THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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).

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

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 Friday, 8 December 2017 at 10:00 a.m. is set out on pages 52 to 53 of this circular.

A form of proxy for the SGM is enclosed with this circular. Whether or not you intend to attend the SGM, 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.

* *For identification purpose only*

17 November 2017

CONTENTS

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

"Alliance Capital"	Alliance Capital Partners Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Extension of Manufacturing Agreement
"Annual Period(s)"	the annual period(s) during the term of the Manufacturing Agreement (five years ending 31 December 2019)
"associates"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"Company"	Mainland Headwear Holdings Limited (飛達帽業控股有限公司*), a company incorporated under the laws of Bermuda 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
"Extended Term"	the period from 1 January 2018 to 31 December 2019 (both dates inclusive)
"Extension of Manufacturing Agreement"	the extension of the Manufacturing Agreement to the Extended Term
"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 Extension of Manufacturing Agreement
"Independent Shareholders"	Shareholders other than NEHK, its ultimate beneficial owners and their respective associates
"Latest Practicable Date"	14 November 2017, 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, *BBS, JP* an executive Director and the spouse of Mr. Ngan
"Manufacturer"	the Company, United Crown (from 30 September 2014 to 10 September 2015) and Wintax
"Manufacturing Agreement"	the agreement dated 30 September 2014 between United Crown (released as a party to the agreement on 10 September 2015), 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
"New Caps"	the annual caps of the Transactions to be entered into by the parties for the two financial years ending 31 December 2019, to be approved in the SGM
"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)
"SGM"	the special general meeting of the Company which will be held to approve the Extension of Manufacturing Agreement and the proposed New Caps
"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
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules
"United Crown"	United Crown International Macao Commercial Offshore Limited, which is a company incorporated in Macau and was a wholly owned subsidiary of the Company before 26 March 2015

"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*

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 *BBS, JP*
James S. Patterson
Maggie Gu *(Chief Operating Officer)*
Ngan Siu Hon, Alexander

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 2017

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 10 October 2017, in relation to the renewal of continuing connected transactions in respect of supply of Products.

* *for identification only*

The Independent Board Committee comprising the independent non-executive Directors has been constituted to advise the Independent Shareholders on the Extension of Manufacturing Agreement and the transactions contemplated thereunder and the proposed New Caps amounts and an independent financial adviser, Alliance Capital, has been appointed to advise the Independent Board Committee and the Independent Shareholders in relation thereto.

The text of the letter of Alliance Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 24 to 45 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 22 to 23 of this circular

The purpose of this circular is to provide you with information regarding, among other things, (i) further information about the Extension of Manufacturing Agreement and the proposed New Caps; (ii) the letter from the 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 10 December 2014, the Company obtained the approval of Independent Shareholders of the Manufacturing Agreement and the annual caps for the continuing connected transactions for the three years ending 31 December 2017. On 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 an additional term of two years from 1 January 2018 through 31 December 2019 ("**Extended Term**") upon obtaining the approval of the Independent Shareholders of the extension of the Manufacturing Agreement ("**Extension of Manufacturing Agreement**").

Wintax purchased all the assets of United Crown on or about 26 March 2015 and the Group sold its interest in United Crown to an independent third party, thereafter United Crown is no longer a subsidiary of the Company. On 10 September 2015, Wintax, the Company, NEC and NEHK agreed in writing that United Crown shall be released as a party to the Manufacturing Agreement.

Summary of principal terms of the Manufacturing Agreement

Date:	30 September 2014
Parties:	United Crown (released as a party to the Manufacturing Agreement since 10 September 2015), Wintax and the Company (manufacturers) NEC and NEHK (purchasers)

Term:	1 December 2015 to 31 December 2017, which could be extendable for the Extended Term (i.e. an additional term of two years from 1 January 2018 through 31 December 2019) For details on the Extended Term, please refer to the paragraph headed "Condition Precedent to the Extended Term"
Consideration:	Minimum Annual Consideration 1 January 2015 – 31 December 2015 US$45,000,000 1 January 2016 – 31 December 2019 Based on KSAP Rating (as explained below) For details on the minimum annual consideration, please refer to the paragraph headed "Minimum Annual Consideration"
Transactions:	*Supply of Products by the Manufacturer to the Purchasers* The Purchasers 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 SGM 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.
Payment schedule:	The Manufacturer issues to the respective Purchaser an invoice on the Products upon the delivery of the Products. The Purchaser makes 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.

Pricing: The price of the Products is determined by the parties on normal commercial terms and by arm's length's negotiation, which shall be determined by reference to:

(a) Complexity — the more complicated the specification is, the higher the production cost and price of the Products are.

(b) Volume — the price of the Products may be reduced with the increase of the quantity of the Products.

(c) Market price — the price of the Products is determined with reference to similar products, being comparable prices offered by independent third party for similar products having taken into account the technology and quality of the products.

For details on the pricing policy, please refer to the paragraph headed "Pricing Policy"

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

(i) If any governmental agency or court of competent jurisdiction finds that the Products are harmful or defective in material respect and the damage to be suffered by the Purchasers from the aforesaid finding is more than US$1,000,000 which is not directly caused by gross negligence of the Purchasers or designated fabric/component suppliers;

(ii) If any governmental agency or court of competent jurisdiction finds that the Products are harmful or defective in any way, manner or form in contravention of application laws and regulations which is not directly caused by gross negligence of the Purchasers or designated fabric/component suppliers;

(iii) If Manufacturer manufactures, diverts, sells, ships or transfers any counterfeit product or fails to report any stolen goods;

(iv) If Manufacturer manufactures any Product without prior written approval of the Purchasers;

(v) If the Company, United Crown (up to 10 September 2015), Wintax, Mr. Ngan, Madam Ngan or any third party or affiliate owned by, related to, or associated with the Company, United Crown (up to 10 September 2015) , 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 (up to 10 September 2015) , Wintax, Mr. Ngan, Madam Ngan;

(vi) If the Company undergoes a change in majority or controlling ownership without first obtaining the consent of NEC;

(vii) If the license agreement between NEC and Major League Baseball Properties, Inc. is terminated or if Major League Baseball Properties, Inc. no longer approves of the Company as a designated manufacturer of licensed products;

(viii) If the license agreement between NEC and National Football League Properties, LLC is terminated or if National Football League Properties, LLC no longer approves of the Company as a designated manufacturer of licensed products; or

(ix) If a petition under any bankruptcy or insolvency law is filed by or against a party to the Manufacturing Agreement, or if either party suspends business or commits any act amounting to a business failure.

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

(i) upon a material breach by the other party that is not completely cured within thirty (30) business days of the receipt of notice by the breaching party from the non-breaching party; or

(ii) when the parties cannot agree on the pricing of the Products after negotiation in good faith during a period of 45 days.

Others

Dedicated Manufacturing Facility in relation to Manufacture of Products

The Manufacturer established a building within their manufacturing site in Shenzhen which is dedicated solely to manufacturing Products for NEC ("**Dedicated Facilit**y"). Further, the Manufacturer will also manufacture Products in its other manufacturing facilities 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**"). 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.

During the term of the Manufacturing Agreement, the Manufacturer agrees to retain the Dedicated Facility for NEC in Shenzhen and Dedicated Space for NEC in Gazipur and the Dedicated Facility and Dedicated Space will remain used exclusively for the manufacture of Products under the Manufacturing Agreement.

Board Representation

So 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 (the "**Right**"). 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.

The Right has been granted to NEC, among other terms, upon arm's length negotiation of terms of the Manufacturing Agreement between the parties. When NEC and/or its affiliates hold at least 10% of the issued shares of the Company, NEC is entitled to nominate a candidate to act as a Director of the Board. NEC is required to provide personal information, background, academic and professional qualification, business experience, expertise, knowledge and other relevant information relating to the requirements of the Listing Rules to the Company and the Nomination Committee of the Company to consider whether the candidate is suitable to join the Board. After receipt of the recommendation of the Nomination Committee, the Board will review the background, qualification and experience of the candidate and other matters to ensure the compliance with the applicable Listing Rules and the appointment of the candidate of NEC is in the interests of the Company and the Shareholders as a whole so as to discharge the fiduciary duties of the members of the Board. The arrangement of the Right is not uncommonly found in similar commercial transactions.

Under the Bye-laws of the Company, a Director appointed to fill a casual vacancy or as an addition by the Board is subject to election by the Shareholders at the first general meeting after appointment of the Director.

The Board is of the view that NEC's Right under the Manufacturing Agreement is not different from the nomination right empowered to other Shareholders under the Bye-laws of the Company because the appointment of person nominated by NEC as Director is subject to the same approval procedures as applicable to other Directors (including compliance with applicable provisions of the Listing Rules and the approvals by the Board and the Shareholders).

Dispute on invoices

In case of any dispute on the particulars of the invoices issued by the Manufacturer (including the payment amount), the Purchasers should lodge the dispute to the Manufacturer together with reasons and evidence of the basis in writing as soon as possible and in any event should be within fifteen (15) days after receipt, both the Purchasers and the Manufacturer should discuss and resolve the dispute in good faith at their best endeavours in the next fifteen (15) days. If the dispute is resolved with the result that the Manufacturer can issue another invoice (whether with or without changes as compared with the original invoice) and the Manufacturer is entitled to charge service charge of 1.5 percent per month on the new invoiced amount from the sixtieth (60) day of the original invoice date until paid.

There was no significant disagreement regarding the pricing of the Products since the effective date of the Manufacturing Agreement.

Condition Precedent to the Extended Term

The term of the Manufacturing Agreement has commenced 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**").

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.

Minimum Annual Consideration

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

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

NEC has established a knowledge, skills, abilities and performance rating ("**KSAP Rating**") for its manufacturers and suppliers and NEC will evaluate and measure Manufacturer according to New Era's KSAP Rating evaluation process which takes account of the following criteria: quality, logistics, production, compliance and sourcing. At the end of each Annual Period ("**Prior Annual Period**"), the Minimum Annual Consideration for the immediate subsequent Annual Period ("**Next Annual Period Minimum Annual Consideration**") shall be calculated based upon the following formula:

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

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

The KSAP Grading assigned to the Manufacturer in the years of 2016 and 2017 were both "average" and the Minimum Annual Consideration of both years is HK$350,100,000.

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

Pricing Policy

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 is 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 in the quantity of the Products, the price of the Products is also 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 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 arrives at a preliminary price for such Products. The Sales & Marketing Director in the Sales & Marketing Department of the Manufacturer reviews and finalizes the price for the ordered Products in every new order and reviews 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 are 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. The Finance Department of the Manufacturer checks 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 reports to the Committee for closely monitoring of the payment and consideration of further appropriate action.

After taking 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 that the price of the Products is 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.

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 2016 and 8 months ended 31 August 2017:

Value of Transactions (HK$)	**8 months ended 31 August 2017**	**Year ended 31 December 2016**	**Year ended 31 December 2015**
Historical amounts	260,560,000	365,579,000	302,947,000
Approved Caps	586,492,000	562,553,000	538,615,000

Proposed Annual Caps for the coming two years

The amounts of the proposed New Caps in respect of the Transactions, subject to the approval of the Independent Shareholders, for the two years ending 31 December 2019 are set out as below:

(Amount in HK$)	**Year ending 31 December 2018**	**Year ending 31 December 2019**
Proposed New Caps	545,761,000	661,300,000

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

The following table sets out the KSAP Grading assigned to the Manufacturer in the years of 2016 and 2017 and the Minimum Annual Consideration in the years from 2015 to 2017 and the maximum amount of Minimum Annual Consideration in the years 2018 and 2019 as compared to the proposed New Caps in the respective years:

	Years ended/ ending 31 December				
(all amounts in HK$)	**2015**	**2016**	**2017**	**2018**	**2019**
KSAP Grading	N/A	Average	Average	—	—
Minimum Annual Consideration	350,100,000	350,100,000	350,100,000	N/A	N/A
Maximum amounts of Minimum Annual Consideration	N/A	N/A	N/A	365,660,000	381,220,000
Historical amounts	302,947,000 *(note1)*	365,579,000	390,840,000 *(note2)*	—	—
Proposed New Caps	538,615,000	562,553,000	586,492,000	545,761,000	661,300,000
Growth rate of Caps	2.3%	4.4%	4.3%	-6.9%	21.2%

Notes:

1. The historical amounts of Transactions in the year of 2015 is less than the Minimum Annual Consideration of that year is because of the fact that the Manufacturer did not have adequate production capacity to handle the purchase orders from the Purchasers in that year.

2. The historical amount in the year 2017 of HK$390,840,000 is an annualized amount based on the 8-month historical amount of HK$260,560,000 in the period from 1 January 2017 to 31 August 2017.

The above table shows that the proposed New Caps for the years of 2018 and 2019 are set above the possible amounts of the Minimum Annual Consideration in the two years.

Historically, the amounts of Transactions have been limited by the production capacity as the Group's production facilities have always been operating at a ultilisation rate of over 90% in recent years (in general). Therefore, the Directors believe that the trend of growth of the Transactions is mainly determined by the production capacity of the Bangladesh factory, which increased significantly from 1.8 million pieces of headwear products per month in 2015 to 2.3 million pieces of headwear products per month in 2016, representing approximately 27.8% growth rate. The increased production capacity was partly attributable to the continuous expansion of the workforce and partly due to improving local production technologies. In the Bangladesh factory, the Group had around 3,000 workers, 3,500 workers and 4,500 as at 30 June 2016, 30 June 2017 and 30 September 2017 respectively, which shows a continuous expansion of the workforce. It is disclosed in the

Company's interim report for the period ended 30 June 2017 dated 24 August 2017 that the operation of the new factory in Bangladesh is expected to commence in the second half of 2018. The target number of workers at the Bangladesh factory will double to around 6,000 accordingly.

In view of the above, the production capacity of the Group for handling Transactions will be expected to have annual growth rate of 33% and 26% in the years of 2018 and 2019 respectively. As such, the proposed New Caps for the years of 2018 and 2019 are set to be HK$545,761,000 and HK$661,300,000 which represents an annual growth rate of 39.6% (as compared with the annualized amount of the 8-month figure in 2017) and 21.2% respectively so as to have adequate room for the Group to continue to benefit from the expected growth in the Transactions. The Directors are of the view that the amounts of New Caps in the years of 2018 and 2019 are fair and reasonable.

Revenue contribution from NEC Group

NEC Group is the largest customer of the Group in recent years and the contribution from NEC Group in the financial years ended 31 December 2014, 2015 and 2016 and the information on the major customers is set out below:

	2016		**2015**		**2014**	
	Amount *(HK$M)*	**%**	**Amount** *(HK$M)*	**%**	**Amount** *(HK$M)*	**%**
Revenue contributed from						
— NEC Group	365.6	42.0	302.9	34.7	295.1	32.2
— Second to fifth customers	209.7	22.1	218.8	25.2	226.1	24.6
— Other customers	295.0	33.9	349.3	40.1	396.3	43.2

The management of the Company is aware of the potential reliance issue on a single largest customer and has proposed to take the following control measures:

(1) To take more marketing efforts to attract headwear products orders from other customers. Since the Group's production facilities have always been operating at a very high ultilisation rate (more than 90% in general) in recent years, the Group was less inclined to attract new customers, and there had been occasions which the Group had to turn down orders from new customers due to the limitation of production capacity. As the new factory in Bangladesh will commence operations in second half of 2018, the Group will be able to take on more orders. The

Group will take more marketing efforts to attract orders from new customers as well as existing customers other than the NEC Group in order to avoid over reliance on the NEC Group. The expected contribution of NEC Group to our revenue would not exceed 50% in 2017 and 48% in 2018; and

(2) The Committee (as defined in page 15 in the paragraph headed "Pricing Policy" above) will monitor the percentage of revenue contribution from NEC Group on a monthly basis to ensure that the percentage will not exceed 50%.

On the assumption that the Group is able to secure headwear products orders from other customers to utilize the increase in production capacity, it is expected that the Group will be able to control the revenue contribution from NEC Group under 50% and 48% in the two financial years ending 31 December 2017 and 2018 respectively.

REASONS FOR AND BENEFITS OF EXTENSION OF 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 Manufacturing Agreement will be expired by 31 December 2017 unless the Company can obtain the approval of the Independent Shareholders of Extension of Manufacturing Agreement. By extending 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 (including the Extension of 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 who have taken into account the advice of Alliance Capital, but excluding Mr. James S. Patterson who the Board considered to have a material interest in the Extension of Manufacturing Agreement) are of the view that the Extension of Manufacturing Agreement is on normal commercial terms, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

IMPLICATIONS UNDER THE LISTING RULES

As NEHK owns 79,601,000 Shares (representing about 19.65% 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 (including the Extension of 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 (including the proposed 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 Extension of Manufacturing Agreement, he has abstained from voting on the board resolution approving the Extension of Manufacturing Agreement and the proposed New Caps. Save for disclosed, none of the Directors have a material interest in the transactions contemplated under the Extension of Manufacturing Agreement or need to abstain from voting on the board resolution approving the Extension of Manufacturing Agreement and the New Caps.

Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of the Extension of Manufacturing Agreement and the 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 Extension of Manufacturing Agreement and the transactions contemplated thereunder and the proposed New Caps.

To the best knowledge, information and belief of the Directors, having made all reasonable enquiries, as at the Latest Practicable Date, there was (i) no voting trust or other agreement or arrangement or understanding (other than an outright sale) entered into by or binding upon any Shareholder; and (ii) no obligation or entitlement of any Shareholder, whereby he has or may have temporarily or permanently passed control over the exercise of the voting right in respect of his Shares to a third party, either generally or on a case-by-case basis. Accordingly, to the best knowledge, information and belief of the Directors, as at the Latest Practicable Date, there existed no discrepancy between any Shareholder's beneficial shareholding interest in the Company and the number of Shares in respect of which such Shareholder will control or will be entitled to exercise control over the voting right at the SGM in respect of the resolution approving the Extension of Manufacturing Agreement and proposed New Caps.

SGM

Set out on pages 52 to 53 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 Friday, 8 December 2017 at 10:00 a.m. at which a resolution will be proposed to approve the Extension of Manufacturing Agreement and the proposed New Caps.

The Extension of Manufacturing Agreement and 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 Extension of 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 Extension of Manufacturing Agreement and 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 19.65% of the issued share capital of the Company).

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 Extension of 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 24 to 45 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on pages 22 to 23 of this circular.

The Independent Board Committee, having taken into account the advice of Alliance Capital, is of the opinion that the Extension of Manufacturing Agreement together with the proposed New Caps are of normal commercial terms and in the ordinary and usual course of business of the Group, and the Extension of Manufacturing Agreement together with the 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 Extension of Manufacturing Agreement and the proposed New Caps.

The Board of the view that the Extension of Manufacturing Agreement and 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 Extension of 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

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 2017

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 2017 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 Extension of Manufacturing Agreement and 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 21 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 Extension of Manufacturing Agreement and the proposed New Caps, as set out on pages 24 to 45 of the Circular.

* *for identification only*

Having taken into account of the advice of Alliance Capital, we consider that the Extension of Manufacturing Agreement together with the New Caps are of normal commercial terms and in the ordinary and usual course of business of the Group, and the Extension of Manufacturing Agreement together with the 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 Extension of Manufacturing Agreement and the proposed New Caps.

Yours faithfully,
the Independent Board Committee

Leung Shu Yin, William	**Gordon Ng**	**Liu Tieh Ching, Brandon,** *JP*
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

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 Extension of Manufacturing Agreement and the proposed 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 2017

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 Extension 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 2017 (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 can be extended for an additional term ("**Extended Term**") from 1 January 2018 to 31 December 2019 upon obtaining the approval of the Independent Shareholders of the extension of the Manufacturing Agreement ("**Extension of Manufacturing Agreement**"). The Manufacturing Agreement and annual caps for the continuing connected transactions for the three financial years ending 31 December 2017 were approved by the Independent Shareholders on 10 December 2014.

Wintax purchased all the assets of United Crown on or about 26 March 2015 and the Group sold its interest in United Crown to an independent third party, thereafter United Crown was no longer a subsidiary of the Company. On 10 September 2015, Wintax, the Company, NEC and NEHK agreed in writing that United Crown shall be released as a party to the Manufacturing Agreement.

As NEHK owns 79,601,000 Shares (representing about 19.65% 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. Furthermore, 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 five 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; 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 Extension 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 or provided other services to the Company in the last two years. Apart from the appointment as independent financial adviser in relation to the Extension of Manufacturing Agreement and the New Caps, Alliance Capital is independent of the Group pursuant to Rule 13.84 of the Listing Rules.

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.

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. The Group produces over 30 million hats annually in more than 5,000 brand new designs, establishing the leading position in the licensed casual headwear market.

The following is the breakdown in revenue of the Group by the three business segments for each of the three financial years ended 31 December 2016 and the six months ended 30 June 2016 and 2017, which is extracted from the Company's respective annual and interim reports:

	Financial year ended 31 December			percentage change	
	2014	**2015**	**2016**	**2015 vs 2014**	**2016 vs 2015**
	HK$'000	*HK$'000*	*HK$'000*		
	(Audited)	(Audited)	(Audited)		
Manufacturing	571,276	539,834	596,140	-5.50%	10.43%
Trading	214,143	218,617	185,413	2.09%	-15.19%
Retail	132,114	112,547	88,738	-14.81%	-21.15%
Total revenue	917,533	870,998	870,291	-5.07%	-0.08%

	Six months ended 30 June		percentage change
	2016	**2017**	
	HK$'000	*HK$'000*	
	(Unaudited)	(Unaudited)	
Manufacturing	301,804	311,547	3.23%
Trading	102,794	97,711	-4.94%
Retail	46,934	35,738	-23.85%
Total revenue	451,532	444,996	-1.45%

As shown above, the Group's revenue was approximately HK$ 870.29 million for the financial year ended 31 December 2016 ("**FY2016**"), which was similar to that for the financial year ended 31 December 2015 ("**FY2015**") (approximately HK$ 539.83 million). Such trend was mainly due to the decrease in revenue generated from trading and retail business segments by approximately 15.19% and 21.15% respectively. For FY2016, the manufacturing segment has outperformed and recorded a revenue growth of approximately 10.43%. The better performance was attributable to the increasing demand for headwear products and the expansion in production capacity in Bangladesh.

According to the Company's 2016 annual report, most of the Group's products are sold to the US, the Europe and the PRC markets, which represented approximately 66.29%, 13.74% and 8.44% of the Group's total revenue for FY2016 respectively. Amongst the customers in the Group, approximately HK$ 302.95 million and HK$ 365.58 million of revenue was derived from NEC Group for FY2015 and FY2016. NEC was the largest customer of the Group and contributed approximately 34.78% and 42.01% of the Group's revenue for FY2015 and FY2016 respectively.

For FY2015, the Group's revenue dropped by approximately 5.07% when compared to that for the financial year ended 31 December 2014, which was mainly caused by the decrease in revenue from manufacturing business segment, resulting from the lack of production capacity of the Shenzhen factory due to reduced workforce, while the Bangladesh factory's expanded capacity had yet to fully satisfy the demand. With the improvement in efficiency and increased workforce in Bangladesh factory, as well as increased orders from customers, revenue of manufacturing business for FY2016 increased significantly by approximately HK$ 56.31 million or 10.43%.

For the six months ended 30 June 2017 ("**1H2017**"), revenue of the Group slightly decreased by approximately 1.45% to HK$445.00 million from revenue of HK$451.53 million for the six months ended 30 June 2016 ("**1H2016**"). The decrease in revenue was mainly due to the decrease in revenue from trading and retail business segments by approximately 4.94% and 23.85% respectively when compared with that for 1H2016. However, revenue from manufacturing business increased by approximately 3.23% when compared with the same period in 2016. The increase was mainly attributable to the steady growth in the market demand for the Group's headwear products and the increasing orders were met by gradually raising production capacity at the Bangladesh factory.

Production capacity of the Bangladesh factory increased significantly from approximately 1.8 million pieces of headwear products per month in 2015 to approximately 2.3 million pieces of headwear products per month in 2016, representing approximately 27.8% growth rate. The increased production capacity was partly attributable to the continuous expansion of the workforce and partly due to improving local production technologies.

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 for the Extension of Manufacturing Agreement and strategic alliance with NEC

As mentioned in the "Letter from the Board", the Manufacturing Agreement will be expired by 31 December 2017 unless the Company can obtain the approval of the Independent Shareholders of Extension of Manufacturing Agreement. By extending the Manufacturing Agreement, the Company is able to continue to derive benefit from supply of products to NEC. The terms of the Manufacturing Agreement (including the Extension of Manufacturing Agreement) were negotiated between the parties at arm's length. In view of the benefits derived from the Transactions, the Directors are of the view that the Extension of Manufacturing Agreement is on normal commercial terms, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

We have discussed with the management of the Group ("**Management**") and noted that NEC has been one of the major customers of the Group. For FY2015 and FY2016, revenue of approximately HK$ 302.95 million and HK$ 365.58 million respectively was derived from NEC Group, which accounted for approximately 34.78% and 42.01% of the Group's revenue respectively.

The Manufacturer has 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 continue to be used exclusively for the manufacture of Products under the Manufacturing Agreement. The Manufacturer will also manufacture Products in its other manufacturing facilities in 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**"). 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.

Acting as a strategic partner of the Group and in consideration of the provision of the Dedicated Facility and the Dedicated Space by the Group, NEC voluntarily agreed to commit a minimum purchase amount ("**Minimum Annual Consideration**"). In this connection, the Extension of the Manufacturing Agreement enables the Group to maintain the long-term business relationship with NEC, the Group's largest customer.

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

2. Extension of Manufacturing Agreement and reasons for the Transactions

2.1 Major terms in respect of the extension of the Manufacturing Agreement

Set out below are the major terms in respect of the extension of the Manufacturing Agreement. Please refer to the section headed "Summary of principal terms of the Manufacturing Agreement" in the Letter from the Board for more details.

Extended Term

Under the Extension of Manufacturing Agreement, the Extended Term will be effective from 1 January 2018 to 31 December 2019 upon approval of the Independent Shareholders.

Payment schedule

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.

Furthermore, 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 of further appropriate action.

Board Representation

So 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 (the "**Right**"). 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, 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.

The Right has been granted to NEC, among other terms, upon arm's length negotiation of terms of the Manufacturing Agreement between the parties. When NEC and/ or its affiliates hold at least 10 % of the issued shares of the Company, NEC is entitled to nominate a candidate to act as a Director of the Board. NEC is required to provide personal information, background, academic and professional qualification, business experience, expertise, knowledge and other relevant information relating to the requirements of the Listing Rules to the Company and the Nomination Committee of the Company to consider whether the candidate is suitable to join the Board. After receipt of the recommendation of the Nomination Committee, the Board will review the background, qualification and experience of the candidate and other matters to ensure the compliance with the applicable Listing Rules and the appointment of the candidate of NEC is in the interests of the Company and the Shareholders as a whole so as to discharge the fiduciary duties of the members of the Board. The Directors consider that the arrangement of the Right is not uncommonly found in similar commercial transactions. Under the Bye-laws of the Company, a Director appointed to fill a casual vacancy or as an addition by the Board is subject to election by the Shareholders at the first general meeting after appointment of the Director.

The Board is of the view that NEC's Right under the Manufacturing Agreement is not different from the nomination right empowered to other Shareholders under the Bye-laws of the Company because the appointment of person nominated by NEC as Director is subject to the same approval procedures as applicable to other Directors (including compliance with applicable provisions of the Listing Rules and the approvals by the Board and the Shareholders).

We have reviewed announcements of certain listed companies in Hong Kong that have given the right of nomination of director to a significant shareholder holding around 10% to 30% of the issued share capital of the listed company. In this connection, we consider that the availability of the Right is not uncommon in the market.

Minimum Annual Consideration

According to the Manufacturing Agreement, 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**"):

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

NEC has established a knowledge, skills, abilities and performance rating ("**KSAP Rating**") for its manufacturers and suppliers and NEC has evaluated and measured the Manufacturer according to NEC's KSAP Rating evaluation process which takes account of the following criteria: quality, logistics, production, compliance and sourcing. 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 Next Annual Period Minimum Annual Consideration.

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

In case the annual aggregate purchases of Products by the Purchasers (the "**Annual Consideration**") 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.

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. 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 and noted that the Group has been communicated closely with the NEC Group to ensure the fulfillment of the obligation of Minimum Annual Consideration. The management of the Group will monitor the orders placed by the Purchasers at least monthly and will discuss with the Purchasers if there are signs that the annual orders may fall short of the Minimum Annual Consideration, so as to ensure the Purchasers can fulfill the Minimum Annual Consideration.

For FY2015 and FY2016, the Minimum Annual Consideration has been maintained at US$45 million (equivalent to approximately HK$ 350.10 million). The Group has obtained "average" KSAP Rating for both FY2015 and FY2016, and therefore, the Minimum Annual Consideration for the year ending 31 December 2017 is maintained at US$45 million (equivalent to approximately HK$ 350.10 million) as well. Such Minimum Annual Consideration represents approximately 40.20% and 40.23% of the total revenue of the Group for FY2015 and FY2016 respectively.

Based on the above-mentioned calculation methods of Minimum Annual Consideration, assuming that the Group will obtain "role model" KSAP Rating for each of the year ending 31 December 2018 and 2019, the maximum amount of Minimum Annual Consideration will be US$47 million (approximately HK$365.66 million) and US$49 million (approximately HK$381.22 million) respectively.

For FY2015 and FY2016, the Purchasers purchased approximately HK$302.95 million and HK$365.58 million respectively, which is slightly lower than the Minimum Annual Consideration for FY2015 (approximately 13.47%) but is above the Minimum Annual Consideration for FY2016 respectively. The reason for the lower amount for FY2015 is because the Manufacturer did not have adequate production capacity to handle the purchase orders from the Purchasers in that year.

We have discussed with the Management and 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. NEC is a strategic partner of the Group and in consideration of the provision of the Dedicated Facility and the Dedicated Space by the Group, NEC has agreed to commit a minimum purchase amount.

We noted that (i) currently 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 nine years.

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.

In calculating the Annual Consideration, we consider that it is fair and reasonable to include the purchase order amounts that are declined by the Manufacturer due to capacity or lead-time issues, when the Purchaser has fulfilled its obligation to place orders within established lead-time but the Purchaser has no control on whether the Manufacturer has enough capacity or manpower to fulfill such orders.

Having considered the above, we are of the view that the compensation mechanism and arrangement of the Annual Consideration under the Manufacturing Agreement is fair and reasonable.

Pricing

The prices 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 prices of the Products will depend on many variables (such as complexity of specifications, quantity of the Products, and the prevailing market prices of similar Products and each step in the manufacture of the similar products) to be determined at the stage of placing purchase orders. The prices 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 Product are. While the price of Product may be reduced with the increase of the quantity of the Product, the price of the Product will also be determined between the Purchasers and the Manufacturer with reference to the prevailing market prices 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 prices 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 mark-up rate will be determined with reference to the profit margin of products manufactured for other independent customers which are at similar grade. The prices 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, the price for the Products shall be determined fairly in accordance with costs, resources and technology with reference to market 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 quantity of the Products to be purchased. Being in line with the practices of the Group, prices will be negotiated with reference to costs, resources and technology which may vary in different periods of time, despite the Group's long history of supplying goods to the NEC Group.

We have enquired with the Management 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 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.

(ii) With the estimated costs and mark-up rate of the ordered Products, the Manufacturer arrives at preliminary prices for such Products. The Sales & Marketing Director of the Manufacturer reviews and finalizes the price for the ordered Product in every new order and reviews the prices of the Products for repeated orders at least once every year to ensure that the Products' prices are consistent with the prevailing market prices of similar products and are no less favourable to the prices of similar products offered to the independent customers.

(iii) A Committee is set up to conduct a monthly review on the gross profit margin by customers to ensure that prices offered to the Purchasers are in line with the prices offered to other independent customers and to provide guidance to the pricing of the Products.

After taking into account the above price determination and reviewing process, the Directors are of the view that the Manufacturer has an adequate internal control system to safeguard that the prices of the Products are 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.

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 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 similar products sold to the other independent customers. Having considered the above-mentioned steps to ensure the prices offered to the Purchasers are no less favorable than those offered to independent customers, we concur with the Directors' view that the internal control system is adequate.

Having considered the above, we are of the view that the Extension of 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.

2.2 Proposed New Caps

Historical transaction amounts, Minimum Annual Consideration and annual caps

Set out below are the summary of (i) the annual caps and Minimum Annual Consideration for the three years ending 31 December 2017; and (ii) the historical amounts of the Transactions for the two years ended 31 December 2016 and the annualized figure based on the amount for the eight months ended 31 August 2017:

		For the year ended 31 December		For the year ending 31 December
		2015	**2016**	**2017**
		HK$ (Million)	*HK$ (Million)*	*HK$ (Million)*
Annual caps	(A)	538.62	562.55	586.49
Growth rate of the annual caps (%)		2.30	4.44	4.26
Minimum Annual Consideration	(B)	350.10	350.10	350.10
Historical transaction amount	(C)	302.95	365.58	390.84 *(note 1)*
Growth rate of the historical transaction amount (%)			20.67	6.91
Percentage of historical transaction amount compared to total revenue (%)		34.78	42.01	43.92 *(notes 1& 2)*
Actual utilization ratio of annual cap *(%)*	(C)/(A)	56.25	64.99	66.64

Notes:

1. *Annualised historical transaction amount of HK$390.84 million is calculated based on the amount of HK$260.56 million for the eight months ended 31 August 2017.*

2. *Annualised total revenue of HK$890 million, which is calculated based on the amount of HK$445 million for the six months ended 30 June 2017, is used in the calculation of the percentage.*

Proposed New Caps

(Amount in HK$)	Year ending 31 December 2018	Year ending 31 December 2019
Proposed New Caps	545,761,000	661,300,000
Growth rate of the New Caps (%)	-6.94	21.17
Maximum amounts of Minimum Annual Consideration *(note)*	365,660,000	381,220,000

Note: Assuming that the Manufacturer will obtain "role model" KSAP Rating for each of the year ending 31 December 2018 and 2019.

The compound annual growth rate of the historical transaction amounts for the two years ended 31 December 2016 and the annualized amount for the 8 months ended 31 August 2017 is approximately 13.58%, demonstrating an increasing trend of orders from the NEC Group. Based on our discussion with the Management, we note that the historical transaction amounts have been limited by the production capacity, and therefore resulted in the utilization rates of the annual caps to be in a relatively lower range (56.25% to 66.64%). Having considered that the revenue has been limited by the production capacity in the past few years, we concur with the Directors' view that the utilization ratios of the annual caps may not be a good reference when determining the proposed New Caps.

The proposed New Cap for the financial year ending 31 December 2018 ("**FY2018**") is approximately 6.94% lower than that for FY2017 and the proposed New Cap for the financial year ending 31 December 2019 ("**FY2019**") is approximately 21.17% higher than that for FY2018. Furthermore, the New Cap for FY2018 is approximately 39.64% higher than the annualised amount of the Transactions for the eight months ended 31 August 2017 ("**2017 Annualised Amount**").

The trend of growth of the Transactions is mainly determined by the production capacity of the Bangladesh factory, which increased significantly from approximately 1.8 million pieces of headwear products per month in 2015 to approximately 2.3 million pieces of headwear products per month in 2016, representing approximately 27.8% growth rate. The increased production capacity was partly attributable to the continuous expansion of the workforce and partly due to improving local production technologies. Local production technologies can be improved by purchasing more advanced equipment or automate some procedures. Furthermore, the Group will provide training to new workers to improve efficiency. In the Bangladesh factory, the Group had around 3,000 workers as at 30 June 2016, and increased to around 3,200 workers by end of 2016 (representing an increase of approximately 6.67%), and increased to around

3,500 workers as at 30 June 2017 (representing an increase of approximately 9.38%), and further increased to around 4,500 as at 30 September 2017 (representing an increase of approximately 28.57%), which shows a continuous expansion of the workforce.

As advised by the Management, when determining the New Caps, the Management has considered the increasing trend of historical amounts of the Transactions, the fact that the historical transaction amount has been limited by the production capacity, as well as the expansion plan of production capacity for FY2018 and FY2019. The Group will expand the production capacity in Bangladesh by constructing additional production plant, increasing workforce and improving efficiency. The Group will further increase around 39% production lines in Bangladesh after completion of the construction of the new factory by the fourth quarter of 2018.

We have discussed with the Management and noted that the Group has been operating in very high utilization rate (more than 90% in general) of production capacity, and the Group did not have enough capacity to fulfil the NEC Group's orders. We have reviewed the internal discussion note of the Group relating to the verbal indication of estimated order from the NEC Group for FY2018. The estimated order accounts for approximately 80% of the annual cap for FY2018, and the NEC Group may increase orders based on the Group's production capacity when the Group can meet the manufacturing requirements of those orders. Therefore, when determining the annual caps, the Group has considered the production capacity factor. Having considered the verbal indication from the NEC Group, we are of the view that the production capacity factor is one of the factors affecting the demand from the NEC Group and the Directors consider such factor in determining the New Caps is reasonable.

The overall annual production capacity in 2017 is estimated based on annualized production capacity for the eight months ended 31 August 2017, which increases by approximately 9.85% when compared to that in 2016. Furthermore, we have reviewed the production plan of the Company and note that the Group targets to increase direct labour by approximately 38% (from around 2,900 to 4,000 workers) and production lines in Bangladesh by approximately 39% by end of 2018 when compared to that in 2017. The Management estimated that the production capacity of Bangladesh factory will increase from approximately 2.25 million pieces per month by the end of 2016 to around 3.13 million pieces per month in 2018, representing an increase of approximately 39.11%.

As the Group has demonstrated its ability to increase workforce by more than 38% in a year, which is evidenced by the increase in number of workers in Bangladesh from around 3,200 workers by the end of 2016 to around 4,500 workers as at 30 September 2017 (representing an increase of approximately 40.63%), we consider that the bases and assumptions of increase in direct labour by approximately 38% and production lines by approximately 39% when estimating the production capacity in Bangladesh in 2018 are reasonably made.

Based on the above estimated increase in production capacity in Bangladesh, and the assumption that the production capacity in China in 2017 and 2018 will stay at same level, the overall production capacity in 2018 is estimated to increase by around 32.98% when compared to that in 2017. As the annual production capacity in China in 2018 is estimated based on the annualized production capacity for the 8 months ended 31 August 2017, we consider that the bases and assumptions in determining the overall production capacity in 2018 are reasonably made.

Having considered the above-mentioned estimated increase in annual production capacity in Bangladesh of approximately 39% and increase in overall annual production capacity of approximately 33% in 2018, the buffer for potential increase in workers' efficiency and room to increase the prices of the Products, we concur with the Directors' view that the increase of approximately 39.64% of the New Cap for FY2018 when compared to 2017 Annualised Amount is justifiable.

It is disclosed in the Company's interim report for 1H2017 that the operation of the new factory in Bangladesh is expected to commence in the second half of 2018. The target number of workers in the Bangladesh factory will increase to around 6,000, representing an increase of approximately 33% when compared to the number of workers of 4,500 as at 30 September 2017. Workers' efficiency has also been improving for the past few years and the Management expects the production efficiency will continue to improve with the enhancement of the local production equipment and training to workers.

Having considered that (i) more space (which is expected to increase by around 175% in term of total area in factories in Bangladesh) will be available after completion of the construction of the new factory by the second half of 2018; (ii) the increase of approximately 39% of production lines in Bangladesh; (iii) the Group's plan to increase the workforce by approximately 33% in Bangladesh by end of 2018; and (iv) the Group has shown its ability to rapidly expand the workforce (the workforce in Bangladesh factory increased by approximately 40.63% from around 3,200 workers by the end of 2016 to around 4,500 as at 30 September 2017) and to enhance workers' efficiency with improvement in production technologies, we consider that the Directors' plan to increase the production capacity in Bangladesh in 2019 by around 33% and the overall production capacity by around 26% when compared to 2018 is reasonably estimated, and therefore the increase in the New Cap for FY2019 by approximately 21.17% is justifiable.

Having considered the above, we are of the view that the proposed New Caps are fair and reasonable.

3. Control on potential reliance issue

The management of the Company is aware of the potential reliance issue on a single largest customer and has proposed to take the following control measures:

(1) To take more marketing efforts to attract headwear products from other customers to increase the utilization of the production capacity, in particular the new factory in Bangladesh will commence operations in the second half of 2018; and

(2) The Committee will monitor the percentage of revenue contribution from NEC Group on a monthly basis to ensure that the percentage will not exceed 50%.

On the assumption that the Group is able to secure headwear product orders from other customers to utilize the increase in production capacity, the Management expected that the Group will be able to control the revenue contribution from NEC Group under 50% and 48% for the financial year ending 31 December 2017 and 2018 respectively.

We have discussed with the Management and noted that the Group has always been able to operate in very high utilization rate (more than 90% in general) of production capacity and has not encountered significant difficulty in obtaining orders from the NEC Group as well as other customers to fill up the capacity when it has continuously expanded in the past few years. Therefore, the Group has planned to complete the construction of new factory in Bangladesh in the second half of 2018. The Group has more than 50 active customers in FY2016. Previously, the Group's ability to take on more orders from other or new customers has been limited by its production capacity. The Group will actively seek new customers after completion of the new factory, so as to reduce reliance on the NEC Group.

Further, we note from our discussion with the Management that the Group has originated design and development of new headwear products for customers. However, there had been occasions that when certain customers placed manufacturing orders after the completion of the development of new products, the Group could not take on the manufacturing orders as there was insufficient production capacity at that time. Further, we have reviewed certain correspondences of the Group and note that there had been occasions that the Group has turned down orders from some new customers due to limitation of production capacity. As a results, the Group has less inclined to attract new customers and the Group did not have new customer for the 8 months ended 31 August 2017. Notwithstanding that the Group has not made any commitment to customers for 2018, having considered that the Group has been approached by new customers from time to time (but the Group has turned down customers due to lack of production capacity) and the Group's ability to originate and develop new headwear products for its customers, we concur with the Management's view that the Group may be able to continue to maintain revenue or even obtain more orders from new and/or other existing customers after expansion of production capacity.

Having considered the above, including but not limited to (i) the large customer base of the Group; (ii) the limitation of taking more orders from other customers may be relieved by the expansion plan of new factory; (iii) the Group's historical percentage of the amount of the Transactions compared to total revenue has been contained in the range of around 35% to 44%; and (iv) the Group's measures to control the amount of the Transactions to be lower than 50% of the total revenue of the Group, in particular, the Committee's monitoring of the percentage of revenue contributed from NEC Group on a monthly basis to ensure that the percentage will not exceed 50%, we consider that the Group's plan to reduce the reliance on NEC Group is reasonable.

4. 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

(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 agreement governing the Continuing Connected Transactions; and

(iv) have not exceeded the 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.

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 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 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 on-going measures to ensure its actual Transactions under the Manufacturing Agreement will not exceed the 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 New Caps to ensure the Transactions do not exceed the New Caps, and provide such information to the Committee;

(ii) finance and accounting department will review the sales transactions with the Purchasers at the end of each month and monitor the utilization ratio of the 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 New Caps will not be exceeded; and

(iv) in the event that the New Caps may be exceeded, the Company will seek approval from the Independent Shareholders for the revision of New Caps.

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 Extension of Manufacturing Agreement 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 Extension of Manufacturing Agreement and the New Caps at the SGM.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited
Alyssa Ng
Executive Director

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

I. 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

	Number of Shares				
Name of Director	**Personal interest**	**Other interest**	**Number of Underlying shares**	**Total**	**Percentage of interest**
Mr. Ngan Hei Keung		219,952,000 *(notes 1, 2)*	50,800,000 *(notes 3, 4)*	270,752,000	66.82%
Madam Ngan Po Ling, Pauline *BBS, JP*	36,252,000 *(note 2)*	183,700,000 *(note 1)*	50,800,000 *(notes 3, 4)*	270,752,000	66.82%
Mr. James S. Patterson			2,000,000 *(note 5)*	2,000,000	0.49%
Ms. Maggie Gu			2,200,000 *(note 6)*	2,200,000	0.54%
Mr. Ngan Siu Hon, Alexander			2,000,000 *(note 7)*	2,000,000	0.49%

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 and Madam Ngan as to 40% and 60% respectively.

(2) The 36,252,000 shares are beneficially owned by Madam Ngan.

(3) Pursuant to the contingent purchase deed renewed on 30 September 2014 between Mr. Ngan, Madam Ngan and 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) Mr. Ngan and Madam Ngan are entitled to subscribe for 5,000,000 shares and 6,000,000 shares respectively pursuant to the outstanding options granted under the Company's share options scheme.

(5) Mr. James S. Patterson is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

(6) Ms. Maggie Gu is entitled to subscribe for 2,200,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

(7) Mr. Ngan Siu Hong, Alexander is entitled to subscribe for 2,000,000 shares pursuant to the outstanding options granted under the Company's share options scheme.

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 issued voting shares at general meetings of any member of the Group:

Long positions in Shares and underlying Shares

Name	Capacity	Number of Shares	Percentage of interest
Successful Years International Co., Ltd. *(note 1)*	Beneficial owner	183,700,000	45.34%
Mr. Christopher Koch *(note 2)*	Interest of a controlled corporation	79,601,000	19.65%
NEHK *(note 2)*	Beneficial owner	79,601,000	19.65%

Notes:

1. Successful Years International Co., Ltd. ("**Successful Years**") is owned by Mr. Ngan and Madam Ngan as to 40% and 60% respectively. The interests of Mr. Ngan and Madam Ngan in the Shares and underlying Shares of the Company have been disclosed in the section 2(a) of this Appendix. Mr. Ngan and Madam Ngan are directors of Successful Years.

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

Name	Number of underlying Shares	Percentage of interest
Mr. Christopher Koch	39,800,000 *(note)*	9.82%
NEHK	39,800,000 *(note)*	9.82%

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.

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 issued voting shares at general meetings of any member of the Group.

3. DIRECTORS' OTHER INTERESTS

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 2016, 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 2016, 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:

Name	Qualification
Alliance Capital	A licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) of 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 2016), 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 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 22 to 23 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 24 to 45 of this circular;

(iii) the written consent from Alliance Capital as referred to in the paragraph headed "Expert" in this Appendix; and

(iv) the Manufacturing Agreement.

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 Friday, 8 December 2017 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 extension of the manufacturing agreement ("**Extension of Manufacturing Agreement**") dated 30 September 2014 between United Crown International Macao Commercial Offshore Limited (has been released as a party to the agreement since 10 September 2015), 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 an extended term of two years from 1 January 2018 through 31 December 2019 and all the transactions contemplated in the Extension of Manufacturing Agreement are hereby approved, confirmed and ratified (details of the Extension Manufacturing Agreement are set out in the Company's circular dated 17 November 2017 (the "**Circular**"), copies of the Manufacturing Agreement and the Circular have been tabled at the meeting and marked "A" and "B" initialed by the chairman of the meeting for identification purpose);

(b) the proposed New Caps (as defined and more particularly described in the Circular) be and are hereby approved and confirmed; and

* *for identification only*

(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 Extension of Manufacturing Agreement."

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

Hong Kong, 17 November 2017

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.

3. To determine the identity of members who are entitled to attend and vote at the forthcoming SGM which will be held on 8 December 2017, the register of members of the Company will be closed from 5 December 2017 to 8 December 2017 (both dates inclusive). In order to qualify to attend the SGM, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong Branch Share Registrar, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on 4 December 2017.

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