouse. The Logiwiz Premises and the Weft Premises are located near the existing production site of the JV Company. After considering the location, size and condition of the Logiwiz Premises and the Weft Premises as well as the market rents of similar properties, the management considers that they are appropriate premises for such uses and hence entered into the Sub-Lease Agreements.

The terms of each of the Sub-Lease Agreements were determined after arm's length negotiations between the parties thereto. The Directors (including the independent non-executive Directors) consider that the terms of each of the Sub-Lease Agreements are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole.

ESTIMATED VALUES OF THE RIGHT-OF-USE ASSET IN RESPECT OF THE SUB-LEASE AGREEMENTS AND ANNUAL CAPS FOR THE EXISTING SUB-LEASE AND RELATED AGREEMENTS

Pursuant to HKFRS 16, the Group is required to recognise a right-of-use asset representing its right to use for the underlying leased assets in relation to the Logiwiz Premises and the Weft Premises under the Logiwiz Sub-Lease and the Weft Sub-Lease. Based on the information currently available to the Company, the estimated values of the right-of-use asset in respect of the Logiwiz Sub-Lease and the Weft Sub-Lease are approximately US\$613,000 (equivalent to approximately HK\$4,781,400) and approximately US\$412,000 (equivalent to approximately HK\$3,213,600) respectively.

The Annual Caps for the transaction amounts under the Existing Sub-Lease and Related Agreements for the financial years ending 31 December 2019, 2020, 2021 and 2022 are set out below. For further details of the Existing Sub-Lease and Related Agreements (e.g. the principal terms, the reasons for and the Directors' view on the entering into of the agreements, etc.), please refer to the Announcement.

Annual Cap	For the financial year ending 31 December			
	2019	2020	2021	2022
Existing Sub-Lease (<i>Note 1</i>)	US\$57,000 (equivalent to approximately HK\$444,600)	US\$68,000 (equivalent to approximately HK\$530,400)	US\$81,000 (equivalent to approximately HK\$631,800)	US\$97,000 (equivalent to approximately HK\$756,600)
Existing Services Agreement (<i>Note 2</i>)	US\$2,794,000 (equivalent to approximately HK\$21,793,200)	US\$3,495,000 (equivalent to approximately HK\$27,261,000)	US\$8,093,000 (equivalent to approximately HK\$63,125,400)	US\$9,462,000 (equivalent to approximately HK\$73,803,600)
Existing MOU (<i>Note 3</i>)	US\$897,000 (equivalent to approximately HK\$6,996,600)	US\$1,127,000 (equivalent to approximately HK\$8,790,600)	US\$2,321,000 (equivalent to approximately HK\$18,103,800)	US\$2,715,000 (equivalent to approximately HK\$21,177,000)
Aggregate	US\$3,748,000 (equivalent to approximately HK\$29,234,400)	US\$4,690,000 (equivalent to approximately HK\$36,582,000)	US\$10,495,000 (equivalent to approximately HK\$81,861,000)	US\$12,274,000 (equivalent to approximately HK\$95,737,200)

Notes:

1. The Annual Caps for the Existing Sub-Lease were determined based on the historical rents and the estimated rentals for the relevant financial year. Pursuant to the Existing Sub-Lease, the ground rent will be adjusted annually in line with the ground rent charged or chargeable at other industrial zones as published by BOI. Since the JV Company has become an indirect non-wholly owned subsidiary of the Company on 1 August 2018, the ground rent paid to MAS Fabric Park for the period from 1 August 2018 to 31 December 2018 was approximately US\$29,610.
2. The Annual Caps for the Existing Services Agreement were determined based on the historical consumption and charging rates, the projected production volume of the JV Company and adding certain buffers. Since the JV Company has become an indirect non-wholly owned subsidiary of the Company on 1 August 2018, the service fee paid to MAS Fabric Park for the period from 1 August 2018 to 31 December 2018 was approximately US\$1,026,504.
3. The Annual Caps for the Existing MOU were determined based on the historical consumption and charging rates, the projected production volume of the JV Company and adding certain buffers. Since the JV Company has become an indirect non-wholly owned subsidiary of the Company on 1 August 2018, the service fee paid to MAS Fabric Park for the period from 1 August 2018 to 31 December 2018 was approximately US\$223,331.

The fees payable under the Sub-Lease Agreements and the Existing Sub-Lease and Related Agreements will be funded by internal resources and bank loans of the JV Company.

INFORMATION ON THE GROUP AND THE JV COMPANY

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

The JV Company is an indirect non-wholly owned subsidiary of the Company principally engaged in the manufacture of warp and weft knitted fabric, and the importation of yarn and greige fabric and complementary accessories for dyeing and finishing for export.

INFORMATION ON MAS FABRIC PARK

MAS Fabric Park is a company incorporated under the laws of Sri Lanka and an indirect wholly-owned subsidiary of MAS Holdings. As at the date hereof, MAS Fabric Park is principally engaged in operation of the MAS industrial park.

CONNECTED RELATIONSHIP AND IMPLICATIONS UNDER THE LISTING RULES

As at the date of this announcement, MAS Fabric Park is an indirect wholly-owned subsidiary of MAS Holdings, which is the holding company of the JV Partner indirectly holding 49% of the issued share capital of the JV Company and hence a substantial shareholder of the JV Company. Accordingly, MAS Fabric Park is a connected person of the Company at the subsidiary level under Rule 14A.06(9) of the Listing Rules, and the transactions contemplated under the Sub-Lease Agreements constitute connected transactions for the Company under Chapter 14A of the Listing Rules.

Pursuant to HKFRS 16, the Group is required to recognise a right-of-use asset representing its right to use for the underlying leased assets in relation to the Logiwiz Premises and the Weft Premises under the Logiwiz Sub-Lease and the Weft Sub-Lease which accordingly constitute one-off connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentage ratios (other than the profits ratio) in respect of the transactions contemplated under the Sub-Lease Agreements, on the basis of the estimated value of the right-of-use asset and after aggregating with the Existing Sub-Lease and Related Agreements (details of which were disclosed in the Announcement), exceeds 1% but all of them are less than 5%, the Sub-Lease Agreements are subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

To avoid any potential conflict of interests, Mr. Zhang Haitao, being the director of the Company and the JV Company, has abstained from voting on the board resolutions approving the Sub-Lease Agreements and the transactions contemplated thereunder.

DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Announcement”	the announcement of the Company dated 4 December 2017
“Annual Cap(s)”	the annual cap(s) for the transactions contemplated under the Existing Sub-Lease and Related Agreements for the financial year(s) ending 31 December 2019, 2020, 2021 and/or 2022
“Board”	the board of Directors
“BOI”	Board of Investment of Sri Lanka, a governmental authority in Sri Lanka
“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 as ascribed to this term under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing MOU”	the memorandum of understanding for services provided in relation to a biomass thermic oil heater dated 15 July 2016 entered into between MAS Fabric Park and the JV Company, details of which were disclosed in the Announcement (defined as “MOU” therein)
“Existing Services Agreement”	the services agreement dated 22 December 2006 entered into between MAS Fabric Park and the JV Company, pursuant to which MAS Fabric Park shall provide the JV Company with electricity, steam, water, effluent discharge and fire hydrant water supply, details of which were disclosed in the Announcement (defined as “Services Agreement” therein)
“Existing Sub-Lease”	the sub-lease agreement dated 22 December 2006 entered into between MAS Fabric Park and the JV Company, details of which were disclosed in the Announcement (defined as “Sub-Lease Agreement” therein)
“Existing Sub-Lease and Related Agreements”	(i) the Existing Sub-Lease; (ii) the Existing Services Agreement; and (iii) the Existing MOU

“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“JV Company”	Trischel Fabric (Private) Limited, a company incorporated in Sri Lanka with limited liability and an indirect non-wholly owned subsidiary of the Company
“JV Group”	the JV Company and its subsidiaries
“JV Partner”	MAS Capital (Private) Limited, a company incorporated in Sri Lanka with limited liability and a direct wholly-owned subsidiary of MAS Holdings
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Logiwiz Premises”	the premises situated at MAS industrial park in Nangalla and Thulhiriya Villages in the District of Kegalle, Sabaragamuwa Province in Sri Lanka with an area of approximately 70,458 sq. ft., to be sub-leased to the JV Company pursuant to the Logiwiz Sub-Lease
“Logiwiz Sub-Lease”	the sub-lease dated 1 August 2019 entered into between MAS Fabric Park (as lessor) and the JV Company (as lessee), in relation to the sub-lease of the Logiwiz Premises for a term of three years commencing on 1 August 2019 to 31 July 2022
“MAS Fabric Park”	MAS Fabric Park (Private) Limited, a company incorporated in Sri Lanka with limited liability and an indirect wholly-owned subsidiary of MAS Holdings
“MAS Holdings”	MAS Holdings (Pvt) Ltd, a company incorporated in Sri Lanka with limited liability and the holding company of the JV Partner
“percentage ratio(s)”	has the meaning as ascribed to this term 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

“Share(s)”	ordinary share(s) of HK\$0.01 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“sq. ft.”	square feet
“Sri Lanka”	the Democratic Socialist Republic of Sri Lanka
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Sub-Lease Agreements”	the Logiwiz Sub-Lease and the Weft Sub-Lease
“substantial shareholder(s)”	has the meaning as ascribed to this term under the Listing Rules
“US\$”	United States dollars, the lawful currency of the United States of America
“Weft Premises”	the premises situated at MAS industrial park in Nangalla and Thulhiriya Villages in the District of Kegalle, Sabaragamuwa Province in Sri Lanka with an area of approximately 44,435 sq. ft., to be sub-leased to the JV Company pursuant to the Weft Sub-Lease
“Weft Sub-Lease”	the sub-lease dated 1 August 2019 entered into between MAS Fabric Park (as lessor) and the JV Company (as lessee), in relation to the sub-lease of the Weft Premises for a term of three years commencing on 1 August 2019 to 31 July 2022
“%”	per cent

For illustration purpose only and unless otherwise stated, conversion of US\$ into HK\$ in this announcement is based on the exchange rate of US\$1.00 = HK\$7.80 and rounded to thousand. Such conversion should not be construed as a representation that any amount has been, could have been, or may be exchanged at this or any other rates.

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

Hong Kong, 1 August 2019

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*