
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

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

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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)**

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF SUPPLY OF PRODUCTS; AND
(2) PROPOSAL FOR ADOPTION OF A NEW SHARE OPTION SCHEME AND
TERMINATION OF THE EXISTING SHARE OPTION SCHEME**

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

**HUNTINGTON ASIA LIMITED**

The notice convening the Special General Meeting (“SGM”) of Mainland Headwear Holdings Limited (the “Company”) to be held at Strategic Financial Relations Limited, Room 2402, 24/F, Admiralty Centre 1, 18 Harcourt Road, Hong Kong on 29 December 2011 (Thursday) at 11:00 a.m. is set out on pages 39 to 41 of this circular.

A form of proxy for the SGM is enclosed with this circular. Whether you are able to attend or not, please complete the form of proxy and return the same to the office of the Company’s Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen’s Road East, Wanchai, 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.

Such form of proxy is also published on the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk. Shareholders of the Company are advised to read the notice and complete and return the form of proxy for use at the SGM in accordance with the instructions printed thereon.

* *for identification only*

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DEFINITIONS

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

“Annual Period(s)”	the annual period(s) during the term of the Manufacturing Agreement (three years ending 31 December 2014)
“Approved Caps”	the annual caps of the Transactions approved for the three financial years ending 31 December 2011
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong)
“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
“Existing Share Option Scheme”	the share option scheme adopted by the Company on 23 May 2002
“FPI”	Fully Point Investments Ltd, a company incorporated in the British Virgin Islands and a wholly owned subsidiary of the Company
“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
“Huntington Asia”	Huntington Asia 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
“Independent Board Committee”	an independent board committee of the Board, comprising Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, all being independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Manufacturing Agreement

DEFINITIONS

“Independent Shareholders”	Shareholders other than NEHK, its ultimate beneficial owners and their respective associates
“Latest Practicable Date”	7 December 2011, 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
“Madam Ngan”	Ngan Po Ling, Pauline, Director and spouse of Mr Ngan
“Manufacturer”	the Company and FPI
“Manufacturing Agreement”	the agreement dated 22 November 2011 between FPI 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 three Annual Periods ending on 31 December 2014
“Mr Ngan”	Ngan Hei Keung, Chairman and Executive Director of the Company
“NEC”	New Era Cap Co., Inc., a New York State corporation
“NEC Group”	NEC and its affiliates (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 2014
“New Share Option Scheme”	the share option scheme which is proposed to be adopted by the Company at the SGM, further information and a summary of the principal terms are set out in Appendix I to this circular
“Previous Manufacturing Agreement”	the agreement dated 21 October 2008 between FPI and the Company of one part and NEC and New Era Cap Asia Pacific Limited of the other part in relation to the supply of headwear products, subscription for Shares and the granting of share options

DEFINITIONS

“Products”	any headwear and/or apparel products as set out in the purchase orders to be supplied by the Manufacturer to the Purchasers which may use, display or incorporate intellectual property (such as graphic design, trademark etc) of NEC
“Purchasers”	NEC, affiliates of NEC and purchasers designated by NEC
“SFO”	Securities and Futures Ordinance (chapter 571 of the laws of Hong Kong)
“Shareholder(s)”	holder(s) of the Share(s)
“Shares”	ordinary shares of HK\$0.1 each in the share capital of the Company
“Start Date”	1 January 2012 or any other later date as agreed between the parties to the Manufacturing Agreement
“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 or the Previous Manufacturing Agreement (as the case may be)
“US”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent

Unless otherwise stated, the conversion of US dollars into Hong Kong dollars is based on the exchange rate of US\$1 = HK\$7.80 for illustration purpose only

LETTER FROM THE BOARD



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1100)

Executive Directors:

Ngan Hei Keung (*Chairman*)
Ngan Po Ling, Pauline
(*Deputy Chairman and Managing Director*)
James S. Patterson

Registered Office:

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Non-executive Director:

Tse Kam Fow
Andrew Ngan

*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

Independent Non-executive Directors:

Leung Shu Yin, William
Lo Hang Fong
Liu Tieh Ching, Brandon, JP

12 December 2011

To the Shareholders

Dear Sir or Madam,

**(1) RENEWAL OF CONTINUING CONNECTED TRANSACTIONS
IN RESPECT OF SUPPLY OF PRODUCTS; AND
(2) PROPOSAL FOR ADOPTION OF A NEW SHARE OPTION SCHEME AND
TERMINATION OF THE EXISTING SHARE OPTION SCHEME**

INTRODUCTION

Reference is made to the announcement of the Company dated 22 November 2011. On 22 November 2011, FPI (a wholly owned subsidiary of the Company) and the Company of one part and NEC and NEHK of the other part entered into the Manufacturing Agreement, pursuant to which NEC appoints the Manufacturer as approved manufacturer for the production and manufacture of Products to the Purchasers (including NEC, affiliates of NEC and purchasers designated by NEC) for the three financial years ending 31 December 2014. As NEHK is a substantial shareholder of the Company, the Transactions (the supply of Products by the Group under the Manufacturing Agreement) constitute continuing connected transactions of the Company under the Listing Rules. The Company also takes this opportunity to propose at the SGM an ordinary resolution approving the adoption of New Share Option Scheme and the termination of the Existing Share Option Scheme.

* for identification only

LETTER FROM THE BOARD

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) further details in respect of the proposed adoption of the New Share Option Scheme and termination of the Existing Share Option Scheme; (iii) the letter from Huntington Asia to the Independent Board Committee and the Independent Shareholders; (iv) the recommendation from the Independent Board Committee to the Independent Shareholders; and (v) the notice of the SGM.

MANUFACTURING AGREEMENT

On 22 November 2011, FPI (a wholly owned subsidiary of the Company) and the Company of one part (where FPI and the Company are together referred to hereinafter as “**Manufacturer**”) and NEC and NEHK of the other part entered into Manufacturing Agreement, pursuant to which NEC appoints the Manufacturer as approved manufacturer for the production and manufacture of Products to the Purchasers (including NEC, affiliates of NEC and purchasers designated by NEC, collectively referred to hereinafter as “**Purchasers**”) with minimum purchase commitments for the three financial years ending 31 December 2014.

Supply of Products by the Manufacturer to the Purchasers

Under the Manufacturing Agreement, the Purchasers have agreed to purchase Products (comprising headwear products) which are supplied and manufactured by the Manufacturer for the term of three years from 1 January 2012 to 31 December 2014, with the related particulars (such as specifications, quantity, pricing and delivery schedule of the Products) set forth in the purchase orders as agreed in writing by the respective Purchaser and the Manufacturer from time to time. The Manufacturer will issue to the respective Purchaser an invoice on the Products upon the delivery of the Products. The Purchaser will make payment to the Manufacturer within 60 days from the date of issue of invoice. In accordance with the usual practice adopted by the Group, there is no requirement on initial deposit to be paid by the Purchasers given the reputation of the Purchasers and the other terms of the supply of the Products under the Manufacturing Agreement. The payment terms available to the Purchasers are on normal commercial terms and no less favourable to the Company than those available to independent third parties. The price of the Products can only be determined in the purchase orders as issued by the Purchasers and accepted by the Manufacturer later (not on the date of Manufacturing Agreement) as the price of the Products will depend on other variables (such as specification and quantity of the 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 Purchasers agreed to purchase the Products from the Manufacturer during the following annual periods with consideration not less than the following respective minimum amounts (“**Minimum Annual Consideration**”):

Annual Period	Minimum Annual Consideration
1 January 2012 – 31 December 2012	US\$35,000,000 (equivalent to about HK\$273,000,000)
1 January 2013 – 31 December 2013	US\$40,000,000 (equivalent to about HK\$312,000,000)
1 January 2014 – 31 December 2014	US\$45,000,000 (equivalent to about HK\$351,000,000)

LETTER FROM THE BOARD

For the three years commencing on 1 January 2015 and ending 31 December 2017, in an effort to help with long term planning, NEC will have an objective to obtain without guarantee of the minimum volumes of the supply of the Products of not less than US\$45,000,000 (equivalent to about HK\$351,000,000), and the exact volumes will be discussed and determined by the parties in 2014.

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

Dedicated Manufacturing Facility in relation to Manufacture of Products

The Manufacturer acknowledged that they have established a building within their manufacturing site in Shenzhen which is dedicated solely to manufacturing Products for NEC (“**Dedicated Facility**”). During the term of the Manufacturing Agreement, the Manufacturer agrees to retain the Dedicated Facility for NEC in Shenzhen and the Dedicated Facility will remain used exclusively for the manufacture of Products under the Manufacturing Agreement.

Condition

The Manufacturing Agreement is effective and conditional on the fulfilment of the following condition on or before the 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 for the three years ending 31 December 2014 under the Manufacturing Agreement).”

If the above condition is not fulfilled on or before the Start Date, the Manufacturing Agreement and everything therein 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.

LETTER FROM THE BOARD

Board Representation

Pursuant to the terms of the Manufacturing Agreement, as long as NEC and/or its affiliate is holding at least 10% of the issued share capital of the Company, NEC is entitled to maintain representation and a seat as a Director on the board of Directors subject to compliance with Listing Rules and approval of nominating committee. If NEC's (including its affiliate) holding of the Shares is less than 10% of the issued share capital of the Company and a representative of NEC has been appointed as director of the Company, NEC shall procure such director to resign from directorship of the Company without compensation as soon as possible, failing which the Company is entitled to remove such director from directorship of the Company immediately.

Under the Bye-laws of the Company, although there is no provision in relation to the right of any Shareholder to nominate a representative to join the Board as Director after acquisition of certain level of shareholding in the Company, any Shareholder is entitled to nominate a person for election as a Director of the Company by serving the Company with a notice setting out his intention of nomination at a time not less than seven days before convening a general meeting of the Company. The candidate nominated to directorship by any Shareholder (no matter it is NEC (including its affiliate) or not) must be able to meet the standards in relation to character, experience and integrity and other matters as set forth in Rules 3.08 and 3.09 of the Listing Rules. Moreover, under the Bye-laws of the Company any Director appointed to fill a casual vacancy or as an addition by the Board is subject to the election by the Shareholders at the general meeting. In this regard, the Board is not contractually obligated to approve a person nominated by NEC as Director. The Company is of the view that NEC's right of representation on the Board is not different from the nomination right empowered to other Shareholders under the Bye-laws of the Company on the ground that the appointment of person nominated by NEC as Directors is subject to the same approval procedures as applicable to other Directors (including compliance with applicable provisions of the Listing Rules and approvals by the Board and the Shareholders).

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;

LETTER FROM THE BOARD

- (v) If the Company, FPL, Mr. Ngan, Madam Ngan or any third party or affiliate owned by, related to, or associated with the Company, FPL, 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 by the Purchasers as a result of the Purchasers association with the Company, FPL, Mr. Ngan or Madam Ngan;
- (vi) If the Company undergoes a change in majority or controlling ownership without first obtaining the consent of NEC;
- (vii) If the License Agreement between NEC and Major League Baseball Properties, Inc. is terminated or if Major League Baseball Properties, Inc. no longer approves of the Company as a designated manufacturer of licensed products;
- (viii) If the License Agreement between NEC and National Football League Properties, LLC is terminated or if National Football League Properties, LLC no longer approves of the Company as a designated manufacturer of licensed products; or
- (ix) If a petition under any bankruptcy or insolvency law is filed by or against a party to the Manufacturing Agreement, or if either party suspends business or commits any act amounting to a business failure.

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

- (i) upon a material breach by the other party that is not completely cured within thirty (30) business days of the receipt of notice by the breaching party from the non-breaching party; or
- (ii) when the parties cannot agree on the pricing of the Products after negotiation in good faith during a period of 45 days.

ANNUAL CAPS

Historical amounts of Annual Caps in recent years

Set out below are the historical amounts of the Transactions for the two years ended 31 December 2010 and 10 months ended 31 October 2011:

Value of Transactions (HK\$)	10 months ended 31 October 2011	Year ended 31 December 2010	Year ended 31 December 2009
Historical amounts	169,561,000	142,790,000	59,554,000
Approved Caps	273,000,000	273,000,000	117,000,000

LETTER FROM THE BOARD

Based on our management's estimated sales transactions with NEC in November and December 2011, the estimated amount of the Transactions for the year ending 31 December 2011 is about HK\$220,000,000, representing about 80.6% of the amount of Approved Caps in 2011. In view of this high utilization rate, the amounts of the Approved Caps are fair and reasonable.

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 2014 are set out as below:

(Amount in HK\$)	Year ending 31 December 2012	Year ending 31 December 2013	Year ending 31 December 2014
Proposed New Caps	409,500,000	468,000,000	526,500,000

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

The amounts of the proposed New Caps for the three years ending 31 December 2014 is much greater than the Approved Caps for the year ending 31 December 2011 so as to cater for the expected surge in orders from the Purchasers for supply of the Products due to the following reasons:

- (i) NEC will become on-field cap provider for National Football League in April 2012 for a period of five years; and
- (ii) NEC will shift more orders from other suppliers to the Group because NEC (including its affiliates) has equity interest in the Company.

REASONS FOR AND BENEFITS OF ENTERING INTO THE MANUFACTURING AGREEMENT

The principal activity of the Company is investment holding while its subsidiaries are principally engaged in manufacture and sales of headwear products, and sales of licensed products.

New Era is an international lifestyle brand with an authentic sports heritage that dates back over 90 years. Best known for being the official on-field cap for Major League Baseball, New Era is the brand of choice not only for its headwear collection, but also for its accessories and apparel for men, women and youth. NEC has a myriad of licensed entities from various sport, entertainment and fashion properties. The fourth generation family-owned business is headquartered in Buffalo, N.Y. and operates facilities in Canada, Europe, Brazil, Japan and Hong Kong.

NEC Group is a leading manufacturer and marketer of sports headwear in the US. It is one of the well-established and important customers of the Group and 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 2011. 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 Group and the NEC Group.

LETTER FROM THE BOARD

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 are of the view that the Manufacturing Agreement is on normal commercial terms, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

PROPOSED ADOPTION OF A NEW SHARE OPTION SCHEME AND TERMINATION OF THE EXISTING SHARE OPTION SCHEME

On 23 May 2002, the Company adopted the Existing Share Option Scheme. The Existing Share Option Scheme is valid and effective for a period of 10 years commencing from the adoption date after which no further options may be issued, and it will expire on 23 May 2012. As the Existing Share Option Scheme will expire in the coming year, Board of Directors proposes to adopt the New Share Option Scheme at the SGM, and to terminate the Existing Share Option Scheme at the same meeting. Except that no further options may be granted under the Existing Share Option Scheme consequent upon its termination, all the other provisions of the Existing Share Option Scheme will remain in force so as to give effect to the exercise of all outstanding options granted under the Existing Share Option Scheme prior to the date of approval and adoption date of the New Share Option Scheme and all such options will remain valid and exercisable in accordance with the provisions of the Existing Share Option Scheme.

The maximum number of Shares in respect of which options may be granted under the Existing Share Option Scheme, subject to further refreshment of the limit on the grant of options by Shareholders, was 10% of the then issued Shares (i.e. 30,536,058 Shares) as at 23 May 2002, being the date of then Shareholders' approval of the Existing Share Option Scheme adjusted for the issue of bonus shares on 22 May 2007. The 10% general limit under the Existing Share Option Scheme was subsequently refreshed by the Shareholders on 28 November 2008. Under the refreshed limit, the Company may grant options to eligible participants to subscribe for a maximum of 31,840,228 Shares.

As at the Latest Practicable Date, out of the total 56,505,000 options granted and 2,135,400 adjustment for issue of bonus shares under the Existing Share Option Scheme (including those exercised, cancelled, lapsed or outstanding), 4,958,000 options have been exercised, 12,197,800 options were cancelled, 22,464,600 options has been lapsed, and there are 19,020,000 options outstanding (representing about 4.77% of the issued share capital of the Company), which will remain valid and exercisable with their respective terms of issue. Under the Existing Share Option Scheme, the Company may grant further options entitling holders thereof to subscribe for 38,398,286 Shares. The Company has no intention to grant further options under the Existing Share Option Scheme from the Latest Practicable Date to the date of the SGM.

The New Share Option Scheme shall take effect subject to:

- (a) the passing of the necessary resolution by the Shareholders to approve and adopt the New Share Option Scheme and to authorise the Directors to grant options and to allot, issue and deal with the Shares pursuant to the exercise of any options granted under the New Share Option Scheme; and
- (b) the Listing Committee of the Stock Exchange granting the listing of and permission to deal in any Shares which may fall to be issued pursuant to the exercise of options granted under the New Share Option Scheme.

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The Board will not grant options under the New Share Option Scheme before the New Share Option Scheme takes effect.

If any of the above conditions are not satisfied within 2 calendar months after the adoption date of the New Share Option Scheme:

- (a) the New Share Option Scheme shall forthwith determine; and
- (b) no person shall be entitled to any rights or benefits or be under any obligations under or in respect of the New Share Option Scheme.

A summary of the principal terms of the New Share Option Scheme is set out in Appendix I to this circular.

The adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme are inter-conditional.

As at the Latest Practicable Date, there were 398,583,284 Shares in issue. Assuming that no further Shares will be issued during the period from the Latest Practicable Date to the date of approval and adoption of the New Share Option Scheme by the Shareholders, the maximum number of options that can be granted by the Company under the New Share Option Scheme would be 39,858,328 (rounded down to the nearest whole figure) representing 10% of the number of Shares in issue.

Application will be made to the Listing Committee of the Stock Exchange for approval for the listing of, and permission to deal in, the Shares which may fall to be issued pursuant to the exercise of any options that may be granted under the New Share Option Scheme.

None of the Directors are appointed as trustees of the New Share Option Scheme or have a direct or indirect interest in the trustees of the New Share Option Scheme.

There is no general requirement of any minimum period for which any option granted under the New Share Option Scheme must be held before it can be exercised or any performance target a grantee is not required to achieve before any options granted under the New Share Option Scheme can be exercised although the Board will be empowered under the New Share Option Scheme to impose at its discretion any such minimum period or any performance target at the time of grant of any particular option. In addition, the Board will be empowered to determine the subscription price of a Share in respect of any particular option granted under the New Share Option Scheme on the basis of their contribution to the development and growth of the Group. Accordingly, the selected participants are attracted to subscribe for Shares pursuant to the options granted by the Company as rewards for their contribution to the Group and incentives to further contribute towards the profitability and success of the Group.

The Directors consider that it is not appropriate to disclose the value of all options that can be granted pursuant to the New Share Option Scheme as if they had been granted on the Latest Practicable Date prior to the approval of the New Share Option Scheme as the calculation of such value depends on a number of variables which cannot be ascertained at this stage, or can only be ascertained subject to a number of theoretical bases and speculative assumptions. Such variables include, but are not limited to, the subscription price for the Shares to be issued upon the exercise of the options, the period for which the

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options can be exercised, and whether or not the options granted will be exercised by the grantees. The Directors believe that any calculation of the value of the options as at the Latest Practicable Date based on a number of speculative assumptions will not be meaningful and may be misleading to Shareholders.

IMPLICATIONS UNDER THE LISTING RULES

As at the Latest Practicable Date, NEHK is the holder of 79,601,000 Shares (representing about 19.97% of the issued share capital of the Company) and is a substantial Shareholder and a connected person of the Company. As the Transactions (the supply of Products by the Group under the Manufacturing Agreement) involves provision of goods on a continuing or recurring business and in the ordinary and usual course of business of the Group, the Transactions constitute continuing connected transactions of the Company under the Listing Rules. As the proposed New Caps of Transactions will exceed the thresholds set out in Rule 14A.34 of the Listing Rules, the Transactions (including the New Caps) will be subject to the reporting, announcement and Independent Shareholders' approval (by way of poll) requirements pursuant to Rule 14A.35 of the Listing Rules. NEHK and its associates will abstain from voting in respect of the resolution to approve the Manufacturing Agreement and the proposed New Caps. However, no Shareholder is required to abstain from voting in respect of the resolution to approve and adopt the New Share Option Scheme and to terminate the Existing Share Option Scheme.

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

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

SGM

Set out on pages 39 to 41 of this circular is a notice convening the SGM which will be held at Strategic Financial Relations Limited, Room 2402, 24/F, Admiralty Centre 1, 18 Harcourt Road, Hong Kong at 11:00 a.m. on 29 December 2011 (Thursday) at which resolutions will be proposed to approve (i) the Manufacturing Agreement and the proposed New Caps; and (ii) the adoption of a New Share Option Scheme and termination of the Existing Share Option Scheme.

The Manufacturing Agreement and the proposed New Caps are subject to, among other things, the approval by the Independent Shareholders at the SGM to be taken by way of a poll. NEHK and its associates shall abstain from voting for the relevant resolutions 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 material interest in the above transactions and will abstain from voting in respect of the resolution to approve the Manufacturing Agreement and the proposed New Caps at the SGM. On the other hand, no Shareholder is required to abstain from voting in respect of the resolution

LETTER FROM THE BOARD

to approve and adopt the New Share Option Scheme and to terminate the Existing Share Option Scheme. As at the Latest Practicable Date, NEHK (including its associates) is the holder of 79,601,000 Shares (representing about 19.97% of the issued share capital of the Company). There is (i) no voting trust or other agreement or arrangement or understanding entered into by or binding upon NEHK (including its associates); and (ii) no obligation or entitlement of NEHK (including its associates) as at the Latest Practicable Date, whereby it has or may have temporarily or permanently passed control over the exercise of the voting right in respect of its Shares to a third party, either generally or on a case-by-case basis.

A form of proxy for the SGM is enclosed. Whether or not you wish to attend the SGM, you are requested to complete the form of proxy and return the same to the office of the Company's Hong Kong branch share registrar, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, 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.

Huntington Asia has been appointed to advise the Independent Board Committee and the Independent Shareholders in that connection.

The text of the letter from Huntington Asia containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 16 to 26 of this circular and the text of the letter from the Independent Board Committee to the Independent Shareholders is set out on page 15 of this circular.

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

The Board is of the view that the Manufacturing Agreement, the proposed New Caps and the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme are all fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends (i) 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; and (ii) the Shareholders to vote in favour of the resolution to be proposed at the SGM approving the adoption of the New Share Option Scheme and the termination of the Existing Share Option Scheme.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

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

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



MAINLAND HEADWEAR HOLDINGS LIMITED

飛達帽業控股有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 1100)

12 December 2011

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 12 December 2011 issued by the Company (the “Circular”), of which this letter forms part. Terms used in this letter shall bear the same meanings as given to them in the Circular unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to consider the Manufacturing Agreement and the proposed New Caps and to advise the Independent Shareholders as to the fairness and reasonableness of the aforesaid matters, and to recommend how the Independent Shareholders should vote at the SGM. Huntington Asia 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 14 of the Circular, and the letter from Huntington Asia 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 16 to 26 of the Circular.

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

Yours faithfully,
the Independent Board Committee

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

Lo Hang Fong
*Independent non-executive
Director*

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

* for identification only

LETTER OF ADVICE FROM HUNTINGTON ASIA

Set out below is a full text of the letter of advice from the Independent Financial Adviser, Huntington Asia Limited to the Independent Board Committee and the Independent Shareholders in relation to the Manufacturing Agreement, which has been prepared for the purpose of incorporation into this circular.



Suite 1905, 19/F
COSCO Tower
Grand Millennium Plaza
183 Queen's Road Central
Hong Kong

12 December 2011

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 fairness and the reasonableness of the terms of the Manufacturing Agreement, including the Transactions and 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 12 December 2011 (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.

The Board announced on 22 November 2011 that FPI (a wholly owned subsidiary of the Company) and the Company of one part and NEC and NEHK of the other part entered into the Manufacturing Agreement. Pursuant to the Manufacturing Agreement, the Purchasers (including NEC, affiliates of NEC and purchasers designated by NEC) agreed to purchase Products from the Manufacturer (including the Company and FPI) with minimum purchase commitments for another three financial years ending 31 December 2014, as a renewal for the Previous Manufacturing Agreement dated 21 October 2008, which will be expired on 31 December 2011.

Since NEHK is a substantial Shareholder and connected person of the Company, the Transactions (the supply of Products by the Group under the Manufacturing Agreement) constitute continuing connected transactions of the Company under the Listing Rules.

As the applicable percentage ratios for the continuing connected transactions are on an annual basis more than 5% and the proposed New Caps are more than HK\$10,000,000, such transactions are subject to the reporting, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

LETTER OF ADVICE FROM HUNTINGTON ASIA

The Company will seek in the SGM the approval by the Independent Shareholders by way of poll of the Manufacturing Agreement and transactions contemplated thereunder (including Transactions and the proposed New Caps), NEHK and its associates are required to abstain from voting in the SGM in respect of resolution proposed for approval of the above continuing connected transactions.

THE INDEPENDENT BOARD COMMITTEE

The Board currently comprises eight directors, including three executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline and Mr. James S. Patterson; two Non-executive Directors, namely Mr. Tse Kam Fow and Mr. Andrew Ngan; and three Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP.

The Independent Board Committee, comprising all the Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Lo Hang Fong and Mr. Liu Tieh Ching, Brandon, JP, has been established to advise the Independent Shareholders as to whether the terms of the Manufacturing Agreement are on normal commercial terms, in ordinary and usual course of business of Group and fair and reasonable so far as the Independent Shareholders are concerned and whether they are 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 as to whether the terms of the Manufacturing Agreement are on normal commercial terms, in ordinary and usual course of business of Group and fair and reasonable so far as the Independent Shareholders are concerned and whether they are in the interests of the Company and the Shareholders as a whole and to give our opinion in relation to the proposed New Caps for the Transactions for the three years ending 31 December 2014 for their consideration when making their recommendation to the Independent Shareholders.

BASIS OF OUR OPINION

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

We consider that we have reviewed all currently available information and documents which are available to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinions. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Group

LETTER OF ADVICE FROM HUNTINGTON ASIA

and/or its senior management staff and/or the Directors and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Group or any of its subsidiaries. Nevertheless, we have performed all the work required by Rule 13.80 of the Listing Rules.

PRINCIPAL FACTORS AND REASONS CONSIDERED

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

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

1.1 Information of the Group

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

According to the Company's 2010 annual report, most of the Group's products are sold to the US, the PRC and Europe markets, which represented 63.6%, 15.0% and 13.7% of the Group's total turnover for the year ended 31 December 2010, respectively.

The following is the breakdown in turnover of the Group by the three business segments for each of the financial years ended 31 December 2010 and the six months ended 30 June 2011, which is extracted from the Company's respective annual and interim reports:

	For the year ended 31 December			For the six months ended
	2008	2009	2010	30 June
	HK\$'000	HK\$'000	HK\$'000	2011
	(Audited)	(Audited)	(Audited)	HK\$'000
				(Unaudited)
Manufacturing	379,421	388,080	532,311	282,902
Trading	45,622	31,248	33,644	22,855
Retail	185,916	96,506	112,678	54,763
	<hr/>	<hr/>	<hr/>	<hr/>
Total turnover	610,959	515,834	678,633	360,520
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

LETTER OF ADVICE FROM HUNTINGTON ASIA

As indicated in the above table, the manufacturing business has been the core business of the Group, which accounted for approximately 62.1%, 75.2%, 78.4% and 78.5% of the Group's turnover for the three financial years ended 31 December 2010 and the six months ended 30 June 2011, respectively.

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. NEC will also become the official on-field cap provider for the National Football League ("NFL") in April 2012.

NEC Group is a leading manufacturer and marketer of sports headwear in the US. It is one of the well-established and important customers of the Group and the supply of Products to NEC Group has generated significant profitable business to the Group in recent years.

1.3 Reasons of the Manufacturing Agreement and strategic alliance with NEC

As stated in the "Letter from the Board", by entering into or renewing the Manufacturing Agreement, the Company is able to continue to derive benefit from supply of products to NEC. The Transactions contemplated under the Manufacturing Agreement can also promote the synergies and benefits for both the Company and NEC.

As advised by the Management, NEC has been one of the major customers of the Group. According to 2009 and 2010 annual reports of the Group, revenue of HK\$59,554,000 and HK\$142,790,000 was derived from NEC for the years ended 31 December 2009 and 2010, respectively, and it accounted for 11.5% and 21.0% of the Group's revenue for the years ended 31 December 2009 and 2010, respectively. In light of the long-term and stable business relationship and historical transactions with NEC; in addition, the Group also faced myriad external challenges in recent years, including an appreciating renminbi, rising raw material costs and labour costs in the PRC, the management considers that it is in the interest of the Group to maintain and extend this business relationship and secure purchase orders from NEC. By forming a strategic alliance with NEC, the Group will be able to secure purchase orders for the three financial years ending 31 December 2014 and bring a stable and promising income for the manufacturing business from the Group's largest customer.

As stated in the Company's 2010 annual report, the Group will strengthen its cooperation with NEC by opening the first NEC store in Tsim Sha Tsui in March 2011. The store will mainly sell headwear for the sporting leagues for which the license is owned by NEC, including the NBA, NHL, MLB, etc. By forming a strategic alliance with NEC continuously, it will further enhance the long term business relationship and the Group may be able to gain valuable experience in retail business from the leading international headwear brand and further cooperation with NEC by setting up more NEC brand stores in Hong Kong and the PRC, which will boost the Group's income from retail business and also helps to promote the Group's brand name.

LETTER OF ADVICE FROM HUNTINGTON ASIA

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

2. Terms of and reasons for the Transactions

2.1 Terms of the Transactions

Under the Manufacturing Agreement, the Purchasers have agreed to purchase Products (comprising headwear products) which are supplied and manufactured by the Manufacturer for the term of three years from 1 January 2012 to 31 December 2014, 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 Purchasers and the Manufacturer from time to time. The Manufacturer will issue to the Purchasers an invoice on the Products upon the delivery of the Products. The Purchasers shall make payment to the Manufacturer within 60 days from the date of issue of invoice. In accordance with the usual practice adopted by the Group, there is not 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.

The price of the Products can only be determined in the purchase orders as issued by the Purchasers and accepted by the Manufacturer later (not on the date of Manufacturing Agreement) as the price of the Products will depend on other variables (such as specifications and quantity of the Products) to be determined by the parties on normal commercial terms and by arm's length's negotiation or on terms no less favourable to the Group than terms available to or from other parties (based on similar grade, quality, function after taking into account for the purchase volume, delivery terms and other material terms).

As discussed with the management of the Group, they have implemented a set of control procedures in order to ensure the pricing of the Transactions with NEC will be on normal commercial terms and no less favourable to the independent third parties, in which the management negotiate the pricing of the Transactions with NEC due to unpredictable factors, especially the recent sudden increase in labour costs and raw material costs. From time to time, the management reviews the pricing of the Transactions with NEC by comparing the pricing and margin offered to other customers. In assessing the fairness and reasonableness of the pricing of the purchase orders with NEC, we have carried out a review on the pricing of sample copies of supporting documents issued by the Group to other customers who are independent third parties of the Group and compared them with those of NEC. Based on our review on the historical transactions, we noted that the pricing of the products offered by the Group to NEC were on normal commercial terms and no less favourable to the independent third parties.

LETTER OF ADVICE FROM HUNTINGTON ASIA

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

Annual Period	Minimum Annual Consideration
1 January 2012 – 31 December 2012	US\$35,000,000 (equivalent to approximately HK\$273,000,000)
1 January 2013 – 31 December 2013	US\$40,000,000 (equivalent to approximately HK\$312,000,000)
1 January 2014 – 31 December 2014	US\$45,000,000 (equivalent to approximately HK\$351,000,000)

For the three years commencing on 1 January 2015 and ending 31 December 2017, in an effort to help with long term planning, NEC will have an objective to obtain without guarantee of the minimum volumes of the supply of the Products of not less than US\$45,000,000 (equivalent to approximately HK\$351,000,000), and the exact volumes will be discussed and determined by both parties in 2014.

Within 90 days after the end of the Annual Period, the Manufacturer will provide a statement setting out the actual aggregate purchases of Products by the Purchasers under the Manufacturing Agreement. 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 such Annual Period, the Purchasers shall have a period of 60 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 equal to 10% of such deficiency within 30 days after the Extended Period. In case the actual aggregate purchases of the Products by the Purchasers in any Annual Period is more than or equal to 75% of the Minimum Annual Consideration for such Annual Period, the Purchasers do not have obligation to make the above cash payment to the Manufacturer for that Annual Period.

In other words, the Purchasers only guarantee purchases of approximately HK\$204,750,000, HK\$234,000,000 and HK\$263,250,000 for Annual Periods from 1 January 2012 to 31 December 2012, from 1 January 2013 to 31 December 2013 and from 1 January 2014 to 31 December 2014, respectively. That is, the guarantee purchases of approximately HK\$204,750,000, HK\$234,000,000 and HK\$263,250,000 for the three years ending 31 December 2012, 2013 and 2014 representing approximately 30.2%, 34.5% and 38.8% of turnover of the Group for the year ended 31 December 2010. NEC is one of the most well-established and important customers of the Group, and 11.5% and 21.0%, or approximately HK\$59,554,000, HK\$142,790,000, of the Group’s turnover for the years ended 31 December 2009 and 2010 has generated from supply of headwear to NEC, respectively. Given that the historical trend of approximately 140.0% sales growth from NEC for the year ended 31 December 2010 and comparing to the year ended 31 December 2010, the Group has already contributed higher turnover from NEC of approximately HK\$26,771,000, or 18.7%

LETTER OF ADVICE FROM HUNTINGTON ASIA

sales growth, up to approximately HK\$169,561,000 for the ten months ended 31 October 2011, we consider that NEC will continue to increase its demand of the Group in terms of amount and sales proportion after taking into account for expansion of NEC's business to NFL and the growth in the guarantee purchases from NEC for the three years ending 31 December 2012, 2013 and 2014 are within NEC's past demand trend.

As discussed with the management, the compensation rate of 10% is negotiated on arm's length basis with reference to the common net profit margin of the manufacturing clothing industry, in which the compensation rate of 10% representing a discount on the gross profit margin of Group's manufacturing business of 14.7%, 21.0% and 19.7% for the years ended 31 December 2009 and 2010 and the six months ended 30 June 2011, respectively. With reference the historical compensation rate of 10% for the Previous Manufacturing Agreement, the net profit margin for the financial year ended 31 December 2010 of 0.8% only, and in case the actual aggregate purchases of Products by NEC is less than 75% of the Minimum Annual Consideration, the unutilized production capacity can be shifted to take up additional purchase orders from other customers, therefore, we concur with the view of the management that the compensation rate of 10% is fair and reasonable.

Pursuant to the Manufacturing Agreement, the Purchasers shall make payment to the Manufacturer within 60 days from the date of issue of invoice, implying a trade receivable turnover ratio of 6.08 and the ageing of trade receivable from NEC will be within 60 days. With reference to the Company's 2010 annual report, the Group's trade receivables turnover period was approximately 61 days. Entering into the Manufacturing Agreement will enable the Group to maintain the trade receivables turnover period within a reasonable range and it is in line with the Group's trade receivables' credit policy, hence ensuring the sufficiency of the Group's liquidity requirements in both short and long terms.

Pursuant to the terms of the Manufacturing Agreement, as long as NEC and/or its affiliate is holding at least 10% of the issued share capital of the Company, NEC is entitled to maintain representation and a seat as a Director on the board of Directors subject to compliance with Listing Rules and approval of nominating committee. If NEC's (including its affiliate) holding of the Shares is less than 10% of the issued share capital of the Company and a representative of NEC has been appointed as director of the Company, NEC shall procure such director to resign from directorship of the Company without compensation as soon as possible, failing which the Company is entitled to remove such director from directorship of the Company immediately.

In light of recent economy downturn in Europe and US many exporters in the PRC have difficulties securing purchase orders, and it is generally expected that consumer demand will be weak, therefore, we consider that giving a Board representative right to NEC over the other shareholders/customers in return for securing purchase orders and maintaining positive long term business relationship from NEC is fair and reasonable and in the interests of the Company and the Independent Shareholders as a whole.

After considering the factors above, we are of the view that the entering into the Manufacturing Agreement and the terms of the Transactions under contemplated are in the interest of the Company and Shareholders as a whole.

LETTER OF ADVICE FROM HUNTINGTON ASIA

2.2 Proposed New Caps

For the compliance with the requirements of Rule 14A.35(2) of the Listing Rules, the Directors propose that the amounts of the New Caps in respect of the Transactions for the three years ending 31 December 2014 over the term of the Manufacturing Agreement based on the Minimum Annual Consideration as agreed by the parties and set out in the Manufacturing Agreement with reference to the recent trend of growth of the Transactions.

As set out in the letter from the Board, we summarise (i) the Approved Caps for the three years ending 31 December 2011; (ii) the proposed New Caps for the three years ending 31 December 2014; and (iii) the audited historical transactions amount for the years ended 31 December 2009 and 2010 extracted from the Company's respective annual reports and the latest available unaudited historical transaction amount for the ten months ended 31 October 2011 in the following table:

	2009	2010	2011	2012	2013	2014
	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>	<i>HK\$</i>
	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>	<i>(Million)</i>
Approved Caps/ Proposed New Caps	117.0	273.0	273.0	409.5	468.0	526.5
Approved Minimum Annual Consideration/ Proposed Minimum Annual Consideration	39.0	117.0	136.0	273.0	312.0	351.0
Historical transaction amount	59.6	142.8	169.6*	N/A	N/A	N/A

* Up to ten months ended 31 October 2011

As stated above, the Minimum Annual Consideration for the years ending 31 December 2012, 2013 and 2014 are HK\$273,000,000, HK\$312,000,000 and HK\$351,000,000, respectively, which is based on the sales trend with NEC for the years ended 31 December 2009 and 2010 and the ten months ended 31 October 2011. Comparing to the year ended 31 December 2009, the sales transaction with NEC are substantially increased by 140.0%, or approximately HK\$83,236,000, while the sales transactions for the ten months ended 31 October 2011 has already exceeded the sales transactions for the year ended 31 December 2010, and the Management expected that the business volume of HK\$220,000,000 with NEC can be achieved for the year ending 31 December 2011 with reference to the secured sales orders from NEC. In additions, the actual sales transactions with NEC for the years ended 31 December 2009 and 2010 and the ten months ended 31 October 2011 is above the Approved Minimum Annual Consideration committed by NEC, hence, we concur with the Board that the basis of arriving at the Minimum Annual Consideration is fair and reasonable.

LETTER OF ADVICE FROM HUNTINGTON ASIA

On the other hand, it was evidenced that the Group showed a significant improvement in utilization of the Approved Cap for the year ending 31 December 2011 of 80.6%, based on the management's estimated sales transactions with NEC to be achieved dividing by the Approved Cap in 2011, as comparing to the utilization of the Approved Caps in 2009 and 2010 of 50.9% and 52.3%, respectively. Hence, the management believes that the amount of the proposed New Caps for the three years ending 31 December 2014 is much greater than the Approved Caps for the three years ending 31 December 2011, as it is highly probable that the amount of Transactions with NEC for each of the three year ending 31 December 2012, 2013 and 2014 will be much greater than the Approved Cap of HK\$273,000,000 for the year ending 31 December 2011 after considering the high utilization of Approved Cap for the year ending 31 December 2011 and taking into account of the significant increase in sales volume as NEC will become the official on-field cap provider for the NFL. The NFL is the highest level of professional American football in the US, and is considered the top professional American football league in the world. The NFL is also the most attended domestic sports league in the world by average attendance per game, with 66,960 fans per game in 2010-11.

In order to meet the expected strong demand from NEC, the Group has planned to increase its annual production capacity by hiring more workers and acquisition of production facilities within their manufacturing site in Shenzhen which is solely to manufacturing Products for NEC.

We also note that the global financial markets and economy were rapidly changing with recent unexpected downgrade in US and European credit ratings added more uncertainty. We realized that market conditions will likely to stay unsettled in short term, however, as mentioned above NEC will also become the official on-field cap provider for the NFL in April 2012 for a period of five years, the management considers that the Group, as the second largest supplier of NEC, will certainly obtain extra purchase orders from NEC. Moreover, the management also considers that NEC may shift other suppliers' orders to the Group, since the Group is the only supplier that NEC has equity interests. Therefore, the proposed New Caps is expected to be higher for three year ending 31 December 2014, as comparing to the historical Approved Cap for the three year ending 31 December 2011.

After considering the Minimum Annual Consideration as agreed by the parties and set out in the Manufacturing Agreement with reference to the recent trend of growth of the Transactions, the growth in production capacity of the Group and the recent pessimistic market environment, we consider that the estimated proposed New Caps is reasonable and justifiable.

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

Pursuant to Rules 14A.37 to 14A.40 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;

LETTER OF ADVICE FROM HUNTINGTON ASIA

- (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 third parties; 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 governing the Continuing Connected Transactions; and
 - (iv) have not exceeded the proposed New Caps;
- (c) the Company shall allow, and shall procure the relevant counter-parties to the Continuing Connected Transactions shall allow, the Company's auditors sufficient access to their records for the purpose of the reporting on the Continuing Connected Transactions as set out in paragraph (b); and
- (d) the Company shall promptly notify the Stock Exchange and publish an announcement in accordance with the Listing Rules if it knows or has reason to believe that the Independent Non-executive Directors and/or auditors of the Company will not be able to confirm the matters set out in paragraphs (a) and/or (b) respectively.

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. We also confirmed with the management 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:

- (a) Sales and marketing department will update the purchase orders received from NEC at the end of each month; and
- (b) Accounting department will review the sales transactions with NEC at the end of each month to ensure the Transactions do not exceed the New Caps.

LETTER OF ADVICE FROM HUNTINGTON ASIA

RECOMMENDATION

Having considered all the above-mentioned principal factors and reasons, we are of the opinion that the Manufacturing Agreement, the Transactions and the proposed New Caps contemplated thereunder are on normal commercial terms, in the ordinary course of business of the Group and in the interest of Group and the Independent Shareholders as a whole, and the terms thereof as well as the proposed New Caps are fair and reasonable so far as the Group and the Independent Shareholders are concerned.

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, the Transactions and the proposed New Caps contemplated thereunder at SGM.

Yours faithfully,
For and on behalf of
Huntington Asia Limited
Helen Zee
Managing Director

NEW SHARE OPTION SCHEME**Summary of terms**

The following is a summary of the principal terms of the New Share Option Scheme to be adopted at the Special General Meeting.

1. Who may join and purpose

The Directors may, at their discretion, invite any person belonging to any of the following classes of participants, to take up options to subscribe for Shares:

- (a) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity (“Invested Entity”) in which the Group holds any equity interest, including any executive director of the Company, any of such subsidiaries or any Invested Entity;
- (b) any non-executive directors (including independent non-executive directors) of the Company, any subsidiary or any Invested Entity;
- (c) any supplier of goods or services to any member of the Group or any Invested Entity;
- (d) any customer of the Group or any Invested Entity;
- (e) any person or entity that provides research, development or other technological support to the Group or any Invested Entity; and
- (f) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.

and, for the purposes of the New Share Option Scheme, the offer may be made to any company wholly owned by one or more persons belong to any of the above classes of participants. For the avoidance of doubt, any person who falls within any of the above classes shall not, by itself, unless the Directors otherwise determined, be construed as a grant of option under the New Share Option Scheme.

The basis of eligibility of any of the above class of participants to the grant of any options shall be determined by the Directors from time to time on the basis of their contribution to the development and growth of the Group.

The purpose of the New Share Option Scheme is to enable the Group to grant options to selected participants as incentive or rewards for their contributions to the Group.

2. Price of Shares

The subscription price shall, subject to the adjustment as stated in the New Share Option Scheme, be a price determined by the Board and shall not be less than the higher of (i) the nominal value of the Shares; (ii) the closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange on the date of offer, which shall be a business day; and (iii) the average closing price of the Shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of offer.

3. Maximum number of Shares

- (a) The number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised at any time under the New Share Option Scheme and any other schemes adopted by the Group shall not exceed such number of Shares as equals 30% of the issued share capital of the Company from time to time. No options may be granted under the New Share Option Scheme or any other schemes adopted by the Group if the grant of such option will result in the limit referred to in this paragraph being exceeded.
- (b) The total number of Shares which may be issued upon exercise of all options (excluding, for this purpose, options which have lapsed in accordance with the terms of the New Share Option Scheme or any other schemes of the Group to be granted under the New Share Option Scheme and any other schemes of the Group) must not in aggregate exceed 10% of the Shares in issue on the date of adoption of the New Share Option Scheme (“General Scheme Limit”) provided that:
 - (i) subject to paragraph (a) and without prejudice to paragraph (b)(ii), the Company may by the issue of a circular to and approval of its shareholders in general meeting to refresh the General Scheme Limit provided that the total number of Shares which may be issued upon exercise of all options to be granted under the New Share Option Scheme and any other schemes of the Group must not exceed 10% of the Shares in issue as at the date of approval of the limit and for the purpose of calculating the limit, options (including those outstanding, cancelled, lapsed or exercised in accordance with the New Share Option Scheme or any other schemes of the Group) previously granted under the New Share Option Scheme or any other schemes of the Group will not be counted; and
 - (ii) subject to paragraph (a) and without prejudice to paragraph (b)(i), the Company may by the issue of a circular and separate Shareholders approval in general meeting to grant options under the New Share Option Scheme beyond the General Scheme Limit or, if applicable, the limit referred to in paragraph (b)(i) to participants specifically identified by the Company before such approval is sought.

4. Maximum entitlement of each participant

Subject to paragraph 5 of this Appendix, the total number of Shares issued and which may fall to be issued upon exercise of the options of the New Share Option Scheme and the options granted under any other schemes of the Group (including both exercised or outstanding options) to each grantee in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Where any further grant of options to a grantee under the New Share Option Scheme would result in the Shares issued and to be issued upon exercise of all options granted and proposed to be granted to such person (including exercised, cancelled and outstanding options) under the New Share Option Scheme and any other schemes of the Group in the 12-month period up to and including the date of such further grant representing in aggregate over 1% of the Shares in issue, such further grant must be separately approved by Shareholders in general meeting with such grantee and his associates abstaining from voting. The number and terms (including the subscription price) of options to be granted to such grantee must be fixed before the Shareholders' approval and the date of Board meeting for proposing such further grant should be taken as the date of offer for the purpose of calculating the subscription price.

5. Grant of options to connected persons

Any grant of options under the New Share Option Scheme to a Director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by the independent non-executive Directors (excluding any independent non-executive Director who is the grantee). Where any grant of options to a substantial shareholder or an independent non-executive Director or any of their respective associates, would result in the Shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant:

- (a) representing in aggregate over 0.1% of the Shares in issue; and
- (b) having an aggregate value, based on the closing price of the Shares at the offer date of each offer, in excess of HK\$5 million;

such further grant of options must be approved by Shareholders.

For the purpose of seeking approval of Shareholders under paragraph 3, 4 and 5 of this appendix, the Company must send a circular to the Shareholders containing the information required under the Listing Rules and where the Listing Rules shall so require, the vote at the Shareholders' meeting convened to obtain the requisite approval shall be taken on a poll with those persons required under the Listing Rules abstaining from voting.

6. Time of exercise of option

An option may be exercised in accordance with the terms of the New Share Option Scheme at any time during the period (which may not expire later than 10 years from the date of offer of that option) to be determined and notified by the Directors to the grantee and in the absence of such determination, from the date of acceptance of the offer of such option to the earlier of the date on which such option lapses in accordance with the terms of the New Share Option Scheme and 10 years from the date of offer of that option. A consideration of HK\$1.00 will be payable upon acceptance of the offer.

7. Performance target and minimum period

Unless the Directors otherwise determined and stated in the offer of grant of options to a grantee, a grantee is not required to achieve any performance target before any options granted under the New Share Option Scheme can be exercised or held any option granted under the New Share Option Scheme for any minimum period before it can be exercised.

8. Rights are personal to grantee

An option may not be transferred or assigned and will be personal to the grantee of the option.

9. Rights on dismissal

If the grantee of an option leaves the service of the Group by reason of his voluntary resignation or the termination of his employment in accordance with the provisions of his contract of employment or because his employing company cease to be a member of the Group, all his option will lapse (to the extent not already exercised) and determine on the date he so ceases provided that the Directors in their absolute discretion may otherwise determine.

10. Rights on ceasing employment or death

If the grantee of an option dies, is disabled or ill-health or retires in accordance with the terms of his employment, the grantee or the personal representatives of the grantee may exercise his option in full or part within a period of six months thereafter or at the expiration of the relevant option period, whichever is earlier, failing which the option will lapse provided that the Directors in their absolute discretion may otherwise determine.

11. Effect of alterations to capital

In the event of any reduction, sub-division or consolidation of the share capital of the Company or capitalisation of profits or reserves, rights issue by the Company or otherwise howsoever, the number or nominal amount of Shares comprised in each option and/or the subscription price and/or the method of exercise of the option may be adjusted in such manner as the Directors (having received a statement in writing from the independent financial adviser or auditors of the Company that in their opinion the adjustments proposed satisfy the requirements as stated in the New Share Option Scheme and the Listing Rules and are fair and reasonable) may deem appropriate, provided always that a grantee shall have the same proportion of the equity capital of the Company as that to which he was entitled before such adjustments and no increase shall be made in the aggregate subscription price relating to any option and no adjustment shall have the effect of rendering the subscription price payable upon the exercise of any option becoming less than the nominal value of the Share.

12. Rights on a general offer

In the event of a general offer being made to all the holders of Shares (being an offer made in the first instance on a condition such that, if it is satisfied, the offeror will have control of the Company) or otherwise, any person shall have obtained control of the Company, then the Directors shall as soon as practicable thereafter notify the grantee and the grantee shall be entitled to exercise the option in full or in part (to the extent not already exercised) at any time within one month after the date on which the general offer becomes or is declared unconditional and any option shall upon expiry of such period cease and determine.

13. Rights on winding up

If notice is duly given of a general meeting at which a resolution will be proposed for the voluntary winding-up of the Company, every option shall be exercisable in whole or in part at any time thereafter until the resolution is duly passed or defeated or the meeting concluded or adjourned sine die, whichever shall first occur. If such resolution is duly passed, all options shall, to the extent that they have not been exercised, thereupon cease and terminate.

14. Rights on a compromise or arrangement

In the event of a compromise or arrangement between the Company and its members or creditors being proposed, the Company shall give notice thereof to all grantees on the same date as it despatches notice of the meeting to its members or creditors to consider such a compromise or arrangement and any grantees (or his or her legal personal representatives) may, forthwith and until the expiry of the period commencing on such date and ending on the earlier of the date two calendar months thereafter and the date on which such compromise or arrangement is sanctioned by the relevant court be entitled to exercise his option, but the exercise of an option as aforesaid shall be conditional upon such compromise or arrangement being sanctioned by the relevant court and becoming effective. Upon such compromise or arrangement becoming effective, all options shall lapse except insofar as exercised under this paragraph.

15. Ranking of Shares

The Shares to be allotted upon the exercise of an option will not carry voting rights until the registration of the grantee (or his nominee or any other person) as the holder thereof. Subject to the aforesaid, Shares allotted and issued on the exercise of options will rank *pari passu* with the fully-paid Shares in issue on the date on which the name of the grantee is registered on the register of members of the Company, save that they will not rank for any dividend to be or is proposed to be paid to holders of Shares on the register on a date prior to such registration. Option does not entitle the holder to have any voting right, or right to participate in any dividend or distribution (including those arising on a liquidation of the Company).

16. Period of the New Share Option Scheme

The New Share Option Scheme will remain in force for a period of 10 years from the date of its adoption.

17. Alteration

The Directors may from time to time in their absolute discretion waive or amend such rules of the New Share Option Scheme as they may deem desirable save and except the following which shall be approved by the Shareholders in general meeting:

- (a) alteration to the terms and conditions of the New Share Option Scheme to the advantage of the Eligible Participants relating to the matters set out in rule 17.03 of the Listing Rules;
- (b) alteration to the terms and conditions of the New Share Option Scheme which are of a material nature (excluding the alterations take effect automatically under the existing terms of the New Share Option Scheme); and
- (c) any alteration to the terms and conditions of the options granted (excluding the alterations take effect automatically under the existing terms of the New Share Option Scheme).

The amended terms of the New Share Option Scheme must comply with Chapter 17 of the Listing Rules.

Any change to the authority of the Directors or (if any) administrators of the New Share Option Scheme in relation to any alteration to the terms of the New Share Option Scheme must be approved by Shareholders in general meeting.

18. Lapse of option

An option will lapse automatically (to the extent not already exercised) on the earliest of:

- (a) the expiry of the option period;
- (b) the expiry of the period specified for the acceptance of an offer of the option;
- (c) the expiry of the period referred to in paragraphs 9, 10, 12, 13 and 14 above of this appendix;
- (d) the date of commencement of the winding-up of the Company; and
- (e) the date on which the grantee commits a breach of paragraph 8 above of this appendix.

19. Cancellation of options

Options granted but not exercised or lapsed in accordance with the terms of the New Share Option Scheme may be cancelled by the Company with the approval of the grantee. Where the Company cancels the options and offers to issue new ones to the same grantee, the issue of such new options may only be made under the New Share Option Scheme with available unissued options (excluding the cancelled Options) within the limits set out in paragraph 3 of this appendix.

20. Termination of the New Share Option Scheme

The Company may by resolution in general meeting or the Board may at any time terminate the New Share Option Scheme and in such event no further option shall be offered but the provisions of New Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any option granted prior thereto or otherwise as may be required in accordance with the provisions of the New Share Option Scheme. Options granted prior to such termination but not yet exercised at the time of termination shall continue to be valid and exercisable in accordance with the New Share Option Scheme.

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

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

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

Long positions in Shares and underlying Shares of the Company

Name of Director	Number of Shares			Total	Percentage of interest
	Personal interest	Other direct interest	Underlying shares		
Mr. Ngan Hei Keung		211,352,000 <i>(notes 1, 2)</i>	45,800,000 <i>(notes 3, 4)</i>	257,152,000	64.52%
Madam Ngan Po Ling, Pauline	27,652,000 <i>(note 2)</i>	183,700,000 <i>(note 1)</i>	45,800,000 <i>(notes 3, 4)</i>	257,152,000	64.52%
Mr. James S. Patterson			2,000,000 <i>(note 5)</i>	2,000,000	0.50%

Notes:

- (1) 183,700,000 shares are legally and beneficially owned by Successful Years International Co., Ltd., a company ultimately and beneficially owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respective.
- (2) The 27,652,000 shares are beneficially owned by Madam Ngan, the spouse of Mr. Ngan.

- (3) Pursuant to the contingent purchase deed dated 21 October 2008 between Mr. Ngan, Madam Ngan and New Era Cap Asia Pacific Limited (“NE”), NE 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. On 23 June 2011, NE transferred the title of the contingent purchase deed to NEHK.
- (4) Each of Mr. Ngan and Madam Ngan has been granted share options under the Existing Share Option Scheme to subscribe for 3,000,000 shares of the Company on 23 June 2009.
- (5) Mr. Patterson has been granted share options under the Existing Share Option Scheme to subscribe for 2,000,000 shares of the Company on 23 June 2009.

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

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

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

Long positions in Shares and underlying Shares

Name	Capacity	Number of Shares		Total	Percentage of interest
		Personal interest	Other interest		
Successful Years International Co., Ltd. <i>(note 1)</i>	Beneficial owner	183,700,000	–	183,700,000	46.09%
Mr. Christopher Koch <i>(note 2)</i>	Interest of a controlled corporation	–	79,601,000	79,601,000	19.97%
New Era Cap Hong Kong LLC <i>(note 2)</i>	Beneficial owner	79,601,000	–	79,601,000	19.97%

Notes:

1. Successful Years International Co., Ltd. is owned by Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline as to 40% and 60% respectively. The interests of Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline in the Shares and underlying Shares of the Company have been disclosed in the section 2(a) of this Appendix.
2. Pursuant to the Previous Manufacturing Agreement, NE subscribed 16,758,000 shares and exercised 62,843,000 option shares. NE transferred 79,601,000 shares of the Company to NEHK on 23 June 2011. Mr. Christopher Koch owns 75% of the issued share capital of NEHK. As such, Mr. Christopher Koch is deemed to be interested in the 79,601,000 shares of the Company.
3. Mr. Ngan Hei Keung and Madam Ngan Po Ling, Pauline, who are directors of the Company, are also a director of Successful Years International Co., Ltd.

Short positions in the underlying Shares:

Name	Number of underlying Shares	Percentage of interest
Mr. Christopher Koch	39,800,000 (<i>note</i>)	9.99%
New Era Cap Hong Kong LLC	39,800,000 (<i>note</i>)	9.99%

Note:

Pursuant to the contingent purchase deed dated 21 October 2008 between Mr. Ngan, Madam Ngan and NE, NE 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. On 23 June 2011, NE transferred the title of the contingent purchase deed to NEHK. In view of Mr. Koch's 75% shareholding interest in NEHK, Mr. Koch is also taken to have interest in short position of 39,800,000 underlying shares.

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

Name of subsidiary	Name of substantial shareholder	Percentage of shareholding
Drew Pearson International (Europe) Ltd.	Rajesh Kapoor	10%
Futureview Investment Ltd.	Licensing Partners Limited	25%

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

3. DIRECTORS' OTHER 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 2010, 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 2010, being the date to which the latest audited financial statements of the Company were made up.

6. EXPERT

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

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

Name	Qualification
Huntington Asia	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, Huntington Asia 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 2010), 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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, 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 EGM:

- (i) the letter of recommendation from the Independent Board Committee to the Independent Shareholders, the text of which is set out on pages 15 of this circular;
- (ii) the letter of advice from Huntington Asia to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 16 to 26 of this circular;
- (iii) the written consent from Huntington Asia as referred to in the paragraph headed "Expert" in this Appendix;
- (iv) the Manufacturing Agreement;
- (v) the Previous Manufacturing Agreement; and
- (vi) the New Share Option Scheme;

NOTICE OF THE SGM



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 Strategic Financial Relations Limited, Room 2402, 24th Floor, Admiralty Centre 1, 18 Harcourt Road, Hong Kong on 29 December 2011 (Thursday) at 11:00 a.m. for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolutions as ordinary resolutions of the Company:

1. **“THAT:**

- (a) the manufacturing agreement (“**Manufacturing Agreement**”) dated 22 November 2011 between Fully Point Investments Ltd (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) with minimum purchase commitments for the three financial years ending 31 December 2014 and all the transactions contemplated thereunder be and are hereby approved, confirmed and ratified (details of the Manufacturing Agreement are set out in the Company’s circular dated 12 December 2011 (the “**Circular**”), copies of the Manufacturing Agreement and the Circular have been tabled at the meeting and marked “A” and “B” initialled by the Chairman of the meeting for identification purpose);
- (b) the New Caps (as defined and more particularly described in the Circular) be and are hereby approved and confirmed; and
- (c) the directors of the Company, acting together, individually or by committee, be and are hereby authorised to take such actions, do such things and execute such further documents or deeds which in their opinion may be necessary, desirable or expedient for the purpose of giving effect to and/or to implement the transactions contemplated in this resolution.”

* for identification only

NOTICE OF THE SGM

2. “**THAT** subject to and conditional upon the Listing Committee of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) granting listing of, and permission to deal in, the shares of HK\$0.10 each in the capital of the Company (the “**Shares**”) to be issued pursuant to the exercise of options which may be granted under the new share option scheme of the Company (the “**New Share Option Scheme**”, the rules of which are summarized in the Circular and contained in the document marked “C” produced to the meeting and initialed by the Chairman of the meeting for identification purpose),
- (a) the operation of the existing share option scheme (the “**Existing Share Option Scheme**”) adopted by the Company by ordinary resolution of the shareholders of the Company on 23 May 2002 be terminated in all respects and that no further options shall be granted under the Existing Share Option Scheme save and except that the provisions of the Existing Share Option Scheme shall remain in force to the extent necessary to give effect to the exercise of any options granted prior to the termination or otherwise as may be required in accordance with the provisions of the Existing Share Option Scheme and options granted prior to the termination shall continue to be valid and exercisable in accordance with the Existing Share Option Scheme; and
 - (b) the rules of the New Share Option Scheme be and are hereby approved and adopted and that the Directors be and they are hereby authorised to:
 - (i) administer the New Share Option Scheme under which the options will be granted to eligible participants under the New Share Option Scheme to subscribe for Shares;
 - (ii) modify and/or amend the rules of the New Share Option Scheme from time to time subject to the provisions of such rules;
 - (iii) issue and allot from time to time such number of Shares as may be required to be issued pursuant to the exercise of the options under the New Share Option Scheme; and
 - (iv) make application at the appropriate time to the Stock Exchange, and any other stock exchange upon which the Shares may for the time being be listed, for listing of, and permission to deal in, the Shares which may thereafter from time to time be issued and allotted pursuant to the exercise of the options under the New Share Option Scheme.”

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

Hong Kong, 12 December 2011

NOTICE OF THE SGM

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 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, 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.