

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



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1100)

VOLUNTARY ANNOUNCEMENT PROVISION OF LOAN TO A CUSTOMER

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

On 28 September 2012, the Lender, a wholly-owned subsidiary of the Company, entered into the Loan Agreement with the Borrower, pursuant to which the Lender has agreed to make the Loan of US\$2,000,000 to the Borrower and the Borrower has agreed to purchase the Products from the Group with the Minimum Purchase Commitment in each of the Annual Periods.

On the same date, the Lender entered into a subordination agreement with the Senior Lender pursuant to which, among others, the Lender has agreed to subordinate all of its rights and claims now existing or thereafter arising against the Borrower under the Loan Agreement to the rights and claims of the Senior Lender now existing or thereafter arising against the Borrower.

The Borrower intends to apply such loan amount to finance its recent potential acquisition.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

INTRODUCTION

On 28 September 2012, the Lender, a wholly-owned subsidiary of the Company, entered into the Loan Agreement with the Borrower, pursuant to which the Lender has agreed to make the Loan of US\$2,000,000 to the Borrower. The Borrower intends to apply such loan amount to finance its recent potential acquisition.

THE LOAN AGREEMENT

Set out below are the principal terms of the Loan Agreement:

Date: 28 September 2012

Parties: (i) The Borrower
(ii) The Lender

Principal amount: US\$2,000,000

Loan maturity: The fifth (5th) anniversary of the Closing Date

Interest: 5% per annum

Payment: The Borrower shall make quarterly payments of interest starting from January 2013 and make quarterly payments of principal and interest starting from January 2015. However, the Borrower may prepay any amounts without penalty.

Security: The obligations of the Borrower under the Loan Agreement are secured by the Collateral. However, the Lender’s interest in the Collateral is subordinated to that of the Senior Lender.

MINIMUM PURCHASE COMMITMENT BY THE BORROWER

Under the Loan Agreement, the Borrower has agreed and undertaken that, during each of the Annual Periods set forth below, the Borrower and its affiliates shall purchase from the Group the Products with the Minimum Purchase Commitment not less than the following amounts:

Annual Period	Minimum Purchase Commitment (US\$)
1 January 2013 to 31 December 2013	US\$16,000,000
1 January 2014 to 31 December 2014	US\$17,000,000
1 January 2015 to 31 December 2015	US\$18,000,000
1 January 2016 to 31 December 2016	US\$19,000,000
1 January 2017 to 31 December 2017	US\$20,000,000
1 January 2018 to 31 December 2018	75% of all of the Borrower’s total purchase from all manufacturers worldwide in the Products per annum that is within the Lender’s production capability
1 January 2019 to 31 December 2019	

If the actual annual purchase amount made by the Borrower for any Annual Period is less than the Minimum Purchase Commitment as set out in the table above, the Borrower and its affiliates shall have the Extended Period during which they could place additional purchase orders to meet the Minimum Purchase Commitment. However, if the Borrower and its affiliates are still not able to place adequate additional purchase orders during the Extended Period, the Borrower shall make a cash payment to the Lender equal to ten percent (10%) of such deficiency in the Minimum Purchase Commitment within thirty (30) days after the Extended Period. The aforesaid additional purchase orders should be excluded from the calculation of the Minimum Purchase Commitment in the year comprising the Extended Period to avoid double counting. However, the Minimum Purchase Commitment would include any purchase order that declined by the Group as a result of capacity or lead-time issues, given that the Borrower or its affiliates submitted the purchase order within established lead times but were forced to either reschedule or cancel the purchase order completely due to the Group being unable to deliver according to the original purchase order terms and conditions. If the annual purchase amount made by the Borrower to the Group is more than the Minimum Purchase Commitment in any of the Annual Periods, that excess purchase amount can be carried forward to the next Annual Period, provided that the amount carried forward does not exceed ten percent (10%) of the Minimum Purchase Commitment in such Annual Period.

The Minimum Purchase Commitment shall have full legal force and effect for at least three (3) years after the Closing Date, even after the Loan and its interest have been fully repaid. If the Loan and its interest are fully repaid after such three-year period, the Minimum Purchase Commitment would then be ceased.

Starting from the third Annual Period (i.e. 1 January 2015 to 31 December 2015), in case that the Borrower loses its contract(s) to supply the Products to its major customer(s) or any division of the Borrower experiences a significant reduction of more than fifteen percent (15%) on annual revenue over the prior year, the Minimum Purchase Commitment for the relevant Annual Period shall be equal to not less than seventy five percent (75%) of all of the Borrower's total purchase from all manufacturers worldwide in the Products that is within the Group's production capability during such Annual Period. The Minimum Purchase Commitment shall return to the level set forth in the table above for the Annual Period following the Annual Period in which the Borrower's annual gross revenues recover to a level not less than the annual gross revenues for the twelve months prior to the date on which the Borrower lost the contract(s) as previously mentioned.

Unless the parties have agreed on different credit terms, the Group have agreed to grant a credit period of sixty (60) days starting from the date of invoice issued by the Group and such credit period can be extended to ninety (90) days provided that 1% interest per month is charged on the outstanding amount of such invoices which are subject to extension.

SUBORDINATION AGREEMENT WITH THE SENIOR LENDER

On 28 September 2012, the Lender entered into a subordination agreement with the Senior Lender pursuant to which, among others, the Lender has agreed to subordinate all of its rights and claims now existing or thereafter arising against the Borrower under the Loan Agreement to the rights and claims of the Senior Lender now existing or thereafter arising against the Borrower.

INFORMATION ON THE BORROWER

The Borrower is principally engaged in design, manufacture and distribution of apparel, accessories and headwear products.

To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, the Borrower and its ultimate beneficial owner are independent third parties not connected with the Company and its connected persons.

REASONS FOR THE ENTERING INTO OF THE LOAN AGREEMENT

The Group is principally engaged in manufacture and sales of headwear products and sales of licensed products, with customers located in the PRC, Japan, the United States and Europe. The reasons for the entering into of the Loan Agreement can be summarised as follows:

- (i) under the Loan Agreement, the Borrower has undertaken to purchase from the Group the Products in the amount of Minimum Purchase Commitment in each of the Annual Periods. As such, the Group will secure a stable source of revenue; and
- (ii) the provision of loan has strengthened the business relationship between the Group and the Borrower of which the Directors consider a valuable customer to the Group.

The terms of the Loan Agreement including the interest rate were determined with reference to normal commercial practice. The Loan will be funded by internal resources of the Group. The Directors consider that the transaction contemplated by the Loan Agreement is on normal commercial terms and the terms of the Loan Agreement are fair and reasonable and are in the interests of the Company and its shareholders as a whole having considered the aforesaid reasons.

DEFINITIONS

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

“Annual Period(s)”	each of the seven annual periods starting from the year ending 31 December 2013 during which the Borrower has undertaken to purchase the Products with Minimum Purchase Commitment from the Group pursuant to the Loan Agreement
“Borrower”	Paramount Apparel International, Inc., a company incorporated in the United States and principally engages in the design, manufacture and distribution of apparels, accessories and headwear products
“Closing Date”	the date on which the disbursement of the Loan is made by the Lender pursuant to the Loan Agreement
“Collateral”	security interest granted by the Borrower to the Lender in all of the Borrower’s now owned or hereafter acquired or arising inventory, equipment, receivables, trademarks, copyrights, licenses and patents, investment property and general intangibles including, without limitation, all of the Borrower’s deposit accounts, money, any and all property now or at any time hereafter in the Lender’s possession (including claims and credit balances), and all proceeds (including proceeds of any insurance policies, proceeds of proceeds and claims against third parties), all products and all books and records and computer data related to any of the foregoing, together with all other property in which the Lender may be granted a lien or security interest
“Company”	Mainland Headwear Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Stock Exchange
“Director(s)”	the director(s) of the Company
“Extended Period”	a period of sixty (60) days in which the Borrower can place additional purchase orders to the Lender to meet the Minimum Purchase Commitment in case there is a fall short of such amount in any Annual Period

“Group”	the Company and its subsidiaries
“Lender”	Mainland Sewing Headwear Manufacturing Limited, a company incorporated in Hong Kong and a wholly-owned subsidiary of the Company. The principal activities of which is the manufacture and sale of headwear products
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Loan”	the loan in the amount of US\$2,000,000 to be provided by the Lender to the Borrower pursuant to the Loan Agreement
“Loan Agreement”	the loan and security agreement entered into between the Lender and the Borrower on 28 September 2012 governing the provision of the Loan
“Minimum Purchase Commitment”	the minimum amount of Products that the Borrower has committed to purchase from the Group in each of the Annual Periods pursuant to the Loan Agreement
“PRC”	People’s Republic of China
“Products”	headwear products and similar products
“Senior Lender”	a major lender to the Borrower
“US\$”	United States dollar

By order of the Board
Mainland Headwear Holdings Limited
Ngan Hei Keung
Chairman

Hong Kong, 28 September 2012

As at the date of this announcement, the Board comprises nine Directors, of which four are executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Ms. Maggie Gu; two non-executive Directors, Mr. Tse Kam Fow and Mr. Andrew Ngan; and three are independent non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.

* For identification purpose only