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MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS

On 30 September 2014, United Crown, Wintax and the Company of one part and NEC and NEHK of the other part entered into Manufacturing Agreement, pursuant to which NEC appoints the Manufacturer as approved manufacturer for the production and manufacture of Products to the Purchasers (including NEC, affiliates of NEC and purchasers designated by NEC) for the five financial years ending 31 December 2019.

As NEHK is a substantial shareholder of the Company, the Transactions (the supply of Products by the Group under the Manufacturing Agreement) constitute continuing connected transactions of the Company under the Listing Rules.

As the proposed New Caps of Transactions will exceed the thresholds set out in Rule 14A.76(2) of the Listing Rules, the Transactions (including the New Caps) will be subject to the reporting, announcement and Independent Shareholders' approval (by way of poll) requirements pursuant to Chapter 14A of the Listing Rules.

* For identification purpose only

Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of Manufacturing Agreement and the transactions contemplated thereunder and Alliance Capital has been appointed to advise the Independent Board Committee in respect of the Manufacturing Agreement and transactions contemplated thereunder and the New Cap amounts.

A circular containing, among other things, further information about Manufacturing Agreement, and the New Caps, the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders and the recommendation from the Independent Board Committee together with the notice of the SGM will be dispatched to the Shareholders in accordance with the Listing Rules on or before 31 October 2014.

INTRODUCTION

Reference is made to the Company's announcement and circular dated 22 November 2011 and 12 December 2011 respectively in relation to continuing connected transactions under the Previous Manufacturing Agreement. On 29 December 2011, the Company obtained the approval of independent shareholders of the Company of the Previous Manufacturing Agreement and the annual caps for the continuing connected transactions for the three years ending 31 December 2014. The Previous Manufacturing Agreement will be expired on 31 December 2014.

MANUFACTURING AGREEMENT

On 30 September 2014, United Crown, Wintax and the Company of one part (where United Crown, Wintax and the Company are together referred to hereinafter as "**Manufacturer**") and NEC and NEHK of the other part entered into Manufacturing Agreement, pursuant to which NEC appoints the Manufacturer as approved manufacturer for the production and manufacture of Products to the Purchasers (including NEC, affiliates of NEC and purchasers designated by NEC, collectively referred to hereinafter as "**Purchasers**") with minimum purchase commitments for the five financial years ending 31 December 2019.

Supply of Products by the Manufacturer to the Purchasers

Under the Manufacturing Agreement, the Purchasers have agreed to purchase Products (comprising headwear products) which are supplied and manufactured by the Manufacturer for the term of five years from 1 January 2015 to 31 December 2019, with the related particulars (such as specifications, quantity, pricing and delivery schedule of the Products) set forth in the purchase orders as agreed in writing by the respective Purchaser and the Manufacturer from time to time. The Manufacturer will issue to the respective Purchaser an invoice on the Products upon the delivery of the Products. The Purchaser will make payment to the Manufacturer within 60 days from the date of issue of invoice. In accordance with the usual practice adopted by the Group, there is no requirement on initial deposit to be paid by the Purchasers given the reputation of the Purchasers and the other terms of the supply of the Products under the Manufacturing Agreement. The price of the Products can only be determined in the purchase orders as issued by the Purchasers and accepted by the Manufacturer later (not on the date of Manufacturing Agreement) as the price of the Products will depend on other variables (such as specification and quantity of the Products) to be determined at the stage of issuing of purchase orders. The price of the Products will be determined by the parties on normal commercial terms and by arm's length's negotiation.

The Purchasers agreed to purchase the Products from the Manufacturer during the following annual periods with consideration not less than the following respective minimum amounts (“**Minimum Annual Consideration**”):

Annual Period	Minimum Annual Consideration
1 January 2015 – 31 December 2015	US\$45,000,000 (equivalent to about HK\$350,100,000)
For the four years commencing on 1 January 2016 and ending 31 December 2019	Based on KSAP Rating Adjustment (as explained below)

NEC has established a knowledge, skills, abilities and performance rating (“**KSAP Rating**”) for its manufacturers and suppliers and NEC will evaluate and measure Manufacturer according to New Era’s KSAP Rating evaluation process. At the end of each Annual Period (“**Prior Annual Period**”), the Minimum Annual Consideration for the immediate subsequent Annual Period (“**Next Annual Period Minimum Annual Consideration**”) shall be calculated based upon the following formula:

Prior Annual Period’s Minimum Annual Consideration + KSAP Rating Adjustment (as defined below) for the Prior Annual Period.

Grading of KSAP Rating Adjustment	Adjustment Amount
Role Model	+US\$2,000,000
Proficient	+US\$1,000,000
Average	0
Needs Improvement	-US\$3,000,000

In case the actual aggregate purchases of Products by the Purchasers in the relevant Annual Period is less than 75% of the Minimum Annual Consideration for any of the Annual Periods, the Purchasers shall have a further 60 business days (“**Extended Period**”) to place additional purchase orders to meet the Minimum Annual Consideration for the preceding Annual Period. Should the Purchasers not place adequate purchase orders on the Products during the Extended Period, the Purchasers shall have obligation to make a cash payment to the Manufacturer or its designated party equal to 10% of such deficiency within 30 days after the Extended Period. In case the actual aggregate purchases of Products by the Purchasers in any of the Annual Periods is not less than 75% of the Minimum Annual Consideration for the relevant Annual Period, the Purchasers do not have obligation to make the above cash payment to the Manufacturer for that Annual Period.

Dedicated Manufacturing Facility in relation to Manufacture of Products

The Manufacturer acknowledged that they have established a building within their manufacturing site in Shenzhen which is dedicated solely to manufacturing Products for NEC (“**Dedicated Facility**”). During the term of the Manufacturing Agreement, the Manufacturer agrees to retain the Dedicated Facility for NEC in Shenzhen and the Dedicated Facility will remain used exclusively for the manufacture of Products under the Manufacturing Agreement. The Manufacturer will also manufacture Products in its other manufacturing facilities in Shenzhen and Gazipur, Bangladesh. Manufacturer has established space such as a floor or multiple floors within their manufacturing facility located in Gazipur which is dedicated solely to manufacturing of Products for NEC (the “**Dedicated Space**”). During the term of the Manufacturing Agreement, the Manufacturer will retain the Dedicated Space for NEC in Gazipur and the Dedicated Space will remain used exclusively for the manufacture of Products under the Manufacturing Agreement. The amount of space allocated for the Dedicated Space shall be based upon the Minimum Annual Consideration and then volume of Products to be manufactured in Gazipur as mutually agreed upon by the parties on an annual basis.

For the entire period of time that NEC or its affiliate is renting from the Company or an affiliate of the Company an office inside the Dedicated Facility in Shenzhen (the “**Lease**”), the Company or an affiliate of the Company shall compensate NEC or an affiliate of NEC monthly in an amount equal to the full monthly rental payment for the Lease, which is not expected to exceed RMB30,000.

Condition Precedent

The term of the Manufacturing Agreement will commence on 1 January 2015 (“**Initial Start Date**”) and shall terminate on 31 December 2017 (“**Initial End Date**”) and the period between the Initial Start Date and Initial End Date is the “Initial Term”. The Manufacturing Agreement may be extended for an additional term (“**Extended Term**”) from 1 January 2018 (“**Extended Start Date**”) through 31 December 2019 (“**Extended End Date**”).

Initial Term

The Initial Term of the Manufacturing Agreement is effective and conditional on the fulfilment of the following condition on or before the Initial Start Date:

“the passing of an ordinary resolution by the independent shareholders of the Company (who are permitted to vote under the Listing Rules) at a special general meeting of the Company approving, among other matters, the Manufacturing Agreement and the transactions contemplated herein (including the continuing connected transactions together with the annual caps in relation to supply of the Products under the Manufacturing Agreement) for the period of the Initial Term.”

If the above condition is not fulfilled on or before the Initial Start Date, the Manufacturing Agreement and everything herein contained shall be null and void and of no effect and every party to the Manufacturing Agreement shall be released from any liability and obligations contained thereof.

Extended Term

The Extended Term of the Manufacturing Agreement is effective and conditional on the fulfilment of the following condition on or before the Extended Start Date:

“the passing of an ordinary resolution by the independent shareholders of the Company (who are permitted to vote under the Listing Rules) at a special general meeting of the Company approving, among other matters, the Manufacturing Agreement and the transactions contemplated herein (including the continuing connected transactions together with the annual caps in relation to supply of the Products under the Manufacturing Agreement) for the period of the Extended Term.”

If the above condition is not fulfilled on or before the Extended Start Date, the Manufacturing Agreement and everything herein contained shall be terminated on the Initial End Date and every party to the Manufacturing Agreement shall be released from any liability and obligations contained thereof.

Board Representation

Pursuant to the terms of the Manufacturing Agreement, as long as NEC and/or its affiliate is holding at least 10% of the issued share capital of the Company, NEC is entitled to maintain representation and a seat as a Director on the board of Directors subject to compliance with Listing Rules and approval of nominating committee. If NEC's (including its affiliate) holding of the Shares is less than 10% of the issued share capital of the Company and a representative of NEC has been appointed as director of the Company, NEC shall procure such director to resign from directorship of the Company without compensation as soon as possible, failing which the Company is entitled to remove such director from directorship of the Company immediately.

Termination

The Purchasers shall have the right to terminate the Manufacturing Agreement immediately upon the occurrence of any one or more of the following events:

- (i) If any governmental agency or court of competent jurisdiction finds that the Products are harmful or defective in material respect and the damage to be suffered by the Purchasers from the aforesaid finding is more than US\$1,000,000 which is not directly caused by gross negligence of the Purchasers or designated fabric/component suppliers;
- (ii) If any governmental agency or court of competent jurisdiction finds that the Products are harmful or defective in any way, manner or form in contravention of application laws and regulations which is not directly caused by gross negligence of the Purchasers or designated fabric/component suppliers;
- (iii) If Manufacturer manufactures, diverts, sells, ships or transfers any counterfeit product or fails to report any stolen goods;
- (iv) If Manufacturer manufactures any Product without prior written approval of the Purchasers;

- (v) If the Company, United Crown, Wintax, Mr. Ngan, Madam Ngan or any third party or affiliate owned by, related to, or associated with the Company, United Crown, Wintax, Mr. Ngan or Madam Ngan, engages in any activity which results in any communication transmitted by any means to media, the general public, the Fair Labor Association, the Workers Right Consortium, the United Students Against Sweatshops, any organized labor association, any governmental agency, any legal body or any Purchasers' licensor or affiliate of said licensor, alleging any violation or wrongdoing either by the Purchasers as a result of the Purchasers association with the Company, United Crown, Wintax, Mr. Ngan, Madam Ngan;
- (vi) If the Company undergoes a change in majority or controlling ownership without first obtaining the consent of NEC;
- (vii) If the license agreement between NEC and Major League Baseball Properties, Inc. is terminated or if Major League Baseball Properties, Inc. no longer approves of the Company as a designated manufacturer of licensed products;
- (viii) If the license agreement between NEC and National Football League Properties, LLC is terminated or if National Football League Properties, LLC no longer approves of the Company as a designated manufacturer of licensed products; or
- (ix) If a petition under any bankruptcy or insolvency law is filed by or against a party to the Manufacturing Agreement, or if either party suspends business or commits any act amounting to a business failure.

Any party to the Manufacturing Agreement shall have the right to terminate the Manufacturing Agreement:

- (i) upon a material breach by the other party that is not completely cured within thirty (30) business days of the receipt of notice by the breaching party from the non-breaching party; or
- (ii) when the parties cannot agree on the pricing of the Products after negotiation in good faith during a period of 45 days.

ANNUAL CAPS

Historical amounts of Annual Caps in recent years

Set out below are the historical amounts of the Transactions for the two years ended 31 December 2013 and 8 months ended 31 August 2014:

	8 months ended 31 August 2014	Year ended 31 December 2013	Year ended 31 December 2012
Value of Transactions (HK\$)			
Historical amounts	198,283,000	305,140,000	267,246,000
Approved Caps	526,500,000	468,000,000	409,500,000

Proposed Annual Caps for the coming three years

The amounts of the proposed New Caps in respect of the Transactions, subject to the approval of the Independent Shareholders, for the three years ending 31 December 2017 are set out as below:

	Year ending 31 December 2015	Year ending 31 December 2016	Year ending 31 December 2017
(Amount in HK\$)			
Proposed New Caps	538,615,000	562,553,000	586,492,000

The above New Caps are proposed based on: (i) Minimum Annual Consideration as agreed by the parties and set out in the Manufacturing Agreement and (ii) the recent trend of growth of the Transactions.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MANUFACTURING AGREEMENT

The principal activity of the Company is investment holding while its subsidiaries are principally engaged in manufacture and sales of headwear products, and sales of licensed products.

New Era is an international lifestyle brand with an authentic sports heritage that dates back over 90 years. Best known for being the official on-field cap for Major League Baseball, New Era is the brand of choice not only for its headwear collection, but also for its accessories and apparel for men, women and youth. NEC has a myriad of licensed entities from various sport, entertainment and fashion properties. The fourth generation family-owned business is headquartered in Buffalo, N.Y. and operates facilities in Canada, Europe, Brazil, Japan and Hong Kong.

NEC is a leading manufacturer and marketer of sports and fashion headwear and apparel in the United States. It is one of the most well-established and important customers of the Group. The supply of Products to NEC Group has generated significant profitable business to the Group in recent years. The Previous Manufacturing Agreement will be expired by 31 December 2014. By renewing the Manufacturing Agreement, the Company is able to continue to derive benefit from supply of products to NEC. The transactions contemplated under the Manufacturing Agreement can also promote the synergies and benefits for both the Company and NEC.

The terms of the Manufacturing Agreement were negotiated between the parties at arm's length. In view of the benefits derived from the transaction, the Directors (excluding the independent non-executive Directors) are of the view that the Manufacturing Agreement is on normal commercial terms, is fair and reasonable and in the interest of the Company and its Shareholders as a whole. The independent non-executive Directors would not be able to form the view whether the said terms are fair and reasonable and in the interest of the Company and the Shareholders as a whole until they have discussed with Alliance Capital and have reviewed its letter of advice. As Mr. James S. Patterson is an executive Director appointed by NEC and has material interest in the Manufacturing Agreement, he has abstained from voting on the board resolution approving the Manufacturing Agreement.

IMPLICATION UNDER THE LISTING RULES

As NEHK owns 79,601,000 Shares (representing about 19.97% of the issued share capital of the Company) as at the date of this announcement, it is a connected person of the Company under the Listing Rules. As the Transactions (the supply of Products by the Group under the Manufacturing Agreement) involves provision of goods on a continuing or recurring business and in the ordinary and usual course of business of the Group, the Transactions constitute continuing connected transactions of the Company under the Listing Rules. NEHK, its ultimate beneficial owners and their respective associates are required to abstain from voting in a general meeting in respect of resolution proposed for approval of the above continuing connected transactions.

As the proposed New Caps of Transactions will exceed the thresholds set out in Rule 14A.76(2) of the Listing Rules, the Transactions (including the New Caps) will be subject to the reporting, announcement and Independent Shareholders' approval (by way of poll) requirements pursuant to Chapter 14A of the Listing Rules.

GENERAL

The Company will seek in the SGM the approval by the Independent Shareholders by way of poll of the Manufacturing Agreement and transactions contemplated thereunder (including proposed New Caps). NEHK, its ultimate beneficial owners and their respective associates are required to abstain from voting in the SGM in respect of resolution proposed for approval of the above continuing connected transactions.

Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of Manufacturing Agreement and the transactions contemplated thereunder and Alliance Capital has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the Manufacturing Agreement and transactions contemplated thereunder and the New Cap amounts.

A circular containing, among other things, further information about Manufacturing Agreement, and the New Caps, the letter from Alliance Capital to the independent board committee and the Independent Shareholders and the recommendation from the Independent Board Committee will be dispatched to the Shareholders in accordance with the Listing Rules on or before 31 October 2014.

DEFINITIONS

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

“Alliance Capital”	Alliance Capital Partners Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Manufacturing Agreement
“Annual Period(s)”	the annual periods during the term of the Manufacturing Agreement (five years ending 31 December 2019)
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Mainland Headwear Holdings Limited (飛達帽業控股有限公司), a company incorporated under the laws of Bermuda, 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
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China

“Independent Board Committee”	an independent board committee of the Board, comprising Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, <i>JP</i> and Mr. Gordaon Ng, all being independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Manufacturing Agreement
“Independent Shareholders”	Shareholders other than NEHK, its ultimate beneficial owners and their respective associates
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the People’s Republic of China
“Madam Ngan”	Ngan Po Ling, Pauline, Director and spouse of Mr. Ngan
“Manufacturer”	the Company, United Crown and Wintax
“Manufacturing Agreement”	the agreement dated 30 September 2014 between United Crown, Wintax and the Company of one part and NEC and NEHK of the other part in relation to the supply of Products
“Minimum Annual Consideration”	the minimum commitment of the Purchasers in respect of the consideration of purchase of Products for the five Annual Periods ending on 31 December 2019
“Mr. Ngan”	Ngan Hei Keung, Chairman and Executive Director of the Company
“NEC”	New Era Cap Co., Inc., a New York State corporation

“NEC Group”	NEC and its subsidiaries (including without limitation NE)
“NEHK”	New Era Cap Hong Kong, LLC, a New York State corporation and an affiliate of NEC
“New Caps”	the annual caps of the Transactions to be entered into by the parties for the three financial years ending 31 December 2017
“Previous Manufacturing Agreement”	the agreement dated 22 November 2011 between Fully Point Investments Limited and the Company of one part and NEC and NEHK of the other part in relation to the supply of the Products
“Products”	any headwear and/or apparel products as set out in the purchase orders to be supplied by the Manufacturer to the Purchasers which may use, display or incorporate intellectual property (such as graphic design, trademark etc) of NEC
“Purchasers”	NEC, affiliates of NEC and purchasers designated by NEC
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the supply of the Products by the Manufacturer to the Purchasers under the Manufacturing Agreement or the Previous Manufacturing Agreement (as the case may be)
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules

“United Crown”	United Crown International Macao Commercial Offshore Limited, a company incorporated in Macau and a wholly owned subsidiary of the Company
“US”	the United States of America
“Wintax”	Wintax Trading Limited, a company incorporated in Macau and a wholly owned subsidiary of the Company
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Unless otherwise stated, the conversion of US dollars into Hong Kong dollars are based on the exchange rate of US\$1 = HK\$7.78 for illustration purpose only

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 30 September 2014

As at the date of this announcement, the Board comprises eight 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; one Non-executive Director, Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.