

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1100)

DISCLOSEABLE TRANSACTION – ACQUISITION OF H3 SPORTGEAR

The Board is pleased to announce that on 3 August 2011, the Purchaser (a wholly owned subsidiary of the Company), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire from the Vendor the Sale Share at the consideration of US\$1 and to subscribe for the Capitalisation Shares by way of the Debt Capitalisation. The aggregate consideration payable by the Group for the Acquisition amounts to US\$5,600,001 (equivalent to about HK\$43.6 million). On or before the Completion, H3 Sportgear will also issue the Debenture to MSHL by conversion of the existing debt owing from H3 Sportgear to MSHL.

The Acquisition will enable the Group to establish H3 Sportgear as its distribution and trading arm in the USA which is currently the largest market of the Group and the Group will possess its own distribution channel in the USA to sell products directly to major retailers in the USA.

As the applicable percentage ratios as defined in the Listing Rules in respect of the Acquisition and Subscription exceeds 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

* *For identification purpose only*

INTRODUCTION

Reference is made to the announcement of the Company dated 15 June 2011 in relation to the entering into the MOU. H3 Sportgear had been a customer of the Group since 2001 whereby the Group supplied headwear products to H3 Sportgear. In March 2011, SH3 Holdings (as a majority shareholder of H3 Holdings which is in turn the sole shareholder of H3 Sportgear) has given a guarantee to the Company as security for the repayment obligations from H3 Sportgear arising from trade payables owing to subsidiaries of the Company from time to time. At that time, H3 Sportgear (together with its holding companies) owed to the Group an aggregate amount of approximately US\$5,600,000. SH3 Holdings also agreed to transfer its shareholding in H3 Holdings to discharge its obligations under the said guarantee. SH3 Holdings is a wholly owned subsidiary of the Target Company.

The Board announces that on 3 August 2011, the Purchaser (a wholly owned subsidiary of the Company), the Vendor and the Target Company entered into the Acquisition Agreement, pursuant to which the Purchaser has conditionally agreed to acquire from Vendor the Sale Share at the consideration of US\$1 and to subscribe for the Capitalisation Shares by way of the Debt Capitalisation. The parties have agreed that H3 Sportgear will also issue the Debenture to MSHL by conversion of the existing debt owing from H3 Sportgear to MSHL.

THE ACQUISITION AGREEMENT

Date: 2 August 2011

Parties:

Purchaser: Great Champion International Co., Ltd.

Vendor: Smart Roadmap Limited

Target Company: Million Soung Limited

To the best of the Directors' knowledge, information and belief and having made all reasonable enquiries, each of the Vendor and the Target Company and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Subject Matter of the Acquisition Agreement

Pursuant to the Acquisition Agreement,

- (1) the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the Sale Share at the consideration of US\$1 and the Sale Share represents the entire issued share capital of the Target Company, free from encumbrance and together with all rights now or hereinafter attached thereto including but not limited to all dividends and distribution declared, paid or made in respect thereof on or after the Completion Date;
- (2) the Purchaser has conditionally agreed to subscribe for 99 ordinary shares (“**Capitalisation Shares**”) of the Target Company at the consideration of US\$2,800,000 which will be settled by way of Debt Capitalisation and the Target Company has conditionally agreed to issue such shares to the Purchaser; and
- (3) the parties have agreed that H3 Sportgear will also issue the Debenture of principal amount of US\$2,800,000 to MSHL by conversion of the existing debt of the same amount owing from H3 Sportgear to MSHL.

The consideration for the Acquisition

The consideration payable by the Group for the acquisition of entire equity interest in the Target Group (including 85% equity interest in H3 Sportgear) in form of Sale Share, Capitalisation Shares and Debenture shall be US\$5,600,001 (equivalent to about HK\$43.6 million) which will be settled in the following manner :

- (1) as to US\$1.00 by payment to the Vendor upon Completion;
- (2) as to US\$2,800,000 by way of Debt Capitalisation upon Completion; and
- (3) as to US\$2,800,000 in form of Debenture by conversion of the existing debt.

The consideration for the Acquisition has been determined after arm’s length negotiation between the Company, the Vendor and the Target Company with reference to, among other things,

- (i) the financial position of H3 Sportgear with respect to market and transaction comparables: the historic balance sheet positions, historic operating profits and losses and historic cashflows;
- (ii) the business operations and prospects of H3 Sportgear: the established client base, distribution channels and industry trends of the distribution and marketing operations of H3 Sportgear; and
- (iii) the establishment of the Company’s own distribution channel in the USA as mentioned in the paragraph headed “Reasons for the Acquisition” below.

Conditions precedent to the Acquisition Agreement

The completion of the Acquisition is conditional upon fulfillment of the following conditions:

- (a) the Purchaser being satisfied with the due diligence review to be carried out by it on the Target Group;
- (b) the warranties given by the Vendor and the Target Company in the Acquisition Agreement remaining true, accurate and not misleading in any respect;
- (c) completion of the Subscription so that the Target Company will have 85% shareholding in H3 Sportgear;
- (d) completion of issue of Debenture by H3 Sportgear to MSHM; and
- (e) (if applicable) all necessary consents, approvals and permits required for consummation of the transactions contemplated under the Acquisition Agreement having been obtained by the parties to the Acquisition Agreement and not revoked.

If the above conditions have not been fulfilled or waived by the Purchaser on or before 30 November 2011 (or such other date as the parties to the Acquisition Agreement may agree in writing), the Acquisition Agreement shall lapse and thereafter neither party to the Acquisition Agreement shall have any rights or obligations towards each other except in respect of any antecedent breach.

Completion

Completion shall take place on the fifth Business Day after the fulfillment or waiver of the conditions precedent of the Acquisition Agreement (or such other date as may be agreed between the Purchaser, the Vendor and the Target Company). Upon Completion, the Target Company and H3 Sportgear will become a wholly owned subsidiary and 85% owned subsidiary of the Company respectively and the financial information of the Target Group will be consolidated into the accounts of the Group.

Other terms

1. Right of Mr. Hines to sell his shares in H3 Holdings

As at the date of this announcement, Mr. Hines is the Chief Executive Officer of H3 Sportgear and owns about 20.26% equity interest (“**Hines Equity Interest**”) in H3 Holdings. Pursuant to the shareholders agreement between Mr. Hines, H3 Holdings and other shareholders of H3 Holdings, Mr. Hines has the option to require H3 Holdings to purchase all of Hines Equity Interest in case of occurrence of termination of Hines’ employment with H3 Sportgear without cause or his resignation with good reason at a fair market value within three years after occurrence of such event. Mr. Hines understands that he may become a connected person of the Company under the Listing Rules and his exercise of the said option

is subject to the compliance with the applicable requirements of the Listing Rules, including without limitation the reporting, announcement and independent shareholders' approval requirements.

2. *Terms of Debenture*

The Debenture is of principal amount US\$2,800,000 with maturity of 5 years bearing interest at the rate of 12-month US\$ LIBOR plus 1.5%.

3. *Undertaking as to amount of net liabilities of H3 Sportgear*

The Vendor undertakes that the net liabilities of H3 Sportgear as at the Completion Date will not exceed US\$7,000,000. In the event that the actual net liabilities of H3 Sportgear exceed such amount, the Purchaser is entitled to require the Vendor to provide compensation by way of a deferred cash payment equivalent to the amount of the liabilities in excess, subject to a maximum of US\$300,000.

INFORMATION ON THE TARGET GROUP

Structure

The Target Company is incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the date of this announcement, the Vendor owns 75% of the issued share capital of H3 Holdings, the holding company of H3 Sportgear, through wholly owned intermediate holding companies, whereas the remaining 25% of the issued share capital of H3 Holdings are owned by Mr. Hines as to about 20.26% and Mr. M. Miller as to about 4.74%. Upon completion of the Subscription, SH3 Holdings will own 85% of the issued share capital of H3 Holdings which wholly owns H3 Sportgear.

Financial Information

The following table shows the turnover, net loss after tax and net liabilities of H3 Sportgear based on its unaudited consolidated financial statements for 2009 and 2010 (prepared in accordance with the USGAAP):

	For the year ended 31 December 2009 (unaudited) <i>US\$'000</i>	For the year ended 31 December 2010 (unaudited) <i>US\$'000</i>
Turnover	5,102	5,564
Net loss after tax	1,314	2,652
	As at 31 December 2009 (unaudited) <i>US\$'000</i>	As at 31 December 2010 (unaudited) <i>US\$'000</i>
Net liabilities	3,051	5,703

Business

The Target Group is principally engaged in distribution of licensed and private label headwear, apparel and accessories in the USA. H3 Sportgear is a customer of the Group.

INFORMATION ON THE GROUP AND THE PURCHASER

The principal activity of the Company is investment holding while its subsidiaries are principally engaged in manufacture and sales of headwear products and sale of licensed products. The Purchaser is an indirect wholly owned subsidiary of the Company and its principal activity is investment holding. MSHM is also an indirect wholly owned subsidiary of the Company and is principally engaged in manufacture and sale of headwear products.

REASONS FOR THE ACQUISITION

Through the Acquisition, H3 Sportgear is expected to represent the Group's distribution and trading arm in the USA which is currently the largest market of the Group and the Group will possess its own distribution channel in the USA to sell the products directly to major retailers in the USA. The Group is a major player in the business of licensed headwear and through the Acquisition, the Group will be able to build its own license portfolio and to attract more licensed products business, which generally enjoy a relatively higher profit margin. In addition, H3 Sportgear will assist the Group to enter into the accessories business in the USA so as to improve the product mix of the Group.

Taking into account the benefits of the Acquisition, the Directors (including the independent non-executive Directors) are of the view that the terms of the Acquisition Agreement are fair and reasonable and entering into the Acquisition Agreement by the Purchaser is in the interests of the Company and the Shareholders as a whole.

IMPLICATION UNDER THE LISTING RULES

As the applicable percentage ratios as defined in the Listing Rules in respect of the Acquisition and the Subscription exceeds 5% but are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

DEFINITIONS

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

“Acquisition”	the acquisition of the Sale Share by the Purchaser from the Vendor and the subscription of the Capitalistion Shares by the Purchaser pursuant to the Acquisition Agreement
---------------	--

“Acquisition Agreement”	the conditional agreement dated 2 August 2011 entered into between the Purchaser, the Vendor and the Company in relation to the Acquisition
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (other than a Saturday and Sunday) on which banks in Hong Kong are open for business
“Capitalisation Shares”	99 new shares of the Target Company to be issued and allotted by the Target Company to the Purchaser by way of Debt Capitalisation
“Company”	Mainland Headwear Holdings Limited, a company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“Completion”	the completion of the Acquisition Agreement in accordance with the terms thereof
“Completion Date”	the fifth Business Day after the fulfillment or waiver of the conditions precedent of the Acquisition Agreement (or such other date as may be agreed between the Purchaser, the Vendor and the Target Company)
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“Debenture”	the debenture in principal amount of US\$2,800,000 to be issued by H3 Sportgear to MSHM in exchange of indebtedness owing by H3 Sportgear to MSHM of the same amount under the terms and conditions of the Acquisition Agreement
“Debt Capitalisation”	the capitalisation of the debt in amount of US\$2,800,000 indebted by the Target Company to the Purchaser for the issue and allotment of Capitalisation Shares under the Acquisition Agreement
“Directors”	directors of the Company

“Group”	the Company and its subsidiaries
“H3 Holdings”	H3 Holdings, Inc., a company incorporated in Indiana of the USA, which owns the entire issued share capital of H3 Sportgear as at the date of this announcement
“H3 Sportgear”	H3 Sportgear LLC, a limited liability company incorporated in Delaware of the USA, which is a wholly owned subsidiary of H3 Holdings as at the date of this announcement
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“MOU”	a memorandum of understanding dated 15 June 2011 in relation to the possible acquisition of interest in H3 Sportgear
“Mr. Hines”	Scott Hines, the Chief Executive Officer of H3 Sportgear and a shareholder of H3 Holdings
“MSHM”	Mainland Sewing Headwear Manufacturing Limited, a company incorporated in Hong Kong with limited liability, which is a wholly owned subsidiary of the Company and a fellow subsidiary of the Purchaser
“Purchaser”	Great Champion International Co., Ltd., a company incorporated in the British Virgin Islands with limited liability, which is a wholly owned subsidiary of the Company
“Sale Share”	1 share of US\$1 each in the issued share capital of the Target Company, representing the entire issued share capital of the Target Company
“SH3 Holdings”	SH3 Holdings LLC, a company incorporated in the USA with limited liability, which owns 75% of issued share capital of H3 Holdings as at the date of this announcement

“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription”	the subscription of certain number of shares of H3 Holdings pursuant to the terms of the Subscription Agreement so that SH3 Holdings will own 85% shareholding in H3 Holdings
“Target Company”	Million Soung Limited, a company incorporated in the British Virgin Islands with limited liability, which is wholly owned by the Vendor and indirectly owns 75% shareholding in H3 Sportgear as at the date of this announcement
“Target Group”	the Target Company and its subsidiaries
“USA”	the United States of America
“USGAAP”	the Generally Accepted Accounting Principles in the USA
“US\$”	United States dollars, the lawful currency of the USA
“Vendor”	Smart Roadmap Limited, a company incorporated in the British Virgin Islands with limited liability
“%” or “per cent”	percentage

For the purpose of illustration in this announcement, figures in United States dollars are translated into Hong Kong dollars at the approximate exchange rate of US\$1.00 to HK\$7.78.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 3 August 2011

As at the date of this announcement, the Board comprises eight directors, of which three are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. James S. Patterson; two Non-executive Directors, Mr. Tse Kam Fow and Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.