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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)

CONNECTED TRANSACTION SUBSCRIPTION FOR CONVERTIBLE BONDS

On 28 June 2017, the Target Company (as issuer), the Company (as a subscriber) and the Guarantor entered into the Subscription Agreement in relation to the Subscription of three-year CB in principal amount of US\$2,000,000.

As the ultimate beneficial owner of the Target Company is an associate of an Executive Director of the Company, the Subscription constitutes a connected transaction of the Company. As all the relevant percentage ratios calculated in accordance with Rule 14.07 of Listing Rules in respect of the Subscription is less than 5% but some of them are more than 0.1%, the Subscription is only subject to reporting, annual review and announcement requirements and does not require independent shareholders' approval under Chapter 14A of the Listing Rules.

PRINCIPAL TERMS OF THE SUBSCRIPTION AGREEMENT

Date : 28 June 2017

Parties : (i) Living Design Limited (“**Target Company**”) as issuer,

* *For identification purpose only*

(ii) The Company as subscriber, and

(iii) Ngan Shun On (“**Guarantor**”) as guarantor of Target Company.

The Target Company is ultimately wholly owned by the Guarantor who is an associate of a connected person of the Company. Further details of the Target Company and the Guarantor are set out in the paragraph headed “Information about the Guarantor and the Target Company”.

Principal amount of CB	:	US\$2,000,000
Maturity date	:	Three years after the issue date of the CB.
Conversion period	:	The holders of the CB will be able to convert the outstanding principal amount of the CB in whole or in part into Conversion Shares at any time following the relevant date of issue until the Maturity Date.
Conversion price	:	Initially set at US\$20,000 (equivalent to HK\$155,000 translated at exchange rate of 1US\$: 7.75HK\$) per share, subject to customary adjustments in event of share consolidation, subdivision and issue of shares at price lower than the prevailing Conversion Price.
Interest rate	:	Interest is payable semi-annually at interest rate of LIBOR plus 2%.
Guarantee	:	Personal guarantee is provided by the Guarantor.
Transferability	:	The CB may be transferred to any person at the option of the Bondholder.

- Voting : The holders of the CB will not be entitled to receive notice of, attend or vote at any general meeting of the Company by reason only of them being holders of the CB.
- Redemption : The Target Company is entitled to redeem the CB by serving a written notice not less than 15 days to the holders of the CB.

Conversion Shares

The issued share capital of the Target Company is HK\$100, comprising 100 ordinary shares of the Target Company, all of which are ultimately owned by the Guarantor. Upon the conversion of all the CB at the initial Conversion Price, 100 Conversion Shares will be issued which represents 50% of the number of issued shares of the Target Company as at the date of this announcement and on an enlarged basis respectively.

The Conversion Price is determined based on an arm's length negotiation.

When the Company decides to convert part of all of the CB into Conversion Shares, such conversion will amount to an acquisition in equity interest in the Target Company. Further announcement will be made in respect thereof as and when required by the Listing Rules.

Conditions precedent

Completion is conditional upon, the following conditions being fulfilled and/or waived by the Company as at the date of Completion:

- (1) execution of a guarantee by the Guarantor in form and substance and in all respects satisfactory to the Company; and
- (2) certified true copies of board resolutions of the Target Company and resolutions of shareholders of the Target Company approving and authorizing the execution of the Subscription Agreement and the issue of the CB being given to the Company.

Completion

Completion of the Subscription Agreement is scheduled to take place as soon as possible when all the conditions precedent to which Completion is subject have been fulfilled or, if applicable, waived.

INFORMATION ABOUT THE GUARANTOR AND THE TARGET COMPANY

The Guarantor is a brother of Madam Ngan Po Ling, Pauline, *BBS, JP* who is an Executive Director of the Company. The Guarantor established the Target Company in April 2017 via his wholly owned Samoa company and the Target Company is principally engaged in the business of trading in electronic commerce platforms. As the Target Company has been recently established and the issued share capital of the Target Company as at the date of this announcement is HK\$100, there is no material item in its balance sheet and its income statement.

REASONS FOR ENTERING INTO THE SUBSCRIPTION 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.

The Group has longed for entering into the electronic commerce business to grow retail and trading business to cope with the global market trend. The Target Company has a sophisticated and experienced management team who has solid and successful track record of doing trading business in electronic commerce platforms in U.S. Instead of devoting internal resources to explore the possibility of entering electronic commerce business by the Group, the Company believes that investing in CB can expedite the process of studying the business model and developing products to fit the market demand, and also can tap on the upside of Target Company's business by converting CB into its equities while controlling its business risk.

In view of the above, the Directors (including the Independent Non-executive Directors of the Company) consider that the terms of the Subscription Agreement are on normal commercial terms, fair and reasonable and in the interest of the Company and the Shareholders as a whole.

Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, *BBS, JP*, Mr. Andrew Ngan and Mr. Ngan Siu Hon, Alexander (who are a brother-in-law, a sister, a nephew and a nephew of the Guarantor respectively) are related to the shareholder of the Target Company and has abstained from voting of the board resolution approving the Subscription Agreement.

IMPLICATIONS OF THE LISTING RULES

As the sole shareholder of the Target Company is an associate of an Executive Director of the Company, the Subscription constitutes a connected transaction of the Company. As all the relevant percentage ratios calculated in accordance with Rule 14.07 of the Listing Rules in respect of the Subscription is less than 5% but some of them are more than 0.1%, the Subscription is only subject to reporting, annual review and announcement requirements and does not require independent shareholders' approval under Chapter 14A of the Listing Rules.

DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“CB”	LIBOR plus 2% convertible bonds due 2020 to be issued to the Company by the Target Company pursuant to the Subscription Agreement
“Company”	Mainland Headwear Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Subscription Agreement

“connected person”	has the meaning ascribed to it under the Listing Rules
“Conversion Price”	Initially set at US\$20,000 (equivalent to about HK\$155,000 translated at the exchange rate of 1US\$: 7.75HK\$) per Conversion Share, the conversion price of the CB
“Conversion Shares”	the number of ordinary shares of Target Company which will be issued upon the exercise of the conversion rights attached to the CB
“Director(s)”	director(s) of the Company (including independent non-executive director(s))
“Group”	the Company and its subsidiaries
“Guarantor”	Mr. Ngan Shun On who is a brother of Madam Ngan Po Ling, Pauline, <i>BBS, JP</i> , an Executive Director
“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
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Shareholder(s)”	holder(s) of the shares of the Company
“Subscription”	the subscription for the CB under the Subscription Agreement
“Subscription Agreement”	the agreement dated 28 June 2017 entered into by the Target Company, the Company and the Guarantor in relation to the subscription for the CB

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Living Design Limited which is incorporated in Hong Kong and ultimately wholly owned by the Guarantor
“Target Group”	The Target Company and its subsidiaries
“US\$”	U.S. Dollar, the lawful currency of the United States
“%”	per cent.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 28 June 2017

As at the date of this announcement, the Board comprises nine directors, of which five are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Ms. Maggie Gu and Mr. Ngan Siu Hon, Alexander; one Non-executive Director, Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.