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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Mainland Headwear Holdings Limited, you should at once hand this circular, together with the enclosed form of proxy, to the purchaser(s) or the transferee(s) or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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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; AND NOTICE OF SPECIAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee  
and the Independent Shareholders of the Company**



**Alliance Capital Partners Limited**

同人融資有限公司

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The notice convening the Special General Meeting (“SGM”) of Mainland Headwear Holdings Limited (the “Company”) to be held at Mainland Headwear Holdings Limited, Rooms 1001-1005, 10th Floor, Tower II, Enterprise Square I, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong on Wednesday, 10 December 2014 at 10:00 a.m. is set out on pages 49 to 50 of this circular.

A form of proxy for the SGM is enclosed with this circular. Whether you are able to attend or not, please complete the form of proxy and return the same to the office of the Company’s Hong Kong branch share registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

17 November 2014

\* For identification purpose only

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## DEFINITIONS

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

|                               |  |
|-------------------------------|--|
| “Alliance Capital”            | Alliance Capital Partners Limited, a licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO, 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 period(s) during 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 and 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 from time to time   |
| “Group”                       | the Company and its subsidiaries   |
| “HK\$”                        | Hong Kong dollars, the lawful currency of Hong Kong  |
| “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, JP and Mr. Gordon Ng, all being independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Manufacturing Agreement  |

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## DEFINITIONS

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|                                |   |
|--------------------------------|---|
| “Independent Shareholders”     | Shareholders other than NEHK, its ultimate beneficial owners and their respective associates  |
| “Latest Practicable Date”      | 12 November 2014, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein                        |
| “Listing Rules”                | the 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, an executive Director and the 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, the Chairman and an executive Director of the Company   |
| “NEC”                          | New Era Cap Co., Inc., a New York State corporation   |
| “NEC Group”                    | NEC and its associates (including without limitation NEHK)  |
| “NEHK”                         | New Era Cap Hong Kong, LLC, a New York State corporation and an affiliate of NEC  |

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## DEFINITIONS

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|                                    |  |
|------------------------------------|--|
| “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  |
| “SFO”                              | Securities and Futures Ordinance (chapter 571 of the laws of Hong Kong)  |
| “Shareholder(s)”                   | holder(s) of the Share(s)  |
| “Share(s)”                         | ordinary share(s) of HK\$0.10 each in the share capital of the Company   |
| “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   |

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## DEFINITIONS

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|          |  |
|----------|--|
| “US”     | the United States of America   |
| “US\$”   | United States dollars, the lawful currency of the United States of America                           |
| “Wintax” | Wintax Trading Limited, a company incorporated in Macau and a wholly owned subsidiary of the Company |
| “%”      | per cent   |

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

\* *for identification only*

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## LETTER FROM THE BOARD

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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)**

*Executive Directors:*

Ngan Hei Keung (*Chairman*)

Ngan Po Ling, Pauline

*(Deputy Chairman and Managing Director)*

James S. Patterson

Maggie Gu (*Chief Operating Officer*)

*Non-executive Director:*

Andrew Ngan

*Independent Non-executive Directors:*

Leung Shu Yin, William

Liu Tieh Ching, Brandon, *JP*

Gordon Ng

*Registered Office:*

Clarendon House

2 Church Street

Hamilton HM11

Bermuda

*Head office and principal place  
of business in Hong Kong:*

Rooms 1001-1005

10th Floor, Tower II

Enterprise Square I

9 Sheung Yuet Road

Kowloon Bay

Kowloon, Hong Kong

17 November 2014

*To the Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS; AND NOTICE OF SPECIAL GENERAL MEETING**

#### **INTRODUCTION**

Reference is made to the announcement of the Company dated 30 September 2014, United Crown, Wintax and the Company of one part and NEC and NEHK of the other part entered into the 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 three financial years ending 31 December 2017, which could be extendable for another two years subject to the Independent Shareholders' approval in a general meeting of the Company by the end of 2017.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with information regarding, among other things, (i) further information about Manufacturing Agreement and the New Caps; (ii) the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders; (iii) the recommendation from the Independent Board Committee; and (iv) the notice of the SGM.

### 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 three financial years ending 31 December 2017, which could be extendable for another two years subject to the Independent Shareholders’ approval in a general meeting by the end of 2017.

### 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 three financial years from 1 January 2015 to 31 December 2017, which could be extendable for another two years subject to the Independent Shareholders’ approval in a general meeting by the end of 2017, 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, quantity of the Products, and the prevailing market price of similar products and each step in the manufacture of the similar 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 more complicated the specification is, the higher the production cost and price of the Products are. While the price of the Products may be reduced with the increase of the quantity of the Products, the price of the Products will also be determined between the Purchasers and the Manufacturer with reference to the prevailing market price of similar products, being comparable prices offered by independent third party for similar products having taken into account the technology and quality of the products. The management of the Manufacturer would regularly conduct market research and gather relevant information to ascertain the prevailing market



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## LETTER FROM THE BOARD

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price of similar products, and would review the comparable prices for the similar products in each case to ensure there are sufficient comparable prices to which it could refer to. In the event that there are no sufficient comparable prices for similar products or there are no similar products in the market, the Manufacturer has to substantially rely on other factors (such as cost for supply and manufacture of the Products and mark-up rate) for the determination of the prices of the Products.

The Manufacturer adopts a cost-plus pricing system to determine the Products' price. When the Manufacturer receives particulars of a purchase order, it will estimate (i) the costs for the supply and manufacture of the ordered Products and (ii) the mark-up rate after taking into account of specifications, cost of materials, quantity and delivery schedule for the ordered Products, market supply and demand, the prevailing market price of similar products, and the gross profit margin of the Manufacturer's similar products. With the estimated costs and mark-up rate of the ordered Products, the Manufacturer will arrive at a preliminary price for such Products. The Sales & Marketing Director in the Sales & Marketing Department of the Manufacturer will review and finalize the price for the ordered Products in every new order and will review the prices of the Products for repeated orders at least once every year to ensure that the Products' price is consistent with the prevailing market price of similar products and is no less favourable to the price of similar products offered to the independent customers. In addition, a committee ("**Committee**") consisting of the executive Directors and chief financial officer of the Company will be set up to conduct a monthly review on the gross profit margin by customer to ensure that the price offered to the Purchasers is in line with the price offered to the independent customers and to provide guidance to the pricing of the Products in future. The Finance Department of the Manufacturer will check the ageing report of account receivables every month to review customers' settlement status. If the Purchasers fail to pay in accordance with the payment term, the Finance Department will report to the Committee for closely monitoring of the payment and consideration of further appropriate action.

After taking into account of the above price setting and reviewing process, the Directors are of the view that the Manufacturer has an adequate internal control system to safeguard the price of the Products will be determined by the parties on normal commercial terms and by arm's length's negotiation, and no less favourable than those offered to independent customers.

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**"):

| <b>Annual Period</b>  | <b>Minimum Annual Consideration</b>                  |
|---|--|
| 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) |

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## LETTER FROM THE BOARD

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NEC has established a knowledge, skills, abilities and performance rating (“**KSAP Rating**”) for its manufacturers and suppliers and NEC has evaluated and measured Manufacturer according to New Era’s KSAP Rating evaluation process since 2013. The grading of KSAP Rating of the Group during the year ended 31 December 2013 and the six months ended 30 June 2014 is “average”. 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.

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

In other words, the Purchasers guarantee purchases of approximately HK\$350,100,000 for the period from 1 January 2015 to 31 December 2015. For the year ending 31 December 2016, the Minimum Annual Consideration may range from HK\$326,760,000 to HK\$365,660,000 assuming the Group will obtain “Needs Improvement” KSAP Rating for the year ending 31 December 2015 and “Role Model” KSAP Rating for the year ending 31 December 2015, respectively. For the year ending 31 December 2017, the Minimum Annual Consideration may range from HK\$303,420,000 to HK\$381,220,000 assuming the Group will obtain “Needs Improvement” KSAP Rating for the two years ending 31 December 2016 and “Role Model” KSAP Rating for the two years ending 31 December 2016, respectively.

In the calculation of the annual consideration for the purchases of Products by the Purchasers (the “**Annual Consideration**”) in the relevant Annual Period for the purpose of comparison with the Minimum Annual Consideration during the same period, it shall include any amounts for purchase orders that are declined by the Manufacturer for capacity or lead-time issues, when the Purchasers submitted the purchase orders within established lead times and Manufacturer restraints,

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## LETTER FROM THE BOARD

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but Purchasers were forced to either reschedule or cancel the purchase order completely due to the Manufacturer being unable to deliver according to the terms and conditions of the original purchase order. The Annual Consideration is not the consideration actually received by the Manufacturer for the manufacture of the Products in the relevant Annual Period. It is the consideration for the Products requested by the Purchasers in the relevant Annual Period in respect of (i) the purchase orders accepted by the Manufacturer; and (ii) the purchase orders rescheduled or cancelled by the Purchasers due to the reason that the Manufacturer has no production capacity for manufacturing the Products in such orders or the Manufacturer could not manufacture the Products within the lead time as agreed by the Purchasers and the Manufacturer.

The Annual Consideration for each of the two years ended 31 December 2013 is higher than the minimum commitment of the Purchasers under the Previous Manufacturing Agreement in respect of the consideration of purchase of the Products during the same year. In case the Annual Consideration in any of the Annual Periods 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 Annual Consideration 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.

The Directors are of the view that the aforesaid ratio of 75% is fair and reasonable after consideration of the following factors: (i) the Minimum Annual Consideration and the compensation mechanism thereof are to the benefit of the Manufacturer only; (ii) save for Paramount Apparel International, Inc. (a customer which agreed to purchase the products from the Group with minimum purchase commitment in consideration for a loan of US\$2,000,000 from a wholly-owned subsidiary of the Company) and the Purchasers, there are no other customers of the Manufacturer that have made any minimum commitment in respect of the consideration of purchase of any products manufactured by the Manufacturer; and (iii) the said ratio (75%) has remained the same in the past six years.

### **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

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## LETTER FROM THE BOARD

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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.

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## LETTER FROM THE BOARD

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### *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 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;

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## LETTER FROM THE BOARD

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- (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:

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## LETTER FROM THE BOARD

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- (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:

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

The historical utilization ratios of the Approved Caps for the year ended 31 December 2012, the year ended 31 December 2013 and 8 months ended 31 August 2014 are approximately 65.26%, 65.20% and 37.66%, respectively. The reason leading to the utilization ratios of the Approved Caps in 2012 and 2013 is the lack of production capacity for manufacturing the Products, while the reason leading to the utilization ratio of the Approved Caps for 8 months ended 31 August 2014 is the shortage of labour for the Manufacturer's factories in the PRC.

#### 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:

|                         | <b>Year ending<br/>31 December<br/>2015</b> | <b>Year ending<br/>31 December<br/>2016</b> | <b>Year ending<br/>31 December<br/>2017</b> |
|-------------------------|---|---|---|
| <b>(Amount in HK\$)</b> |   |   |   |
| Proposed New Caps       | 538,615,000                                 | 562,553,000                                 | 586,492,000                                 |

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## LETTER FROM THE BOARD

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The above New Caps are proposed based on: (i) the buffer for actual annual consideration under the purchase orders from the Purchasers in excess of Minimum Annual Consideration as agreed by the parties and set out in the Manufacturing Agreement; (ii) the recent trend of growth of the Transactions; and (iii) the possible improvement in production capacity and efficiency.

Comparing to the year ended 31 December 2012, the sales amount for the year ended 31 December 2013 with the Purchaser was significantly increased by approximately 14.2%. As mentioned in the annual report of the Group for the year ended 31 December 2013, business growth was impeded by the rising labour and material costs of the Group's production plants in the PRC as well as by the inadequate production capacity to meet customers' orders. To overcome this predicament, the management has stepped up the development of the Bangladesh factory. Save for the existing Bangladesh factory, the Company has not acquired any other headwear factory or knitwear mill in Bangladesh. As the labour costs in the PRC continued to rise and the added production capacity of the Bangladesh factory could not fully address the production needs of the Group, the Group's manufacturing business has been constrained during the six months ended 30 June 2014. According to the interim report of the Group for the six months ended 30 June 2014, facing challenges such as rising labour costs in the PRC and its insufficient overall capacity, the Group has actively expanded the scale of its factory in Bangladesh, and the Group intends to allocate more orders to the Bangladesh factory for production. The management of the Group expected that the factory in Bangladesh may enable the Group to alleviate the capacity problem. The management of the Group also expected to improve the capacity of the Bangladesh factory through improvement in efficiency given that it is in the initial stage of development after the acquisition by the Group in 2013. To cope with the rising labour costs in the PRC and avoid the risk of losing orders from customers due to insufficient capacity, the Company is identifying suitable acquisition targets in Bangladesh (the "**Potential Acquisitions**") with the view of expanding the production capacity of the Group. As at the Latest Practicable Date, no formal or legally binding agreement has been entered into by the Company regarding the Potential Acquisitions. It is expected that the production capacity of the existing Bangladesh factory will increase to 1.5 million pieces of headwear each month by the end of 2014, and to 1.8 million pieces of headwear each month by the end of the first quarter of 2015. It is further expected that the production capacity of the Bangladesh factory will increase to approximately 9.4 million pieces of headwear for the year ending 31 December 2014 and grow by approximately 355% when compared to that for the year ended 31 December 2013 and will increase to approximately 19.8 million pieces of headwear for the year ending 31 December 2015 and grow by approximately 111% when compared to the estimated production capacity for the year ending 31 December 2014. Accordingly, the Company's management estimated that the budget for the capital expenditure in 2015 would be approximately HK\$25 million. The improvement in production capacity will provide more room for the Group to increase its sales to customers, including the Purchasers. It is expected that the utilization ratio of the proposed New Caps for each of the three years ending 31 December 2017 will be approximately 65%. Having considered the historical growth rate of sales amount with the Purchasers, the potential improvement in production capacity and the intension of the management to strengthen the strategic alliance relationship with New Era, the Directors considered that it is reasonable to include buffer to the proposed New Caps to capture any sales amount in excess of the Minimum Annual Consideration.



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## LETTER FROM THE BOARD

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Meanwhile, both the Sales & Marketing Department and the Finance Department of the Company will monitor the utilization ratio of the proposed New Caps on a monthly basis to ensure the proposed New Caps will not be exceeded and provide such information to the Committee. The Committee will report to the Board once the utilization ratio reaches 65%. The Committee will then closely monitor the sales amount to ensure the proposed New Caps will not be breached. In the event that the proposed New Caps may be exceeded, the Company will seek approval from the Independent Shareholders for the revision of the proposed New Caps.

After consideration of the above, the Directors are of the view that the proposed New Caps and expected utilization ratios of the proposed New Caps are fair and reasonable, and are in the interests of the Company and the Shareholders as a whole.

### **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 (including 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.

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## LETTER FROM THE BOARD

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### IMPLICATIONS 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 Latest Practicable Date, 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, such Transactions 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 under the Manufacturing Agreement (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. 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 Mr. James S. Patterson is an executive Director appointed by NEC and has a material interest in the Manufacturing Agreement, he has abstained from voting on the board resolution approving the Manufacturing Agreement and the proposed New Caps. Save for disclosed, none of the Directors have a material interest in the transactions contemplated under the Manufacturing Agreement or need to abstain from voting on the board resolution approving the Manufacturing Agreement and the proposed New Caps.

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

### SGM

Set out on pages 49 to 50 of this circular is a notice convening the SGM which will be held at Mainland Headwear Holdings Limited, Rooms 1001-1005, 10th Floor, Tower II, Enterprise Square I, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong on Wednesday, 10 December 2014 at 10:00 a.m. at which a resolution will be proposed to approve the Manufacturing Agreement and the proposed New Caps.

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## LETTER FROM THE BOARD

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The Manufacturing Agreement and the proposed New Caps are subject to, among other things, the approval by the Independent Shareholders at the SGM to be taken by way of a poll. NEHK and its associates shall abstain from voting for the resolution approving the Manufacturing Agreement and the proposed New Caps at the SGM due to their interest in the concerned transactions. Other than the above, no other Shareholders have a material interest in the above transactions and will abstain from voting in respect of the resolution to approve the Manufacturing Agreement and the proposed New Caps at the SGM. As at the Latest Practicable Date, NEHK (including its associates) is the holder of 79,601,000 Shares (representing about 19.97% of the issued share capital of the Company). There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon NEHK (including its associates); and (ii) no obligation or entitlement of NEHK (including its associates) as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the SGM is enclosed. Whether or not you wish to attend the SGM, you are requested to complete the form of proxy and return the same to the office of the Company's Hong Kong branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

### RECOMMENDATIONS

The Independent Board Committee has been established to advise the Independent Shareholders whether the terms of the Manufacturing Agreement and the proposed New Caps are fair and reasonable so far as they are concerned.

Alliance Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from Alliance Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 21 to 41 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 19 to 20 of this circular.

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## LETTER FROM THE BOARD

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The Independent Board Committee, having taken into account the advice of Alliance Capital, is of the opinion that the Manufacturing Agreement to be entered into is upon normal commercial terms, and the entering into of the Manufacturing Agreement is in the ordinary and usual course of business of the Group, and the Manufacturing Agreement together with the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as whole and recommends the Independent Shareholders to vote in favour of the resolution to be proposed at SGM approving the Manufacturing Agreement and the proposed New Caps.

The Board of the view that the Manufacturing Agreement and the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM approving the Manufacturing Agreement and the proposed New Caps.

### ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendix to this circular.

Yours faithfully,  
By Order of the Board  
**Mainland Headwear Holdings Limited**  
**Ngan Hei Keung**  
*Chairman*

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# LETTER OF ADVICE FROM THE INDEPENDENT BOARD COMMITTEE

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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)**

17 November 2014

*To the Independent Shareholders*

Dear Sir or Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS**

We refer to the circular dated 17 November 2014 issued by the Company (the “**Circular**”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Manufacturing Agreement and the proposed New Caps and to advise the Independent Shareholders as to the fairness and reasonableness of the aforesaid matters, and to recommend how the Independent Shareholders should vote at the SGM. Alliance Capital has been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We wish to draw your attention to the letter from the Board, as set out on pages 5 to 18 of the Circular, and the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Manufacturing Agreement and the proposed New Caps, as set out on pages 21 to 41 of the Circular.

\* *For identification purpose only*

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## LETTER OF ADVICE FROM THE INDEPENDENT BOARD COMMITTEE

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Having taken into account of the advice of Alliance Capital, we consider that the Manufacturing Agreement to be entered into is upon normal commercial terms, the entering into of the Manufacturing Agreement is in the ordinary and usual course of business of the Group, and the Manufacturing Agreement together with the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Manufacturing Agreement and the proposed New Caps.

Yours faithfully,  
the Independent Board Committee

**Leung Shu Yin, William**  
*Independent non-executive  
Director*

**Liu Tieh Ching, Brandon, JP**  
*Independent non-executive  
Director*

**Gordon Ng**  
*Independent non-executive  
Director*

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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*Set out below is a full text of the letter of advice from the Independent Financial Adviser, Alliance Capital Partners Limited to the Independent Board Committee and the Independent Shareholders in relation to the Manufacturing Agreement (including the New Caps), which has been prepared for the purpose of incorporation into this circular.*



**Alliance Capital Partners Limited**  
同人融資有限公司

17 November 2014

*To: The Independent Board Committee and the Independent Shareholders*

Dear Sir/Madam,

### **RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS**

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Manufacturing Agreement and the proposed New Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) as contained in the circular of the Company dated 17 November 2014 (the “**Circular**”), of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

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 three financial years ending 31 December 2017, which could be extendable for another two years subject to the Independent Shareholders’ approval in a general meeting by the end of 2017, as a renewal for the Previous Manufacturing Agreement dated 31 December 2011, which will expire on 31 December 2014.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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As NEHK owns 79,601,000 Shares (representing about 19.97% of the issued share capital of the Company) as at the Latest Practicable Date, 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, such Transactions 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 under the Manufacturing Agreement (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. 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.

### THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises eight directors, including four executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, Mr. James S. Patterson and Ms. Maggie Gu; one Non-executive Directors, namely Mr. Andrew Ngan; and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.

The Independent Board Committee, comprising all the Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng, has been established to advise the Independent Shareholders as to whether the Manufacturing Agreement are on normal commercial terms, and in ordinary and usual course of business of Group, and the Terms of Manufacturing Agreement together with the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in such regard. Alliance Capital has not acted as independent financial adviser to the Company's other transactions in the last two years. Apart from the appointment as independent financial adviser in relation to the Manufacturing Agreement and the New Caps, Alliance Capital is independent of the Group pursuant to Rule 13.84 of the Listing Rules.



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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### **BASIS OF OUR OPINION**

In formulating our opinion, we have relied solely on the statements, information, opinions and representations for matters relating to the Group contained in the Circular and the information and representations provided to us by the Group and/or its management staff and/or the Directors. We have assumed that all such statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular or otherwise provided or made or given by the Group and/or its management staff and/or the Directors and for which it is/they are solely responsible were true and accurate and valid at the time they were made and given and continue to be true and valid as at the date of the Circular. We have assumed that all the opinions and representations for matters relating to the Group made or provided by the Directors and/or the management staff of the Group contained in the Circular have been reasonably made after due and careful enquiry. We have been advised by the Group and/its management staff and/or the Directors that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group and/or its management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Group and NEC Group.

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# LETTER OF ADVICE FROM ALLIANCE CAPITAL

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## PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors and reasons:

### 1. Background information and reasons of the strategic partnership with NEC Group

#### 1.1 Information of the Group

The Group is principally engaged in manufacture and sales of headwear products, and sales of licensed products. With its major manufacturing plants in Shenzhen, the PRC and Bangladesh, the Group manufactures a wide range of licensed casual headwear products, including baseball caps, bucket hats, winter caps, Gatsby hats, headbands and sun visors. Currently, the Group produces over 30 million hats a year in more than 5,000 designs, established the Group's leading position in the licensed casual headwear market.

According to the Company's 2013 annual report, most of the Group's products are sold to the US, the PRC and Europe markets, which represented 60.8%, 12.8% and 15.3% of the Group's total turnover for the year ended 31 December 2013, respectively.

The following is the breakdown in turnover of the Group by the three business segments for each of the three financial years ended 31 December 2013 and the six months ended 30 June 2014, which is extracted from the Company's respective annual and interim reports:

|                | For the year ended 31 December |                |                | For the six months ended |
|----------------|--------------------------------|----------------|----------------|--------------------------|
|                | 2011                           | 2012           | 2013           | 30 June                  |
|                | HK\$'000                       | HK\$'000       | HK\$'000       | 2014                     |
|                | (Audited)                      | (Audited)      | (Audited)      | HK\$'000                 |
|                |                                |                |                | (Unaudited)              |
| Manufacturing  | 567,712                        | 545,197        | 602,144        | 289,041                  |
| Trading        | 62,707                         | 94,982         | 190,731        | 104,732                  |
| Retail         | 120,598                        | 126,973        | 129,750        | 56,767                   |
| Total turnover | <u>751,017</u>                 | <u>767,152</u> | <u>922,625</u> | <u>450,540</u>           |

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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As indicated in the above table, the manufacturing business has been the core business of the Group, which accounted for approximately 75.6%, 71.1%, 65.3% and 64.2% of the Group's turnover for each of the year ended 31 December 2011, 2012 and 2013 and the six months ended 30 June 2014, respectively. The growth rate of the turnover from manufacturing business for each of the year ended 31 December 2011, 2012 and 2013 was approximately 6.6%, -4.0% and 10.4%.

### ***1.2 Information of NEC***

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. As mentioned in NEC's website, starting in 2012, NEC has become the official on-field cap provider for the National Football League.

NEC is a leading manufacturer and marketer of sports and fashion headwear and apparel in the United State. 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.

### ***1.3 Reasons of the Manufacturing Agreement and strategic alliance with NEC***

As stated in the "Letter from the Board", by renewing the Manufacturing Agreement, the Company is able to continue to derive benefit from supply of products to NEC. As advised by the Management, NEC has been one of the major customers of the Group. According to the Company's 2013 annual reports, revenue of HK\$267,246,000 and HK\$305,140,000 was derived from NEC for the year ended 31 December 2012 and 31 December 2013, respectively, and it accounted for approximately 34.8% and 33.1% of the Group's revenue for the year ended 31 December 2012 and 31 December 2013, respectively.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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The Manufacturer established a building with their manufacturing site 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 be 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. The 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**”).

NEC as a strategic partner and in consideration of the provision of the Dedicated Facility and the Dedicated Space by the Group, NEC agrees to commit a minimum purchase amount. In this connection, the entering into the Manufacturing Agreement with NEC enables the Group to maintain the long term business relationship with NEC, the Group’s largest customer. Furthermore, the Group will be able to secure a substantial amount of purchase orders and maintain recurring and promising income for the manufacturing business from the Group’s largest customer for the three financial years ending 31 December 2017.

After considering the factors above, we are of the view that the entering into the Manufacturing Agreement with NEC is the interest of the Company and Shareholders as a whole.

## 2. Terms of and reasons for the Transactions

### 2.1 Terms of the Transactions

Under the Manufacturing Agreement, the Purchasers have agreed to purchase Products (comprising headwear products) which are supplied and manufactured by the Manufacturer for the three financial years from 1 January 2015 to 31 December 2017, which could be extendable for another two years subject to the Independent Shareholders’ approval in a general meeting by the end of 2017, 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 Purchasers and the Manufacturer from time to time.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### Payment term

The Manufacturer will issue to the respective Purchasers an invoice on the Products upon the delivery of the Products. The Purchasers 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 other terms of the supply of the Products under the Manufacturing Agreement. We have discussed with the management and understand that the credit period of 60 days provided to NEC is generally in line with the credit period of the other independent customers of the Group's manufacturing business.

We have enquired with the management and noted that the finance department will check the aging report of account receivables every month to review customers' settlement status. If the Purchasers fail to pay in accordance with the payment term, the finance department will report to a committee ("**Committee**") consisting of the executive Directors and chief financial officer of the Company for closely monitoring of the payment and consideration further appropriate action.

Furthermore, we noted that the Group has entered a loan agreement ("**Loan Agreement**") dated 28 September 2012 with Paramount Apparel International, Inc, who is an independent customer ("**Paramount**"), details of which were set out in the announcement of the Company dated 28 September 2012. According to the Loan Agreement, Paramount has committed certain amount of purchase of headwear products from the Group. The credit period provided to Paramount was 60 days from the date of invoice issued by the Group.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### Compensation

In case the Annual Consideration for the purchases of Products by the Purchasers (the “**Annual Consideration**”) is less than 75% of the Minimum Annual Consideration for any of the Annual Period, the Purchasers shall have a further of 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 Annual Consideration 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.

In the calculation of the Annual Consideration in the relevant Annual Period for the purpose of determination of the percentage of fulfillment of the Minimum Annual Consideration during the same period, it shall include any amounts for purchase orders that are declined by the Manufacturer for capacity or lead-time issues, when the Purchasers submitted the purchase orders within established lead times and Manufacturer restraints, but Purchasers were forced to either reschedule or cancel the purchase order completely due to the Manufacturer being unable to deliver according to the terms and conditions of the original purchase order. The Annual Consideration is not the consideration actually received by the Manufacturer for the manufacture of the Products in the relevant Annual Period. It is the consideration for the Products requested by the Purchasers in the relevant Annual Period in respect of (i) the purchase orders accepted by the Manufacturer; and (ii) the purchase orders rescheduled or cancelled by the Purchasers due to the reason that the Manufacturer has no production capacity for manufacturing the Products in such orders or the Manufacturer could not manufacture the Products within the lead time as agreed by the Purchasers and the Manufacturer.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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In other words, the Purchasers provide an effective guarantee to the Group by providing cash payment to the Manufacturer or its designated party equal to 10% of such deficiency in case the Annual Consideration in the relevant Annual Period is less or equal to 75% of the Minimum Annual Consideration for the relevant Annual Period.

We have discussed with the management of the Group and have also reviewed the recent announcements and annual reports of listed companies in Hong Kong whose principal business is garment manufacturing. We noted that it is not common for customers to commit minimum amount. As mentioned in the section headed “Reasons of the Manufacturing Agreement and strategic alliance with NEC”, NEC as a strategic partner and in consideration of the provision of the Dedicated Facility and the Dedicated Space by the Group, NEC agrees to commit a minimum purchase amount. Since NEC will compensate the Group if the Annual Consideration in the relevant Annual Period is less or equal to 75% of the Minimum Annual Consideration, the effective minimum annual commitment (“**Effective Minimum Annual Commitment**”) is 75% of the Minimum Annual Consideration.

We noted that (i) save for Paramount (a customer which agreed to purchase the products from the Group with minimum purchase commitment in consideration for a loan of US\$2 million from a wholly-owned subsidiary of the Company) and the Purchasers, there are no other customers of the Manufacturer that have made any minimum commitment in respect of the consideration of purchase of any products manufactured by the Manufacturer; (ii) it is not common for customers to commit certain amount of purchase but NEC is willing to commit the Minimum Annual Consideration and agrees to compensate the Group should it fail to meet the Effective Minimum Annual Commitment; (iii) the Minimum Annual Consideration and the compensation mechanism thereof are to the benefit of the Manufacturer only; and (iv) the Effective Minimum Annual Commitment has been set at 75% of the Minimum Annual Consideration for the past six years. Having considered the above, we are of the view that setting the ratio of 75% of the Minimum Annual Consideration for NEC to compensate the Manufacturer is fair and reasonable.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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We have discussed with the management and understand that the compensation rate of 10% is negotiated on arm's length basis with reference to the net profit margin of the manufacturing business of the Group. We noted that the segmental profit margin from manufacturing segment of the Group amounted to approximately 8.4%, 4.5% and 7.1% for the year ended 31 December 2012 and 31 December 2013 and for the six months ended 30 June 2014, respectively. As a reference, we have also conducted research on the profit margins of companies in similar industry. We have reviewed the segmental profit margins of companies listed in Hong Kong whose principal business is garment manufacturing, and noted that the profit margins are generally lower than 10%. Furthermore, we noted that according to the Loan Agreement, Paramount, an independent customer, shall have obligation to make a cash payment to the Group equal to 10% of the deficiency in the minimum purchase commitment within 30 days which is at the same compensation rate (10%) as set out in the Manufacturing Agreement.

### Pricing basis

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 specifications, quantity of the Products, and the prevailing market price of similar Products and each step in the manufacture of the similar 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 more complicated the specification is, the higher the production cost and price of the Products are. While the price of the Products may be reduced with the increase of the quantity of the Products, the price of the Products will also be determined between the Purchasers and the Manufacturer with reference to the prevailing market price of similar products, being comparable prices offered by independent third party for similar products having taken into account the technology and quality of the products. The management of the Manufacturer would regularly conduct market research and gather relevant information to ascertain the prevailing market price of similar products, and would review the comparable prices for the similar products in each case to ensure there are sufficient comparable prices to which it could refer to. In the event that there are no sufficient comparable prices for similar products or there are no similar products in the market, the Manufacturer has to substantially rely on other



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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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factors (such as cost for supply and manufacture of the Products and mark-up rate) for the determination of the prices of the Products. The mark-up rate will be determined with reference to the profit margin of other independent customers whose products are at similar grade. The price of the Products will be determined by the parties on normal commercial terms and by arm's length's negotiation.

As far as we understand, for normal pricing mechanism in the industry, price for the Products shall be determined fairly in accordance with costs, resources and technology with reference to practices and prices. Prices of the Products will effectively be determined by an arm's length negotiation with the relevant purchasers considering the technology and quality of the Products and volume of the Products to be purchased. Being in line with the practices of the Group, prices will be negotiated with reference to the costs, resources and technology which may vary according to the different periods of time, despite the long history of supplying goods to NEC by the Group.

We have enquired with the management of the Group and noted that the Manufacturer adopts the following internal control procedures to safeguard transactions which are under normal commercial terms, and no less favourable than those offered to independent customers:

- (i) The Manufacturer adopts a cost-plus pricing system to determine the Products' price. When the Manufacturer receives particulars of a purchase order, it will estimate (i) the costs for the supply and manufacture of the ordered Products and (ii) the mark-up rate after taking into account of specifications, cost of materials, quantity and delivery schedule for the ordered Products, market supply and demand, the prevailing market price of similar products, and the gross profit margin of the Manufacturer's similar products.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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- (ii) With the estimated costs and mark-up rate of the ordered Products, the Manufacturer will arrive at a preliminary price for such Products. The Sales & Marketing Director in the Sales & Marketing Department of the Manufacturer will review and finalize the price for the ordered Products in every new order and will review the prices of the Products for repeated orders at least once every year to ensure that the Products' price is consistent with the prevailing market price of similar products and is no less favourable to the price of similar products offered to the independent customers.
- (iii) A Committee will be setup up to conduct a monthly review on the gross profit margin by customers to ensure that price offered to the Purchasers is in line with the price offered to other independent customers and to provide guidance to the pricing of the Products in future.

In assessing the adequacy of the internal control system, we have obtained and reviewed sample copies of invoices in respect of the historical transactions between the Group and the Purchasers. Based on our review of the sample copies of invoices, we noted that the prices of the products provided by the Group are using cost-plus pricing system. We have also obtained and reviewed sample copies of invoices entered into between the Group and other independent customers in respect of the supply of similar Products from the Group. We noted that the pricing of the products sold by the Group to the Purchasers were on normal commercial terms and no less favourable than those offered to the independent customers. Furthermore, we understand from the management of the Group that given the cost-plus pricing mechanism, the review of gross profit margin by customer is to check whether the prices of Products offered to the Purchasers are in line with that of similar products sold to independent customers. We have reviewed the sample copies of monthly gross profit margin review and noted that the monthly gross profit margins of Products sold to the Purchasers were generally in line with the profit margins of the other independent customers, the products purchased by them are at similar grades. Having considered the above mentioned steps to ensure the prices offered to the Purchasers are no less favourable than those offered to independent customers, as well as the that the internal control system is adequate.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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Having considered the above, we are of the view that the entering into the Manufacturing Agreement are in the interests of the Company and Shareholders as a whole and in the ordinary and usual course of business of the Group, and the terms of the Manufacturing Agreement are fair and reasonable.

### Minimum Annual Consideration

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

| <b>Annual Period</b>   | <b>Minimum Annual Consideration</b>                     |
|--|---|
| 1 January 2015 –<br>31 December 2015   | US\$45,000,000<br>(equivalent to about HK\$351,000,000) |
| For the four years<br>commencing<br>on 1 January 2016 and<br>ending 31 December 2019 | Based on KSAP Rating Adjustment<br>(as explained below) |

NEC has established a knowledge, skills, abilities and performance rating (“**KSAP Rating**”) for its manufacturers and suppliers and NEC has evaluated and measured the Manufacturer according to NEC’s KSAP Rating evaluation process since 2013. The grading of KSAP Rating of the Group during the year ended 31 December 2013 and the six months ended 30 June 2014 is “average”. 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:

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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

| <b>Grading of KSAP<br/>Rating Adjustment</b> | <b>Adjustment Amount</b> |
|--|--------------------------|
| Role Model                                   | +US\$2,000,000           |
| Proficient                                   | +US\$1,000,000           |
| Average                                      | 0                        |
| Needs Improvement                            | -US\$3,000,000           |

In other words, the Purchasers guarantee purchases of approximately HK\$350,100,000 for the period from 1 January 2015 to 31 December 2015. For the year ending 31 December 2016, the Minimum Annual Consideration may range from HK\$326,760,000 to HK\$365,660,000, For the year ending 31 December 2017, the Minimum Annual Consideration may range from HK\$303,420,000 to HK\$381,220,000 assuming the Group will obtain "Needs Improvement" KSAP Rating for the two years ending 31 December 2017 and "Role Model" KSAP Rating for the two years ending 31 December 2017, respectively. For the year ending 31 December 2015, the Minimum Annual Consideration of approximately HK\$350,100,000 represents approximately 52.2% of manufacturing segment revenue of the Group for the year ended 31 December 2013. For the year ending 31 December 2016, the possible range of Minimum Annual Consideration represents approximately 48.8% to 52.6% of manufacturing segment revenue of the Group for the year ended 31 December 2013. For the year ending 31 December 2017, the possible range of Minimum Annual Consideration represents approximately 45.3% to 56.9% of manufacturing segment revenue of the Group for the year ended 31 December 2013.

NEC is one of the most well-established and important customers of the Group. Revenue from NEC from supply of headwear amounted to approximately HK\$267,246,000, HK\$305,140,000 for the year ended 31 December 2012 and 2013, representing approximately 34.8% and 33.1% of the Group's turnover for the year ended 31 December 2012 and 2013, respectively, or approximately 49.0% and 50.7% of the Group's manufacturing segment revenue for the year ended 31 December 2012 and 2013, respectively.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### 2.2 Proposed New Caps

The New Caps in respect of the Transactions for the three years ending 31 December 2017 under the Manufacturing Agreement are proposed based on (i) the buffer for annual consideration under the purchase orders from the Purchasers in excess of Minimum Annual Consideration as agreed by the parties and set out in the Manufacturing Agreement; (ii) the recent trend of growth of the Transactions; and (iii) the possible improvement in production capacity and efficiency.

Set out below are the summary of (i) the Approved Caps and Minimum Annual Consideration for the three years ending 31 December 2014; (ii) the proposed New Caps and Minimum Annual Consideration for the three years ending 31 December 2017; and (iii) the historical transactions amount for the year ended 31 December 2012 and 31 December 2013 and for the eight months ended 31 August 2014:

|                          | Actual transaction amounts |                  |                          | Proposed New Caps |                          |                          |
|--------------------------|----------------------------|------------------|--------------------------|-------------------|--------------------------|--------------------------|
|                          | 2012                       | 2013             | 2014                     | 2015              | 2016                     | 2017                     |
|                          | <i>HK\$</i>                | <i>HK\$</i>      | <i>HK\$</i>              | <i>HK\$</i>       | <i>HK\$</i>              | <i>HK\$</i>              |
|                          | <i>(Million)</i>           | <i>(Million)</i> | <i>(Million)</i>         | <i>(Million)</i>  | <i>(Million)</i>         | <i>(Million)</i>         |
| Annual caps/proposed     |                            |                  |                          |                   |                          |                          |
| New Caps                 | 409.5                      | 468.0            | 526.5                    | 538.6             | 562.6                    | 586.5                    |
| Minimum Annual           |                            |                  |                          |                   |                          |                          |
| Consideration            | 273.0                      | 312.0            | 351.0                    | 351.0             | 365.7<br><i>(note 2)</i> | 382.2<br><i>(note 3)</i> |
| Utilization ratio of     |                            |                  |                          |                   |                          |                          |
| Approved Caps            |                            |                  |                          |                   |                          |                          |
| when compared to         |                            |                  |                          |                   |                          |                          |
| Minimum Annual           |                            |                  |                          |                   |                          |                          |
| Consideration (%)        | 66.7                       | 66.7             | 66.7                     | 65.2              | 65.0                     | 65.2                     |
| Effective Minimum        |                            |                  |                          |                   |                          |                          |
| Annual Commitment        | 204.8                      | 234.0            | 263.3                    | 263.3             | 274.3<br><i>(note 2)</i> | 286.7<br><i>(note 3)</i> |
| Utilization ratio of     |                            |                  |                          |                   |                          |                          |
| Approved Caps            |                            |                  |                          |                   |                          |                          |
| when compared to         |                            |                  |                          |                   |                          |                          |
| Effective Minimum        |                            |                  |                          |                   |                          |                          |
| Annual Commitment        |                            |                  |                          |                   |                          |                          |
| (%)                      | 50.0                       | 50.0             | 50.0                     | 48.9              | 48.8                     | 48.9                     |
| Historical transaction   |                            |                  |                          |                   |                          |                          |
| amount                   | 267.2                      | 305.1            | 198.3<br><i>(note 1)</i> | N/A               | N/A                      | N/A                      |
| Actual utilization ratio |                            |                  |                          |                   |                          |                          |
| of Approved Caps         |                            |                  |                          |                   |                          |                          |
| (%)                      | 65.3                       | 65.2             | 37.7                     | N/A               | N/A                      | N/A                      |

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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*Notes:*

1. Up to eight months ended 31 August 2014
2. Possible maximum Minimum Annual Consideration estimated assuming the Manufacturer will obtain the rating of “Role Model” under KSAP Rating
3. Possible maximum Minimum Annual Consideration estimated assuming the Manufacturer will obtain the rating of “Role Model” under KSAP Rating for the year ending 31 December 2016 and 2017

As discussed with the management of the Group, we noted that regarding the Proposed New Cap they have considered the Minimum Annual Consideration, the recent trend of growth of the sales amounts with NEC, the potential improvement in production capacity and efficiency as well as the buffer for the possibility that the purchase orders from NEC in excess of exceeding the Minimum Annual Consideration.

Comparing to the year ended 31 December 2012, the sales amount for the year ended 31 December 2013 with the Purchasers were significantly increased by approximately 14.2%. As mentioned in the annual report of the Group for the year ended 31 December 2013, business growth was impeded by the rising labour and material costs of the Group’s production plants in the PRC as well as by the inadequate production capacity to meet customers’ orders. To overcome this predicament, the management has stepped up the development of the Bangladesh factory. Save for the existing Bangladesh factory, the Company has not acquired any other headwear factory or knitwear mill in Bangladesh. As the labour costs in the PRC continued to rise and the added production capacity of the Bangladesh factory could not fully address the production needs of the Group, the Group’s manufacturing business has been constrained during the six months ended 30 June 2014. According to the interim report of the Group for the six months ended 30 June 2014, facing challenges such as rising labour costs in the PRC and its insufficient overall capacity, the Group has actively expanded the scale of its factory in Bangladesh and the Group intends to allocate more orders to the Bangladesh factory for production. The management of the Group expected that the factory in Bangladesh may enable the Group to alleviate the capacity problem, which was one of the factors that limited the historical transaction amounts with NEC. The management of the Group also expected to improve the capacity of the Bangladesh factory through improvement in efficiency given that it is in the initial stage of development after the acquisition by the Group in 2013.

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As mentioned in the Letter from the Board, the historical utilization ratios of the Approved Caps for the year ended 31 December 2012, the year ended 31 December 2013 and 8 months ended 31 August 2014 are approximately 65.3%, 65.2% and 37.7%, respectively. The reason leading to the utilization ratios of the Approved Caps in 2012 and 2013 is the lack of production capacity for manufacturing the Products, while the reason leading to the utilization ratio of the Approved Caps for 8 months ended 31 August 2014 is the shortage of labour for the Manufacturer's factories in the PRC, which also limits the production capacity.

As advised by the management of the Group, to cope with the rising labour costs in the PRC and avoid the risk of losing orders from customers due to insufficient capacity, the Company is identifying suitable acquisition targets in Bangladesh (the "**Potential Acquisitions**") with the view of expanding the production capacity of the Group. As at the Latest Practicable Date, no formal or legally binding agreement has been entered into by the Company regarding the Potential Acquisitions. It is expected that the production capacity of the existing Bangladesh factory will increase to 1.5 million pieces of headwear each month by the end of 2014, and to 1.8 million pieces of headwear each month by the end of the first quarter of 2015.

It is further expected the production capacity of the Bangladesh factory will increase to approximately 9.4 million pieces of headwear for the year ending 31 December 2014 and grow by approximately 355% when compared to that for the year ended 31 December 2013 and will increase to approximately 19.8 million pieces of headwear for the year ending 31 December 2015 and grow by approximately 111% when compared to the estimated production capacity for the year ending 31 December 2014. Accordingly, the Company's management estimated that the budget for the capital expenditure in 2015 would be approximately HK\$25 million. The improvement in production capacity will provide more room for the Group to increase its sales to customers, including NEC. The management of the Group has considered that capacity problem was one of the factors that limit the historical transaction amounts with the Purchasers. Notwithstanding that the utilization ratio of the proposed New Caps based on the Minimum Annual Considerations for each of the three years ending 31 December 2017 are approximately 65%, after alleviating the capacity problem, it is possible that the actual amount of purchase by the Purchasers may increase substantially after taking into account the expected significant increase in production capacity of Bangladesh factory for the year ending 31 December 2015.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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We noted that there is no change in the Minimum Annual Consideration (and the Effective Minimum Annual Commitment) for the year ending 31 December 2014 and 31 December 2015. In assessing the reasonableness of the buffer of the proposed New Caps when compared to the Effective Minimum Annual Commitment, we assume that the amount of purchase by the Purchasers will grow at the same rate as the expected production capacity of Bangladesh factory for the year ending 31 December 2015 (i.e. 111%). Based on the Effective Minimum Annual Commitment for each of the year ending 31 December 2015, 2016 and 2017, the amount of purchase by the Purchasers could reach approximately HK\$555.5 million, HK\$578.7 million and HK\$604.8 million respectively. Such amounts are higher than the proposed New Caps for the corresponding years. Having considered the above, as well as the intention of the management of the Group to strengthen the strategic alliance relationship with NEC, we consider that it is fair and reasonable to include buffer to the proposed New Caps to capture any possibility of sales amount from the Purchasers in excess of the Minimum Annual Consideration, and such buffer is in the interests of the Company and its Shareholders as a whole.

Having considered the Minimum Annual Consideration, the historical growth rate of the sales amount with NEC, the potential improvement in production capacity of the Group as well as the internal control procedure to ensure the proposed New Caps will not be exceeded (as discussed in the section below), we are of the view that the adoption of the New Caps is in the interests of the Company and the Shareholders as a whole.

### **3. Requirements of the Listing Rules on the Continuing Connected Transactions**

Pursuant to Rules 14A.50 to 14A.60 of the Listing Rules, the Continuing Connected Transactions are subject to the following annual review requirements:

- (a) each year the Independent Non-executive Directors must review the Continuing Connected Transactions and confirm in the annual report and accounts that the Continuing Connected Transactions have been entered into:
  - (i) in the ordinary and usual course of business of the Group;
  - (ii) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent customers; and



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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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- (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole;
- (b) each year the auditors of the Company must provide a letter to the Board (with a copy provided to the Stock Exchange at least 10 business days prior to the bulk printing of the Company's annual report) confirming that the Continuing Connected Transactions:
  - (i) have received the approval of the Board;
  - (ii) are in accordance with the pricing policies of the Group;
  - (iii) have been entered into in accordance with the terms of the relevant agreements;
  - (iv) governing the Continuing Connected Transactions; and
  - (v) have not exceeded the proposed New Caps;
- (c) the Company shall allow, and shall procure the relevant counter-parties to the Continuing Connected Transactions shall allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the Independent Non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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In light of the reporting requirements attached to the Continuing Connected Transactions, in particular, (i) the restriction of the amount of the Continuing Connected Transactions by way of the proposed New Caps; and (ii) the ongoing review by the Independent Non-executive Directors and auditors of the Company on the terms of the Continuing Connected Transactions and the proposed New Caps not being exceeded, we are of the view that appropriate measures will be in place to govern the conduct of the Continuing Connected Transactions and safeguard the interests of the Independent Shareholders. The management has confirmed that the Group has implemented the following ongoing measures to ensure its actual Transactions under the Manufacturing Agreement will not exceed the proposed New Caps:

- (i) sales and marketing department will update the purchase orders received from the Purchasers at the end of each month and monitor the utilization ratio of the proposed New Caps to ensure the Transactions do not exceed the New Caps, and provide such information to the Committee; and
- (ii) finance accounting department will review the sales transactions with the Purchasers at the end of each month and monitor the utilization ratio of the proposed New Caps to ensure the Transactions do not exceed the New Caps;
- (iii) the Committee will report to the Board once the utilization ratio reaches 65% and will then closely monitor the sales amount to ensure the proposed New Caps will not be breached;
- (iv) in the event that the proposed New Caps may be exceeded, the Company will seek approval from the Independent Shareholders for the revision of proposed New Caps.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### RECOMMENDATION

Having considered all the above-mentioned principal factors and reasons, we are of the opinion that the Manufacturing Agreement is on normal commercial terms, and in the ordinary course of business of the Group, and the terms thereof as well as the New Caps are fair and reasonable, and in the interests of Company and the Shareholders as a whole.

Accordingly, we advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to approve the Manufacturing Agreement and the New Caps at the SGM.

Yours faithfully,  
For and on behalf of  
**Alliance Capital Partners Limited**  
**Andric Yew**                      **Alyssa Ng**  
*Managing Director*                      *Director*

*Mr. Andric Yew and Ms. Alyssa Ng are licensed persons under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities and have participated in various initial public offerings and transactions involving companies listed in Hong Kong, including the provision of independent financial advisory services.*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests and short positions of the Directors and the chief executive of the Company in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the “**Model Code**”) contained in the Listing Rules, were as follows:

#### *Long positions in Shares and underlying Shares of the Company*

| Name of Director            | Number of Shares              |                                    |                                   | Total       | Percentage of interest |
|-----------------------------|-------------------------------|------------------------------------|-----------------------------------|-------------|------------------------|
|                             | Personal interest             | Other interest                     | Underlying shares                 |             |                        |
| Mr. Ngan Hei Keung          |                               | 218,750,000<br><i>(notes 1, 2)</i> | 45,800,000<br><i>(notes 3, 4)</i> | 264,550,000 | 66.37%                 |
| Madam Ngan Po Ling, Pauline | 35,050,000<br><i>(note 2)</i> | 183,700,000<br><i>(note 1)</i>     | 45,800,000<br><i>(notes 3, 4)</i> | 264,550,000 | 66.37%                 |
| Mr. James S. Patterson      |                               |                                    | 2,000,000<br><i>(note 5)</i>      | 2,000,000   | 0.50%                  |
| Ms. Maggie Gu               |                               |                                    | 500,000<br><i>(note 5)</i>        | 500,000     | 0.13%                  |

*Notes:*

- (1) 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by Mr. Ngan Hei Keung (“**Mr. Ngan**”) and Madam Ngan Po Ling, Pauline (“**Madam Ngan**”) as to 40% and 60% respectively.
- (2) The 35,050,000 shares are beneficially owned by Madam Ngan, the spouse of Mr. Ngan.
- (3) Pursuant to the contingent purchase deed dated 22 November 2011 between Mr. Ngan, Madam Ngan and New Era Cap Hong Kong LLC (“**NEHK**”), NEHK is entitled to require Mr. Ngan and Madam Ngan to purchase up to 39,800,000 shares on the terms and conditions of the said deed.
- (4) Each of Mr. Ngan and Madam Ngan has been granted share options under the Company’s share option scheme to subscribe for 3,000,000 shares of the Company on 23 June 2009.
- (5) Mr. James S. Patterson and Ms. Maggie Gu have been granted share options under the Company’s share option scheme to subscribe for 2,000,000 shares and 500,000 shares of the Company on 23 June 2009 respectively.
- (6) Mr. Ngan and Madam Ngan are directors of both of the Company and Successful Years International Co., Ltd.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Persons who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial Shareholders**

So far as is known to the Directors and the chief executive, as at the Latest Practicable Date, the following person (not being Director or chief executive of the Company) had, or was deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group:

***Long positions in Shares and underlying Shares***

| <b>Name</b>   | <b>Capacity</b>                      | <b>Number of Shares</b> | <b>Percentage of interest</b> |
|---|--------------------------------------|-------------------------|-------------------------------|
| Successful Years International Co., Ltd.<br><i>(note 1)</i> | Beneficial owner                     | 183,700,000             | 46.09%                        |
| Mr. Christopher Koch<br><i>(note 2)</i>                     | Interest of a controlled corporation | 79,601,000              | 19.97%                        |
| NEHK <i>(note 2)</i>  | Interest of a controlled corporation | 79,601,000              | 19.97%                        |

*Notes:*

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in the Shares and underlying Shares of the Company have been disclosed in the section 2(a) of this Appendix.
2. Mr. Christopher Koch owns 75% of the issued share capital of NEHK. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares.

*Short positions in the underlying Shares:*

| <b>Name</b>          | <b>Number of<br/>underlying<br/>Shares</b> | <b>Percentage of<br/>interest</b> |
|----------------------|--|-----------------------------------|
| Mr. Christopher Koch | 39,800,000 <i>(note)</i>                   | 9.99%                             |
| NEHK                 | 39,800,000 <i>(note)</i>                   | 9.99%                             |

*Note:*

Pursuant to the contingent purchase deed dated 30 September 2014 between Mr. Ngan, Madam Ngan and NEHK, NEHK is entitled to sell up to 39,800,000 Shares to Mr. Ngan and Madam Ngan on the terms and conditions of the said deed. In view of Mr. Koch's 75% shareholding interest in NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying Shares.

*Long positions in the shares of the subsidiaries of the Company:*

| <b>Name of subsidiary</b>                   | <b>Name of substantial<br/>shareholder</b> | <b>Percentage of<br/>shareholding</b> |
|---|--|---------------------------------------|
| Drew Pearson International<br>(Europe) Ltd. | Rajesh Kapoor                              | 10%                                   |
| Futureview Investment Ltd.                  | Licensing Partners Limited                 | 25%                                   |
| H3 Holdings, Inc.                           | Scott Hines                                | 12.18%                                |
| H3 Sportgear LLC                            | Scott Hines                                | 12.18%                                |
| PPW Asia Ltd.                               | Licensing Partners Limited                 | 25%                                   |
| Unimas Sportswear Ltd.                      | Shah Shamsul Anam<br>Asq Motawakkel Billah | 10%<br>10%                            |
| 上海成顏豐商貿有限公司                                 | Licensing Partners Limited                 | 25%                                   |

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any other person (other than the Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares (including any interests in options in respect of such capital), which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was expected, directly or indirectly, to be interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

### **3. DIRECTORS' OTHER INTEREST**

As at the Latest Practicable Date, so far as the Directors are aware of, none of themselves or their respective associates had any interest in a business which competes or may compete with the business of the Group or any other conflicts of interest with the Group.

As at the Latest Practicable Date, none of the Directors has any interest, either direct or indirect, in any assets which have been acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited financial statements of the Company were made up.

There is no contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date in which any Director is materially interested and which is significant to the business of the Group.

### **4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any existing or proposed service contracts with the Group (excluding contracts expiring or terminable by the employer within one year without payment of compensation other than statutory compensation).

### **5. MATERIAL ADVERSE CHANGE**

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2013, being the date to which the latest audited financial statements of the Company were made up.



**6. EXPERT**

Alliance Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its letter and/or references to its name in the form and context in which they appear.

The following is the qualification of the expert who has provided its advice, which is contained in this circular:

| <b>Name</b>      | <b>Qualification</b>  |
|------------------|---|
| Alliance Capital | A licensed corporation to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) the regulated activities under the SFO |

As at the Latest Practicable Date, Alliance Capital was not beneficially interested in the share capital of any member of the Group nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any Shares, convertible securities, warrants, options or derivatives which carry voting rights in any member of the Group nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up (i.e. 31 December 2013), acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

**7. MISCELLANEOUS**

- (a) The registered office of the Company is at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda, and the head office and principal place of business in Hong Kong of which is at Rooms 1001-1005, 10th Floor, Tower II, Enterprise Square I, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong.
- (b) The principal share registrar and transfer office of the Company is Codan Services Limited at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. and the Hong Kong branch share registrar and transfer office of which is Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong.
- (c) The company secretary of the Company is Ms. Chan Hoi Ying who is an associate member of the Hong Kong Institute of Certified Public Accountants.
- (d) The English text of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in case of inconsistency.

**8. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong from the date of this circular up to and including the date of the SGM:

- (i) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 19 to 20 of this circular;
- (ii) the letter of advice from Alliance Capital to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 21 to 41 of this circular;
- (iii) the written consent from Alliance Capital as referred to in the paragraph headed "Expert" in this Appendix;
- (iv) the Manufacturing Agreement; and
- (v) the Previous Manufacturing Agreement.

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## NOTICE OF SPECIAL GENERAL MEETING

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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)**

**NOTICE IS HEREBY GIVEN** that the Special General Meeting (the “**SGM**”) of Mainland Headwear Holdings Limited (the “**Company**”) will be held at Mainland Headwear Holdings Limited, Rooms 1001-1005, 10th Floor, Tower II, Enterprise Square I, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong on Wednesday, 10 December 2014 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

**“THAT:**

- (a) the manufacturing agreement (“**Manufacturing Agreement**”) dated 30 September 2014 between United Crown International Macao Commercial Offshore Limited, Wintax Trading Limited (the wholly owned subsidiaries of the Company) and the Company of one part (collectively, “**Manufacturer**”) and New Era Cap Co., Inc. (“**NEC**”) and New Era Cap Hong Kong, LLC of the other part in relation to the appointment of 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 initial term of 3 years ending 31 December 2017 and all the transactions contemplated in the Manufacturing Agreement are hereby approved, confirmed and ratified (details of the Manufacturing Agreement are set out in the Company’s circular dated 17 November 2014 (the “**Circular**”), copies of the Manufacturing Agreement and the Circular have been tabled at the meeting and respectively marked “A” and “B” initialed by the chairman of the meeting for identification purpose);
- (b) the New Caps (as defined and more particularly described in the Circular) be and are hereby approved and confirmed; and

\* For identification purpose only

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## NOTICE OF SPECIAL GENERAL MEETING

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- (c) the directors of the Company, acting together, individually or by committee, be and are hereby authorised to take such actions, do such things and execute such further documents or deeds which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated under the Manufacturing Agreement for the initial term of 3 years ending 31 December 2017.”

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

Hong Kong, 17 November 2014

*Notes:*

1. A member of the Company entitled to attend and vote at the SGM convened by the above notice is entitled to appoint one or more proxy to attend and, subject to the provisions of the Bye-Laws of the Company, vote in his stead. A proxy need not be a member of the Company.
2. A form of proxy for use at the SGM is enclosed. In order to be valid, the form of proxy should be duly completed and signed in accordance with the instructions printed thereon and deposited together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, at the office of the Company's Hong Kong branch share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time for holding the SGM or adjourned meeting. Completion and return of a form of proxy will not preclude a member from attending in person and voting at the above meeting or any adjournment thereof, should he so wish.