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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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

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

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**MAINLAND HEADWEAR HOLDINGS LIMITED**

**飛達帽業控股有限公司\***

*(Incorporated in Bermuda with limited liability)*

**(Stock code: 1100)**

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

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



**Alliance Capital Partners Limited**

**同人融資有限公司**

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The notice convening the Special General Meeting (“SGM”) of Mainland Headwear Holdings Limited (the “Company”) to be held at Mainland Headwear Holdings Limited, Rooms 1001–1005, 10th Floor, Tower II, Enterprise Square I, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 27 December 2019 at 10:00 a.m. is set out on pages 51 to 52 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 54, 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*

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## DEFINITIONS

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

“Alliance Capital”	Alliance Capital Partners Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Manufacturing Agreement
“Annual Period(s)”	the annual period(s) during the term of the Previous Manufacturing Agreement (five years ending 31 December 2019) and the Manufacturing Agreement (three years ending 31 December 2022 and the Extended Term (i.e. an additional term of two years from 1 January 2023 through 31 December 2024))
“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 2023 to 31 December 2024 (both dates inclusive)
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent board committee of the Board, comprising Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng, all being independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Manufacturing Agreement
“Independent Shareholders”	Shareholders other than NEHK, its ultimate beneficial owners and their respective associates

\* For identification purpose only

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## DEFINITIONS

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“Latest Practicable Date”	6 December 2019, 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, <i>BBS, JP</i> an executive Director and the spouse of Mr. Ngan
“Manufacturer”	the Company and Wintax
“Manufacturing Agreement”	the agreement dated 22 November 2019 between 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 Annual Periods under the Previous Manufacturing Agreement and the Manufacturing Agreement
“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 three financial years ending 31 December 2022, to be approved in the SGM
“Previous Manufacturing Agreement”	the agreement dated 30 September 2014 between United Crown International Macao Commercial Offshore Limited (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
“Products”	any headwear, accessories 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

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## DEFINITIONS

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“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 Manufacturing Agreement and the transactions contemplated thereunder 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
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“Transactions”	the supply of the Products by the Manufacturer to the Purchasers under the Manufacturing Agreement
“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.*



**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

10 December 2019

*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 22 November 2019, in relation to the renewal of continuing connected transactions in respect of supply of Products.

The Independent Board Committee comprising the independent non-executive Directors has been constituted to advise the Independent Shareholders on the 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.

\* *For identification purpose only*

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## LETTER FROM THE BOARD

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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 22 to 45 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on page 21 of this circular.

The purpose of this circular is to provide you with information regarding, among other things, (i) further information about the 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

References are made to the Company's announcement and circular dated 10 October 2017 and 17 November 2017 respectively in relation to continuing connected transactions under the Previous Manufacturing Agreement. On 8 December 2017, the Company obtained the approval of Independent Shareholders of the extension of the Previous Manufacturing Agreement and the annual caps for the continuing connected transactions for the two years ending 31 December 2019. The Previous Manufacturing Agreement will be expired on 31 December 2019.

On 22 November 2019, Wintax and the Company of one part (where Wintax and the Company are together referred to hereinafter as "**Manufacturer**") 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 with minimum purchase commitments for the three financial years ending 31 December 2022, which could be extendable for the Extended Term (i.e. an additional term of two years from 1 January 2023 through 31 December 2024).

#### Summary of principal terms of the Manufacturing Agreement

**Date:** 22 November 2019

**Parties:** the Company and Wintax (manufacturers)

NEC and NEHK (purchasers)

**Term:** 1 January 2020 to 31 December 2022, which could be extendable for the Extended Term (i.e. an additional term of two years from 1 January 2023 through 31 December 2024).

For details of the Extended Term, please refer to the paragraph headed "Extended Term".

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## LETTER FROM THE BOARD

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<b>Consideration:</b>	Minimum Annual Consideration
	1 January 2020–31 December 2020    US\$47,000,000
	1 January 2021–31 December 2022    Based on KSAP Rating (as explained below)

For details of 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 2020 to 31 December 2022, which could be extendable for another two years subject to the Independent Shareholders’ approval in SGM by the end of 2022, 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 invoices on the Products upon the delivery of the Products. The Purchaser makes payment to the Manufacturer within 60 days from the respective dates of issue of such invoices. When such invoices are not paid duly, a service charge of 1.5% per month will be accrued until paid. 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.

**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.

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## LETTER FROM THE BOARD

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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, Wintax, Mr. Ngan, Madam Ngan or any third party or affiliate owned by, related to, or associated with the Company, 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, 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;

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## LETTER FROM THE BOARD

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- (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 forty five (45) days.

Obligations arisen from Minimal Annual Consideration (see below) will not survive the termination of the Manufacturing Agreement.

**Others:**

*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.

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## LETTER FROM THE BOARD

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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).

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## LETTER FROM THE BOARD

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### *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**

The term of the Manufacturing Agreement will commence on 1 January 2020 (“**Initial Start Date**”) and shall terminate on 31 December 2022 (“**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 2023 (“**Extended Start Date**”) through 31 December 2024 (“**Extended End Date**”).

### ***Initial Term***

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

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

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

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## LETTER FROM THE BOARD

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### *Extended Term*

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

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

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

### **Minimum Annual Consideration**

The Purchasers agreed to purchase the Products from the Manufacturer during the Annual Periods with consideration not less than the minimum amounts (“**Minimum Annual Consideration**”) based on KSAP Rating (as explained below). There are four grades under the KSAP grading, namely: (i) role model; (ii) proficient; (iii) average; and (iv) needs improvement. 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. To avoid any disagreement between the parties on the evaluation, the management of the Purchasers will give out feedbacks to the Manufacturer by way of telephone conference on a monthly basis according to the KSAP Rating during the Prior Annual Period. 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:

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

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## LETTER FROM THE BOARD

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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 sixty (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. Since such percentage is higher than the net profit margin of the Group for the year ended 31 December 2017 and 2018, which is 9.1% and 7.2% respectively, the Board considered that such percentage is in the interest of the Company and its Shareholders as a whole. 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 based on the purchase orders 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 involved 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 to independent third party for similar products having taken into account the technology and quality of the products. In addition, the management of the Manufacturer would conduct market research every quarter and gather relevant information to understand the prevailing market price of other 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. To carry out market research, the management of the Manufacturer may obtain (i) feedbacks on the Products from customers directly through meeting with them face to face in various trade shows or by phone; or (ii) various quotations from individual third parties from time to time. 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

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## LETTER FROM THE BOARD

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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 consisting of the executive Directors and chief financial officer of the Company (the "**Committee**") 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 into account of the above price setting and reviewing process, the Directors are of the view that the Manufacturer has an adequate internal control system to safeguard 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.

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## LETTER FROM THE BOARD

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### ANNUAL CAPS

#### Historical amounts of Annual Caps in recent years

Set out below are the historical amounts of the Transactions for the year ended 31 December 2018 and 9 months ended 30 September 2019:

<b>Value of Transactions (All amounts in HK\$)</b>	<b>9 months ended 30 September 2019</b>	<b>Year ended 31 December 2018</b>
Historical amounts	311,981,000	447,405,000
Approved Caps	661,300,000	545,761,000

#### Proposed Annual Caps for the coming three years

The amounts of the proposed New Caps in respect of the Transactions, subject to the approval of the Independent Shareholders, for the three years ending 31 December 2022 are set out as below:

<b>Value of Transactions (All amounts in HK\$)</b>	<b>Year ending 31 December</b>		
	<b>2020</b>	<b>2021</b>	<b>2022</b>
Proposed New Caps	583,500,000	641,850,000	706,035,000

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; (ii) the historical growth of the sales amount with NEC; (iii) the internal budget plan relating to indication of estimated order from NEC based on discussions with customers; (iv) the expansion plan of production capacity; and (v) general buffer.

In relation to the proposed New Caps, the management of the Group has considered the internal budget plan of the Group and the general buffer. The internal budget plan has taken into consideration of the Minimum Annual Consideration, the indication of estimated order from NEC Group for the financial year ending 31 December 2020 based on the discussions with its customers and the expansion plan of production capacity. The estimated order in the internal budget plan accounts for over 80% of the annual cap for the financial year ending 31 December 2020. The general buffer, which accounted for about 20% of the annual cap for the financial year ending 31 December 2020 was referenced to the historical growth of the sales amount with NEC (with annual growth ranging from approximately 5% to 21% for the financial year ended 31 December 2016 to the financial year ended 31 December 2018).

## LETTER FROM THE BOARD

The following table sets out (i) the KSAP Grading; and (ii) the Minimum Annual Consideration in the years from 2017 to 2019 and the maximum amount of Minimum Annual Consideration in the years from 2020 to 2022 as compared to the proposed New Caps in the respective years:

(All amounts in HK\$)	Years ended 31 December					
	2017	2018	2019	2020	2021	2022
KSAP Grading	proficient	proficient	N/A	N/A	N/A	N/A
Minimum Annual Consideration	350,100,000	357,880,000	365,660,000	N/A	N/A	N/A
Maximum amounts of Minimum Annual Consideration	N/A	N/A	N/A	365,660,000	381,220,000	396,780,000
Historical amounts	385,072,000	447,405,000	311,981,000*	N/A	N/A	N/A
Approved Caps/Proposed New Caps	586,492,000	545,761,000	661,300,000	583,500,000	641,850,000	706,035,000

\* Up to 9 months ended 30 September 2019

### 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 three financial years ended 31 December 2018 and the six-month ended 30 June 2019 and the information on the major customers are set out below:

	6 months ended 30 June 2019		2018		Year ended 31 December 2017		2016	
	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>	<i>Amount</i>	<i>%</i>
	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>	<i>(HK\$ million)</i>
Revenue contributed from								
— NEC Group	219.3	42.1	447.4	47.5	385.1	43.2	365.6	42.0
— Second to fifth customers	139.2	26.7	224.1	23.8	231.6	26.0	209.7	24.1
— Other customers	162.7	31.2	270.0	28.7	274.0	30.8	295.0	33.9

In order to reduce any potential reliance risk on a single largest customer, the Group 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 utilisation 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 operation by the end of 2019, more orders will be taken by the Group. The Group will take

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## LETTER FROM THE BOARD

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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; and

- (2) The Committee (as defined 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%.

Furthermore, as disclosed in the announcement of the Company dated 25 April 2019, the Group acquired a company, which is engaged in designing and marketing accessories for men, women and children in the USA and it sells licensed, private label and custom headwear, small leather goods, bags, and accessories to many retailers in the US. Such acquisition enabled the Group to diversify its income stream, broaden its revenue base, reduce its potential reliance on NEC Group and expand its business in the US.

On the assumption that the Group is able to secure headwear products orders from other customers to utilize the increase in production capacity and the subsidiary will continue to diversify its income stream and broaden its revenue base, it is expected that the Group will be able to control the revenue contribution from NEC Group under 50% in the two financial years ending 31 December 2020. Therefore, the Board is of the 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 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 (iii) 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%, the Board is of the view that the Group’s business does not unduly rely on the NEC Group and its reliance on the Purchasers is not significant.

### **REASONS FOR AND BENEFITS OF ENTERING INTO THE MANUFACTURING AGREEMENT**

The Group is principally engaged in the design, manufacturing and retail of quality casual headwear worldwide.

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 and NEHK are owned by Mr. Christopher Koch and his family (the “**Koch’s Family**”). The Koch’s Family founded the NEC Group in the US in 1920 and has been engaged in the headwear business since then. The NEC Group is a leading manufacturer

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## LETTER FROM THE BOARD

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and marketer of sports and fashion headwear and apparel in the US. It is one of the most well-established and important customers of the Group. The supply of Products to NEC Group has generated significant profitable business to the Group in recent years. The Previous Manufacturing Agreement will be expired by 31 December 2019. By entering into the Manufacturing Agreement, the Company is able to continue to derive benefits from supply of products to NEC. The transactions contemplated under the Manufacturing Agreement can also promote the synergies and benefits for both the Company and NEC.

The terms of the Manufacturing Agreement were negotiated between the parties at arm's length. In view of the benefits derived from the transaction, the Directors (including the independent non-executive Directors 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 Manufacturing Agreement) are of the view that the Manufacturing Agreement is on normal commercial terms, is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

The Manufacturer has established (a) a building within their manufacturing site in Shenzhen and some of the space in the building is dedicated solely to producing Products for NEC ("**Dedicated Production Space**") and that the Dedicated Production Space will continue to be used exclusively for the manufacture of Products under the Manufacturing Agreement; and (b) space such as a floor or multiple floors within their manufacturing facility located in Gazipur, Bangladesh which is dedicated solely to manufacturing of Products for NEC (together, the "**Dedicated Production Spaces**"). In this connection, the entering into the Manufacturing Agreement with NEC enables the Group to maintain the long-term business relationship with NEC, the Group's largest customer. Furthermore, the Group will be able to secure a substantial amount of purchase orders and maintain recurring and promising income for the manufacturing business from the Group's largest customer for the three financial years ending 31 December 2022. The expected percentage of the production capacity derived from the Dedicated Production Spaces to the total production capacity of the Manufacturer is 10%, in which such production capacity of the Dedicated Production Spaces is less than the expected number of pieces of headwear products produced base on 75% of the Minimum Annual Consideration. Having considered the above, the Board is of the view that the provision of the Dedicated Production Spaces 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 19.64% 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) involve 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.

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## LETTER FROM THE BOARD

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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 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 the resolution proposed for approval of the above continuing connected transactions.

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

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

### **SGM**

Set out on pages 51 to 52 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 at 10:00 a.m. on Friday, 27 December 2019 at which a resolution will be proposed to approve the Manufacturing Agreement and the proposed New Caps.

The 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 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

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## LETTER FROM THE BOARD

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interest in the above transactions and will abstain from voting in respect of the resolution to approve the 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 19.64% 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong in accordance with the instructions printed thereon not less than 48 hours before the time appointed for the meeting (or any adjourned meeting). Completion and delivery of the form of proxy will not preclude you from attending and voting at the meeting (or any adjourned meeting) if you so wish.

### RECOMMENDATIONS

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

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

The text of the letter from Alliance Capital containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 45 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on page 21 of this circular.

The Independent Board Committee, having taken into account the advice of Alliance Capital, is of the opinion that the 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 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 Manufacturing Agreement and the proposed New Caps.

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

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**LETTER FROM THE BOARD**

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**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)**

10 December 2019

*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 10 December 2019 issued by the Company (the “Circular”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Manufacturing Agreement and 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 4 to 20 of the Circular, and the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders which contains its advice to us in respect of the Manufacturing Agreement and the proposed New Caps, as set out on pages 22 to 45 of the Circular.

Having taken into account of the advice of Alliance Capital, we consider that the 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 Manufacturing Agreement together with the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the resolution to be proposed at the SGM to approve the Manufacturing Agreement and the proposed New Caps.

Yours faithfully,  
the Independent Board Committee

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

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

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

\* For identification purposes only

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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*Set out below is a full text of the letter of advice from the Independent Financial Adviser, Alliance Capital Partners Limited to the Independent Board Committee and the Independent Shareholders in relation to the Manufacturing Agreement 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

10 December 2019

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

Dear Sir/Madam,

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

#### **INTRODUCTION**

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Manufacturing Agreement and the proposed New Caps, details of which are set out in the letter from the Board (the “**Letter from the Board**”) as contained in the circular of the Company dated 10 December 2019 (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 22 November 2019, 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 2022, which could be extendable for another two years subject to the Independent Shareholders’ approval in a general meeting by the end of 2022.

As NEHK owns 79,601,000 Shares (representing about 19.64% 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) involve provision of goods on a continuing or recurring business and in the ordinary and usual course of business of the Group, the Transactions constitute continuing connected transactions of the Company under the Listing Rules (the “**Continuing Connected Transactions**”). Furthermore, as the proposed New Caps of Transactions will exceed the thresholds set out in Rule 14A.76(2) of the Listing Rules, the Manufacturing Agreement and the Transactions (including the New Caps) will be subject to the reporting, announcement and Independent Shareholders’ approval (by way of poll) requirements pursuant to Chapter 14A of the Listing Rules.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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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 terms of Manufacturing Agreement together with the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. We have been appointed to advise the Independent Board Committee and the Independent Shareholders in this regard.

We were appointed as independent financial adviser to the Company in September 2017, for the proposed renewal of continuing connected transactions in respect of supply of products and our opinion letter was included in the Company's circular dated 17 November 2017. Apart from the normal advisory fee paid to us in connection with this transaction, we do not have any business dealings with the Company.

Save as disclosed above, 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 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 management staff and/or the Directors of the Group (the "**Management**"). 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 Management and for which 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 Management contained in the Circular have been reasonably made after due and careful enquiry. We have been advised by the Management that no material facts have been omitted from the information provided and referred to in the Circular.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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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 Management 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***

###### *Principal business 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 40 million hats annually in more than 5,000 brand new designs, establishing the leading position in the licensed casual headwear market.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### *Historical financial performance of the Group*

The following is the breakdown of the Group's revenue by the three business segments for each of the three financial years ended 31 December 2018 and the six months ended 30 June 2018 and 2019, which is extracted from the Company's respective annual and interim reports:

	Financial year ended 31 December			Six months ended 30 June	
	2016 ("FY2016") HK\$'000 (Audited)	2017 ("FY2017") HK\$'000 (Audited)	2018 ("FY2018") HK\$'000 (Audited)	2018 ("6M2018") HK\$'000 (Unaudited)	2019 ("6M2019") HK\$'000 (Unaudited)
Manufacturing	596,140	634,563	672,790	319,937	355,053
Trading	185,413	184,543	213,143	115,901	166,128
Retail	88,738	71,601	55,560	31,140	22,175 <sup>1</sup>
<b>Total Revenue</b>	<b>870,291</b>	<b>890,707</b>	<b>941,493</b>	<b>435,838</b>	<b>521,181</b>

*Note:*

- As disclosed in the interim report for the six months ended 30 June 2019 ("FY2019 Interim Report"), the retail business was recorded as discontinued operation during the said period

	Growth rate		
	FY2016 vs FY2017 %	FY2017 vs FY2018 %	6M2018 vs 6M2019 %
Manufacturing	6.4	6.0	11.0
Trading	-0.5	15.5	43.3
Retail	-19.3	-22.4	-28.8
<b>Total Revenue</b>	<b>2.3</b>	<b>5.7</b>	<b>19.6</b>

### *FY2017 compared to FY2016*

For FY2017, the Group's revenue increased by approximately 2.3% when compared to FY2016. As set out in the annual report for FY2017, the stable growth was driven by the expansion of production capacity at the Bangladesh factory, and manufacturing business remained as the Group's primary income source and profit growth driver.

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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### *FY2018 compared to FY2017*

The Group's revenue increased from approximately HK\$890.7 million for FY2017 to approximately HK\$941.5 million for FY2018. The increase was mainly attributable to the increase in the revenue generated from manufacturing business and the trading business of approximately 6.0% and 15.5%, respectively.

As disclosed in the annual report for FY2018 ("**FY2018 Annual Report**"), the growth in the manufacturing business was mainly attributable to (i) the strong orders received from the customers; and (ii) the increase in the production output of the Bangladesh factory as a result of the connection to a private power plant, which enables to provide stable power supply to the factory.

According to the FY2018 Annual Report, most of the Group's products are sold to the US, the Europe and the PRC markets, which represented approximately 72.8%, 10.8% and 6.7% of the Group's total revenue for FY2018 respectively. Amongst the customers in the Group, approximately HK\$385.1 million and HK\$447.4 million of revenue was derived from NEC Group for FY2017 and FY2018. NEC was the largest customer of the Group and contributed approximately 43.2% and 47.5% of the Group's revenue for FY2017 and FY2018 respectively.

Production capacity of the Bangladesh factory increased significantly from approximately 3.0 million pieces of headwear products per month in 2017 to approximately 4.0 million pieces of headwear products per month in 2018, representing approximately 33.3% growth rate. The increased production capacity was partly attributable to the continuous expansion of the workforce and partly due to improving the production techniques as mentioned above.

### *6M2019 compared to 6M2018*

The Group's revenue increased from approximately HK\$435.8 million for 6M2018 to approximately HK\$521.2 million for 6M2019, representing an increase of approximately 19.6%. The increase in revenue was mainly due to the increase in revenue from manufacturing and trading business by approximately 11.0% and 43.3%, respectively, when compared with that for 6M2018.

As disclosed in the FY2019 Interim Report, the increase in the revenue from trading business was mainly as a result of (i) H3 Sportgear LLC, a wholly-owned subsidiary of the Group, seeing a double-digit growth in the orders received from a multinational retail enterprise customer; and (ii) the consolidation of the financial results of Aquarius Ltd. ("**Aquarius**") subsequent to the Group's acquisition. The increase in the revenue from

manufacturing business was mainly attributable to the increase in the output produced by the Bangladesh factory as a result of the maturing production techniques and the growing workforce.

Amongst of the customers of the Group, NEC contributed approximately HK\$201.9 million and HK\$219.3 million of revenue for 6M2018 and 6M2019, respectively, representing approximately 46.3% and 42.1% of the Group's revenue during the corresponding period.

### ***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. Furthermore, in 2016, NEC became the official on court cap of the NBA, making NEC the only brand in sports history to have exclusive on-field, sideline and on court headwear rights for all three major U.S. leagues at the same time.

NEC and NEHK are owned by Mr. Christopher Koch and his family (the "**Koch's Family**"). The Koch's Family founded the NEC Group in the US in 1920 and has been engaged in the headwear business since then. The NEC Group is a leading manufacturer and marketer of sports and fashion headwear and apparel in the US. 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 Manufacturing Agreement and strategic alliance with NEC***

As stated in the "Letter from the Board", by renewing the Manufacturing Agreement, the Company is able to continue to derive benefit from supply of products to NEC. 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 renewal 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 and noted that NEC has been one of the major customers of the Group. According to the FY2018 Annual Report, approximately HK\$385.1 million and HK\$447.4 million of the revenue for

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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FY2017 and FY2018, respectively, was derived from NEC Group, and it accounted for approximately 43.2% and 47.5% of the Group's revenue for FY2017 and FY2018, respectively.

The Manufacturer has established a building within their manufacturing site in Shenzhen and some of the space in the building is dedicated solely to producing Products for NEC ("**Dedicated Production Space**"). During the term of the Manufacturing Agreement, the Manufacturer agrees to retain the Dedicated Production Space for NEC in Shenzhen and the Dedicated Production Space 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 in Bangladesh**"). The amount of space allocated for the Dedicated Space in Bangladesh 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.

NEC is a strategic partner of the Group and in consideration of the provision of the Dedicated Production Space and the Dedicated Space in Bangladesh (together, the "**Dedicated Production Spaces**") by the Group, NEC voluntarily agreed to commit a minimum purchase amount ("**Minimum Annual Consideration**"). In this connection, the entering into the Manufacturing Agreement with NEC enables the Group to maintain the long-term business relationship with NEC, the Group's largest customer. Furthermore, the Group will be able to secure a substantial amount of purchase orders and maintain recurring and promising income for the manufacturing business from the Group's largest customer for the three financial years ending 31 December 2022. Besides, the expected percentage of the production capacity derived from the Dedicated Production Spaces to the total production capacity of the Manufacturer is 10%, in which such production capacity of the Dedicated Production Spaces is less than the expected number of pieces of headwear product produced based on 75% of the Minimum Annual Consideration. Having considered the above, we are of the view that the provision of the Dedicated Production Spaces, which will be used exclusively for the manufacture of Products, is fair and reasonable.

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

## **2. Terms of and reasons for the Transactions**

### *2.1 Major terms of the Transactions*

Under the Manufacturing Agreement, the Purchasers have agreed to purchase Products (comprising headwear, accessories and/or apparel products) which are supplied and manufactured by the Manufacturer for the three financial years from 1 January 2020 to 31 December 2022, which could be extendable for another two years subject to the Independent Shareholders' approval in a general meeting by the end of 2022, with the related particulars (such as specifications, quantity, pricing and delivery schedule of the Products) set forth in the purchase orders as agreed in writing by the respective Purchasers and the Manufacturer from time to time.

#### *Payment terms*

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. When such invoices were not paid duly, a service charge of 1.5% per month will be accrued until paid. 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 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 of the Company, NEC shall procure such director to

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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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's 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 a 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).

In order to assess the availability of the Right in the market, we have conducted research based on the information publicly available on the website of the Stock Exchange on companies which (i) are listed on the Stock Exchange; (ii) published announcements with respect to the issue of shares under a general mandate/special mandate from 27 November 2018 to 25 November 2019; and (iii) whether the issue of shares granted the right for nominating director to the significant shareholder. On our best effort basis,

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## LETTER OF ADVICE FROM ALLIANCE CAPITAL

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we have identified nine comparable companies and we consider the list of comparable companies is exhaustive based on the said criteria above. The results are set out below:

<b>Comparable companies</b>	<b>Stock Code</b>	<b>Date of Announcement</b>
Hospital Corporation of China Limited	3869	21 December 2018
Beijing Enterprises Water Group Limited	371	18 January 2019
Meitu, Inc.	1357	19 February 2019
Yuexiu Property Company Limited	123	27 February 2019
ISDN Holdings Limited	1656	27 February 2019
Value Convergence Holdings Limited	821	1 July 2019
DTXS Silk Road Investment Holdings Company Limited	620	16 July 2019
China Modern Dairy Holdings Ltd.	1117	18 July 2019
China Geothermal Industry Development Group Limited	8128	25 November 2019

Based on the above, 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**”) based on KSAP Rating (as explained below). There are four grades under the KSAP grading, namely: (i) role model; (ii) proficient; (iii) average; and (iv) needs improvement:

<b>Annual Period</b>	<b>Minimum Annual Consideration</b>
1 January 2020–31 December 2020	US\$47,000,000 (equivalent to about HK\$365,660,000)
1 January 2021 and ending 31 December 2022	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. To avoid any disagreement between the parties on the evaluation, the management of the Purchasers will

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give out feedbacks to the Manufacturer by way of telephone conference on a monthly basis according to the KSAP Rating during the Prior Annual Period. At the end of each Annual Period (“**Prior Annual Period**”), the Minimum Annual Consideration for the immediate subsequent Annual Period (“**Next Annual Period Minimum Annual Consideration**”) shall be calculated based upon the following formula:

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

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

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 2020, 2021 and 2022, the maximum amount of Minimum Annual Consideration will be US\$47.0 million (approximately HK\$365.7 million), US\$49.0 million (approximately HK\$381.2 million) and US\$51.0 million (approximately HK\$396.8 million) respectively. This maximum amount of Minimum Annual Consideration for each of the year ending 31 December 2020, 2021 and 2022 represents approximately 54.3%, 56.7% and 59.0% of the total revenue of the Group for FY2018, respectively.

For FY2017 and FY2018, the Minimum Annual Consideration was US\$45.0 million (equivalent to approximately HK\$350.1 million) and US\$46.0 million (equivalent to approximately HK\$357.9 million), respectively. The Group obtained “proficient” KSAP Rating for both FY2017 and FY2018, and therefore, the Minimum Annual Consideration for the year ending 31 December 2019 increases to US\$47.0 million (equivalent to approximately HK\$365.7 million). Such Minimum Annual Consideration represents approximately 39.3% and 38.0% of the total revenue of the Group for FY2017 and FY2018, respectively.

NEC is one of the most well-established and important customers of the Group. As mentioned, revenue from NEC from supply of headwear amounted to approximately HK\$385.1 million and HK\$447.4 million for FY2017 and FY2018, respectively, representing approximately 43.2% and 47.5% of the Group’s turnover for the corresponding year, or approximately 60.7% and 66.5% of the Group’s manufacturing segment revenue for the corresponding year.

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We have discussed with the Management and we have also conducted independent research based on the information publicly available on the website of the Stock Exchange for the companies which (i) are listed on the Main Board of the Stock Exchange; (ii) are principally engaged in garment manufacturing; and (iii) whether its customers committing minimum amount. On our best effort and exhaustive bases, we identified 22 companies and reviewed their announcements published from 23 May 2019 to 22 November 2019 and their latest annual report available, and noted that none of them have disclosed their customers committing minimum amount, and therefore, we considered that it is not common for customers to commit minimum amount. NEC is a strategic partner of the Group and in consideration of the Dedicated Production Spaces provided by the Group, the commitment on the minimum purchase amount as agreed by NEC would provide stable source of revenue to the Group.

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

### *Compensation*

In case the actual 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.

In calculating the Annual Consideration in the relevant Annual Period for the purpose of determining the percentage of fulfillment of the Minimum Annual Consideration during the same period, it will 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.

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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 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 than or equal to 75% of the Minimum Annual Consideration for the relevant Annual Period.

Having considered that (i) the expected percentage of the production capacity derived from the Dedicated Production Spaces to the total production capacity of the Manufacturer is 10%, in which such production capacity of the Dedicated Production Spaces is less than the expected number of pieces of headwear product produced based on 75% of the Minimum Annual Consideration; and (ii) the 10% of the deficiency provided by the Purchasers in case the Annual Consideration in the relevant Annual Period is less than or equal to 75% of the Minimum Annual Consideration for the relevant Annual Period is higher than the net profit margin of the Group for FY2017 and FY2018, which is approximately 9.1% and 7.2%, respectively, we concur with the Directors' view that such 10% compensation is in the interest of the Company and its Shareholders as a whole.

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.

Since NEC will compensate the Group if the Annual Consideration in the relevant Annual Period is less than 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 than or equal to 75% of the Minimum Annual Consideration for the relevant Annual Period.

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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; (iv) the Effective Minimum Annual Commitment has been set at 75% of the Minimum Annual Consideration for the past eleven years; and (v) the expected percentage of the production capacity derived from the Dedicated Production Spaces to the total production capacity of the Manufacturer is 10%, in which such production capacity of the Dedicated Production Spaces is less than the expected number of pieces of headwear product produced based on 75% of the Minimum Annual Consideration. Having considered the above, we are of the view that setting the ratio of 75% of the Minimum Annual Consideration for NEC to compensate the Manufacturer is fair and reasonable.

### *Pricing basis*

The price of the Products can only be determined in the purchase orders as issued by the Purchasers and accepted by the Manufacturer later (not on the date of Manufacturing Agreement) as the price of the Products will depend on many variables (such as complexity of specifications, quantity of the Products, and the prevailing market price of similar Products and each step in the manufacture of the similar products) to be determined at the stage of issuing of purchase orders.

The price of the Products will be determined by the parties on normal commercial terms and by arm's length's negotiation. The more complicated the specification is, the higher the production cost and price of the Products are. While the price of the Products may be reduced with the increase of the quantity of the Products, the price of the Products will also be determined between the Purchasers and the Manufacturer with reference to the prevailing market price of similar products, being comparable prices offered by the Group to independent third party for similar products having taken into account the technology and quality of the products.

In addition, the management of the Manufacturer would conduct market research every quarter and gather relevant information to understand the prevailing market price of other 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. To carry out market research, the management of the Manufacturer may obtain (i) feedbacks on the Products from customers directly through meeting with them face to face in various trade shows or by phone; or (ii) various quotations from

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individual third parties from time to time. 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 other independent customers whose products are at similar grade. The price of the Products will be determined by the parties on normal commercial terms and by arm's length's negotiation.

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

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

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

In assessing the adequacy of the internal control system, we have obtained and reviewed 12 sample copies of invoices in respect of the historical transactions between the Group and the Purchasers during the period from October 2018 to September 2019. Our selection was based on one sample every month. 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 12 sample copies of invoices entered into between the Group and other independent customers in respect of the supply of similar Products from the Group during the period from October 2018 to September 2019. Our selection was based on one sample every month. 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 by the Group 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 12 monthly gross profit margin review during the period from October 2018 to September 2019. Our selection was based on one sample every month. We noted that the monthly gross profit margins of Products sold to the Purchasers were generally in line with the profit margin of the other independent customers, the products purchased by them are at similar grades. Having considered the steps to ensure the prices offered to the Purchasers are no less favorable than those offered by the Group to independent customers as mentioned above, we concur with the Directors' view that the internal control system is adequate.

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

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**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 four years ending 31 December 2019; and (ii) the historical amounts of the Transactions for the three years ended 31 December 2018 and for the nine months ended 30 September 2019:

		<b>FY2016</b>	<b>FY2017</b>	<b>FY2018</b>	<b>For the nine months ended 30 September 2019/the year ending 31 December 2019 ("FY2019")</b>
		<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
		<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Annual caps	(A)	562.6	586.5	545.8	661.3
KSAP Grading		Average	Proficient	Proficient	N/A
Minimum Annual Consideration	(B)	350.1	350.1	357.9	365.7
Historical transaction amount	(C)	365.6	385.1	447.4	312.0 <i>(Note 1)</i>
Growth rate of the historical transaction amount		20.7%	5.3%	16.2%	N/A
Actual utilization ratio of annual caps	D=(C)/(A)	65.0%	65.7%	82.0%	N/A

*Note:*

- The historical transaction amount for the nine months ended 30 September 2019

*Proposed New Caps*

The New Caps in respect of the Transactions for the three years ending 31 December 2022 are proposed based on (i) the Minimum Annual Consideration as agreed by the parties and set out in the Manufacturing Agreement; (ii) the historical growth of Transactions; (iii) the internal budget plan relating to indication of estimated order from NEC based on discussion with customers; (iv) the expansion plan of production capacity; and (v) general buffer.

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The following table sets forth the proposed New Caps, the growth rate of the New Caps and the maximum amount of Minimum Annual Consideration for the three years ending 31 December 2022:

<b>(All amounts in HK\$)</b>	<b>Year ending 31 December 2020</b>	<b>Year ending 31 December 2021</b>	<b>Year ending 31 December 2022</b>
Proposed New Caps	583,500,000	641,850,000	706,035,000
Growth rate of the New Caps	-11.7%	10.0%	10.0%
Maximum amounts of Minimum Annual Consideration <i>(Note)</i>	365,660,000	381,220,000	396,780,000

*Note:* Assuming that the Manufacturer will obtain “role model” KSAP Rating for each of the year ending 31 December 2021 and 2022.

The proposed New Caps for the each of financial year ending 2022 is HK\$583,500,000, HK\$641,850,000 and HK\$706,035,000, respectively. The proposed New Caps for the financial year ending 2020 (“**FY2020**”) is approximately 11.7% lower than that for FY2019, and the proposed New Caps for the financial year ending 31 December 2021 (“**FY2021**”) and the financial year ending 31 December 2022 (“**FY2022**”) are 10.0% higher than that for their respective previous financial year.

As discussed with the Management, we note that the historical transaction amounts have been limited by the production capacity, and therefore the utilization rate of the annual caps are approximately 65.0%, 65.7% and 82.0% for FY2016, FY2017 and FY2018, respectively. In view of the high utilization rate of the production capacity, the Group has expanded the production factory in Bangladesh. In the fourth quarter of 2019, phase 2 of Bangladesh factory (“**Phase 2 of Bangladesh Factory**”) will commence production, which originally planned to start production by the fourth quarter of 2018 but was delayed due to delayed government approval. With Phase 2 of Bangladesh Factory being expected to start production in the fourth quarter of FY2019, the production capacity of the Group is expected to increase to approximately 5.0 million pieces of headwear products per month by the end of FY2020, representing a growth of approximately 25.0%. 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 rate of the annual caps may not be a good reference when determining the proposed New Caps.

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The trend of growth of the Transactions is mainly determined by the production capacity of the Bangladesh factory which increased significantly from approximately 3.0 million pieces of headwear products per month in 2017 to approximately 4.0 million pieces of headwear products per month in 2018, representing approximately 33.3% growth rate. As disclosed in the FY2018 Annual Report, despite the construction of Phase Two of Bangladesh factory being behind the schedule due to the delayed approval of the local government, the increased production capacity was partly attributable to (i) the expansion of the production team; and (ii) the upgrade of the production techniques of the production team. The production techniques can be upgraded by purchasing more advanced equipment or automate some procedures. In the Bangladesh factory, the Group had around 4,100 workers as at 31 December 2017, and increased to over 4,600 workers as at 31 December 2018 (representing an increase of approximately 12.2%), and further increased to around 5,400 workers as at 30 June 2019 (representing an increase of approximately 17.4%), which demonstrates a continuous expansion of the workforce.

As discussed with the Management, we noted that regarding the proposed New Caps, they have considered the internal budget plan of the Group and the general buffer. The internal budget plan has taken into consideration of the Minimum Annual Consideration, the indication of estimated order from NEC Group for FY2020 based on discussion with customers and the expansion plan of production capacity. The estimated order in the internal budget plan accounts for over 80% of the annual cap for FY2020. The general buffer which accounted for about 20% of the annual cap for FY2020 was referenced to the historical growth of the sales amount with NEC (with annual growth ranging from approximately 5% to 21% for FY2016 to FY2018).

We have discussed with the Management and noted that the Group has been operating at a very high utilization rate of production capacity (more than 90% in general), and the Group did not have enough capacity to fulfil the NEC Group's orders for the past few years mainly as a result of (i) high turnover rate of workers; and (ii) the unstable supply of utilities. In order to tackle the power supply issue, the Bangladesh factory is connected to a private power plant, which enables to provide stable power supply to the factory. In addition, we understand from the Management that they have considered the turnover rate of workers when they prepared for the headcounts during the hiring process, and the number of workers employed over the past few years has been increasing. Having considered the stable power supply provided by a private power plant, and the continuous growth in the number of workers employed in the Bangladesh factory so as to reduce the impact of high turnover rate of workers, we concur with the Directors' view that it is unlikely that the Group may not be able to meet the NEC Group's orders estimated under the proposed New Caps for the three years ending 31 December 2022 due to unstable supply of

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utilities or the high turnover rate of workers. We have reviewed the internal budget plan of the Group relating to the indication of estimated order from NEC Group for FY2020. The estimated order in the internal budget plan accounts for over 80% of the annual cap for FY2020, and it is possible that NEC Group may increase orders after the expansion of the production capacity when the Group can meet the manufacturing requirements of those orders.

Furthermore, the introduction of automation and information technology-enabled production equipment in the Bangladesh factory allowed the improvement of production efficiency. This was evidenced by the increase in the output from approximately 3.0 million pieces of headwear products per month for first half of FY2018 to about 3.5 million pieces of headwear products per month for first half of FY2019, representing an increase of approximately 16.7%. The Management expects that the continuous growing workforce together with the benefit from the implementation of automation and information technology-enabled production equipment, the production efficiency will continue to be enhanced.

Having considered that (i) NEC voluntarily agreed to commit the Minimum Annual Consideration; (ii) it is not common for customers to commit certain amount of purchase but NEC is willing to commit the Minimum Annual Consideration; and (iii) the expected percentage of the production capacity derived from the Dedicated Production Spaces to the total production capacity of the Manufacturer is 10%, in which such production capacity of the Dedicated Production Spaces is less than the expected number of pieces of headwear product produced based on 75% of the Minimum Annual Consideration, we are on the view that the terms of setting the Minimum Annual Consideration is fair and reasonable.

Besides, as the Sino-US trade war persisted, the Group's Bangladesh factory has become one of its major competitive advantages and it satisfied the keen demand from the Group's US customers for orders from production bases outside China, which drove the business growth of the Group.

Having considered that (i) the starting of the production of Phase 2 of Bangladesh Factory in the fourth quarter of FY2019; (ii) the expected increase of approximately 25.0% of production capacity in FY2020; (iii) potential increase in production efficiency which benefits from the implementation of automation and information technology-enabled production equipment; and (iv) the potential increase in the orders of the Products in Bangladesh factory due to the Sino-US trade war, we concur with the Director's view that the proposed New Caps for FY2020 is justifiable.

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In addition, we note that the proposed New Caps for FY2021 and FY2022 are 10.0% higher than that for FY2020. We understand from the Management that it has considered a number of factors, including the historical growth rate of sales to NEC Group, the growth of manufacturing revenue and overall revenue, as well as the expansion of the production capacity and capability. As mentioned above, the annual growth rate of revenue from NEC Group ranged from approximately 5% to 21% during FY2016 to FY2018. Having considered the above, we concur with the Directors' view that the growth of the annual cap for FY2021 and FY2022 is reasonable.

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

### **3. Control on potential reliance issue**

In order to reduce any potential reliance risk on a single largest customer, the Group took the following control measures:

- (1) To take more marketing efforts to attract headwear products from other customers; and
- (2) The Committee monitors the percentage of revenue contribution from NEC Group on a monthly basis to ensure that the percentage will not exceed 50%.

The Group was able to reduce the potential reliance on a single largest customer as evidenced by the decreasing trend of the revenue derived from NEC Group, which NEC Group contributed approximately 46.3% and 42.1% of the Group's total revenue for 6M2018 and 6M2019, respectively.

Furthermore, we have reviewed the internal notes with respect to the Committee monitoring the percentage of revenue contribution from NEC Group to ensure that the percentage will not exceed 50%. We have also discussed with the management and understand that the Group has certain new customers for FY2018 and FY2019, which enabled the Group to diversify its customers base and expand its business.

Moreover, as disclosed in the announcement of the Company dated 25 April 2019, the Company acquired Aquarius, a company headquartered in St. Louis, Missouri, the US. Aquarius is engaged in designing and marketing accessories for men, women and children in US, and it sells licensed, private label and custom headwear, small leather goods, bags and accessories to many retailers in the US. With the acquisition of Aquarius, the Company is able to diversify its income stream, broaden the Group's revenue base, reduce its potential reliance on NEC Group and expand its business in the US.

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Having considered (i) the decreasing trend of the revenue contributed from NEC Group; (ii) the Group increased its customers base by having new customers for FY2018 and FY2019; and (iii) the acquisition of Aquarius which enables the Group to diversify its income stream, we concur with the Directors' view that the Group complied with the control measures on reducing potential reliance on a single largest customer.

#### **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 agreements;
  - (iv) governing the Continuing Connected Transactions; and
  - (v) have not exceeded the proposed New Caps;

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

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

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**RECOMMENDATION**

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

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

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

## 1. RESPONSIBILITY STATEMENT

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

## 2. DISCLOSURE OF INTERESTS

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

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

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

Name of Director	Number of Shares		Number of underlying Shares	Total	Percentage of interest
	Personal interest	Other interest			
Mr. Ngan Hei Keung	—	221,508,000 <i>(Notes 1, 2)</i>	44,800,000 <i>(Notes 3, 4)</i>	266,308,000	65.70%
Madam Ngan Po Ling, Pauline, <i>BBS, JP</i>	37,808,000 <i>(Note 2)</i>	183,700,000 <i>(Note 1)</i>	44,800,000 <i>(Notes 3, 4)</i>	266,308,000	65.70%
Mr. James S. Patterson	—	—	1,000,000 <i>(Note 5)</i>	1,000,000	0.25%
Ms. Maggie Gu	—	—	2,200,000 <i>(Note 6)</i>	2,200,000	0.54%
Mr. Ngan Siu Hon, Alexander	—	—	2,000,000 <i>(Note 7)</i>	2,000,000	0.49%

*Notes:*

- (1) The 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 37,808,000 Shares are beneficially owned by Madam Ngan, the spouse of Mr. 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 2,000,000 Shares and 3,000,000 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 1,000,000 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 Hon, 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, each of the following persons (not being a 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***

<b>Name</b>	<b>Capacity</b>	<b>Number of Shares</b>	<b>Percentage of interest</b>
Successful Years International Co., Ltd. (Note 1)	Beneficial owner	183,700,000	45.32%
Mr. Christopher Koch (Note 2)	Interest of a controlled corporation	79,601,000	19.64%
NEHK (Note 2)	Beneficial owner	79,601,000	19.64%

*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 79,601,000 Shares of the Company.

***Short positions in the underlying Shares***

<b>Name</b>	<b>Number of underlying Shares</b>	<b>Percentage of interest</b>
Mr. Christopher Koch	39,800,000 (Note)	9.83%
NEHK	39,800,000 (Note)	9.83%

*Note:* Pursuant to the contingent purchase deed dated 22 November 2019 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 2018, 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 2018, being the date to which the latest audited financial statements of the Company were made up.

### 6. EXPERT

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

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

<b>Name</b>	<b>Qualification</b>
Alliance Capital	A licensed corporation to carry 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 2018), 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 HSBC Securities Services (Bermuda) Limited at 6 Front Street, Hamilton HM 11, Bermuda and the Hong Kong branch share registrar and transfer office of which is Tricor Tengis Limited at Level 54, 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 Previous Manufacturing Agreement; and
- (ii) the Manufacturing Agreement.

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## NOTICE OF SPECIAL GENERAL MEETING

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### MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司\*

(Incorporated in Bermuda with limited liability)

(Stock code: 1100)

**NOTICE IS HEREBY GIVEN** that the Special General Meeting (the “SGM”) of Mainland Headwear Holdings Limited (the “Company”) will be held at Mainland Headwear Holdings Limited, Rooms 1001–1005, 10th Floor, Tower II, Enterprise Square I, 9 Sheung Yuet Road, Kowloon Bay, Kowloon, Hong Kong on Friday, 27 December 2019 at 10:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution as an ordinary resolution of the Company:

**“THAT:**

- (a) the manufacturing agreement (the “**Manufacturing Agreement**”) dated 22 November 2019 between Wintax Trading Limited (a wholly owned subsidiary 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 initial term of three years from 1 January 2020 through 31 December 2022 and all the transactions contemplated in the Manufacturing Agreement are hereby approved, confirmed and ratified (details of the Manufacturing Agreement are set out in the Company’s circular dated 10 December 2019 (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
- (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

\* For identification purpose only

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## NOTICE OF SPECIAL GENERAL MEETING

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further documents or deeds which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated under the Manufacturing Agreement.”

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

Hong Kong, 10 December 2019

*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 54, 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.

*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.*