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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)

LETTER OF INTENT IN RELATION TO THE PROPOSED ACQUISITION OF 90% EQUITY INTEREST IN THE TARGET COMPANY

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

On 19 September 2012, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Letter of Intent with the Vendors in relation to the Proposed Acquisition of 90% equity interest in the Target Company, which is a leading designer, importer and marketer of women's, men's and kid's hats and other accessories.

The total consideration for the Proposed Acquisition will be up to US$10 million in cash, subject to certain adjustments.

The Target Company and Vendors agreed not to solicit, negotiate, discuss, facilitate or execute (or authorise or permit any of the foregoing) of any merger, consolidation, sale, license, or other disposition of all or substantially all of the assets of the Target Company, sale of capital stock of the Target Company by its shareholders, issuance of capital stock by the Target Company to investors, or any other alternative transaction or transactions for a period of sixty (60) days from the date of the Letter of Intent, subject to an exception for an unsolicited alternative acquisition proposal that is, or is reasonably likely to become, superior to the Proposed Acquisition, if the Target Company's board of directors determines in good faith, following consultation with counsel, that it is required to take certain actions to comply with its fiduciary obligations under applicable law, and gives the Purchaser the opportunity to match the alternative acquisition proposal. This exclusivity is legally binding on the parties to the Letter of Intent.

The Proposed Acquisition may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares. Save for several legally binding clauses, mainly relating to exclusivity, the terms set out in the Letter of Intent **are not legally binding**. The final terms of the Sale and Purchase Agreement are subject to further negotiations between the parties and have yet to be finalised, and may therefore deviate from those set out in the Letter of Intent.

Subject to the terms of the Sale and Purchase Agreement, if the Proposed Acquisition materialises, it is presently expected that the Proposed Acquisition may constitute a discloseable transaction for the Company under the Listing Rules. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate, when the Company signs the Sale and Purchase Agreement or decides to terminate the Letter of Intent or when there is material development on the Proposed Acquisition.

This announcement is made pursuant to Rule 13.09 of the Listing Rules.

PROPOSED ACQUISITION

On 19 September 2012, the Purchaser, a wholly-owned subsidiary of the Company, entered into the Letter of Intent with the Vendors in relation to the Proposed Acquisition of the 90% equity interest in the Target Company.

THE NON-LEGALLY BINDING LETTER OF INTENT

Date

19 September 2012

Parties

(i) The Purchaser as purchaser

(ii) The Vendors as vendor

To the best of the Directors' knowledge, information and belief and having made all reasonable enquires, the Vendors, who are the existing shareholders of the Target Company, are independent third parties with the Company and its connected persons.

Principal terms of the Letter of Intent

Subject matter

90% equity interest in the Target Company

Consideration

The total consideration for the Proposed Acquisition will be up to US$10 million in cash (subject to certain adjustments), which is payable as follows:

(i) US$5 million of the Purchase Price will be paid by the Purchaser to the Vendors at the Closing;

(ii) US$3 million of the Purchase Price will be retained by the Purchaser to secure the indemnity obligations of the Vendors. Such amount, net of any amounts payable to Purchaser in the form of Purchase Price adjustments or in respect of indemnity claims, shall be released to the Vendors on the 6-month anniversary of the Closing Date; and

(iii) US$2 million of the Purchase Price, being the Escrowed Amount, will be deposited into a third-party escrow account by the Purchaser to secure the indemnity obligations of the Vendors. This Escrowed Amount, net of any amounts payable to the Purchaser in the form of Purchase Price adjustments or in respect of indemnity claims, shall be released to the Vendors on the 18-month anniversary of the Closing Date.

Purchase price adjustments

The Purchase Price will be reduced by the amount, if any, by which either the Target Company's NAV or NWC (the mechanism of the Purchase Price adjustments will be determined by the Purchaser at its sole discretion), respectively, as of the Closing Date is less than the NAV/NWC Target.

The Target Company will deliver an estimated NAV or NWC, as applicable, at least three (3) business days prior to the Closing date, which will be measured against the NAV/NWC Target. Within 90 days following the Closing Date, the Purchaser will provide a final NAV or NWC, as applicable, to be compared to the NAV/NWC Target as reduced at the Closing, and if such final NAV or NWC is less than such NAV/NWC Target as reduced at the Closing, the Purchaser may then deduct such shortfall from the Escrowed Amount. The Purchase Price will be reduced by the Vendors' Obligations.

Employment agreements

(i) Key employees

Concurrently with the execution of the Sale and Purchase Agreement, certain employees of the Target Company will enter into employment agreements with the Target Company on terms and conditions acceptable to the Purchaser and such agreements will become effective upon Closing.

(ii) Other employees

Subject to further review and diligence, the Purchaser may, but is not required to, retain employees of the Target Company. The Purchaser may seek to negotiate or renegotiate any terms of future employment on terms substantially commensurate with similarly situated newly-hired employees of Purchaser. To the extent that any employees are terminated in connection with the Proposed Acquisition, the Vendors must satisfy all severance or other obligations owed to the employees under any pre-Closing employment agreements, plans or other arrangement.

(iii) Contractors

Concurrently with the execution of the Sale and Purchase Agreement, the Purchaser may require certain contractors of the Target Company to enter into new contractor agreements with the Target Company and such agreements will become effective upon Closing.

Non-competition agreements with the Vendors

Concurrently with the execution of the Sale and Purchase Agreement, the Vendors will enter into 2-year non-competition agreements with the Purchaser, which will become effective upon Closing.

Exclusivity

The Target Company and Vendors agreed not to solicit, negotiate, discuss, facilitate or execute (or authorise or permit any of the foregoing) of any merger, consolidation, sale, license, or other disposition of all or substantially all of the assets of the Target Company, sale of capital stock of the Target Company by its shareholders, issuance of capital stock by the Target Company to investors, or any other alternative transaction or transactions for a period of sixty (60) days from the date of the Letter of Intent, subject to an exception for an unsolicited alternative acquisition proposal that is, or is reasonably likely to become, superior to the Proposed Acquisition, if the Target Company's board of directors determines in good faith, following consultation with counsel, that it is required to take certain actions to comply with its fiduciary obligations under applicable law, and gives the Purchaser the opportunity to match the alternative acquisition proposal. This exclusivity is legally binding on the parties to the Letter of Intent.

Due Diligence

Subject to the execution of a non-disclosure agreement, each party will permit the other party and its agents and representatives to have reasonable access to premises in which it conducts its business and to its books, records and personnel, and will furnish such financial data, operating data and other information as may be reasonably requested.

INFORMATION ON THE TARGET COMPANY

The Target Company is a leading designer, importer and marketer of women's, men's and kid's hats and other accessories. It sells its products, which also include selected handbags, scarves and gloves, to over 4,700 mostly U.S. based customers, comprised of better specialty stores, home shopping networks, department stores, resort, garden and gift retailers, grocery chains and online retailers.

In addition to offering its namesake brand, which accounts for approximately 88% of its annual sales, the Target Company produces private label headwear for industry-leading retailers and selected licensed branded merchandise.

REASONS FOR THE PROPOSED ACQUISITION

The Group is principally engaged in manufacture and sales of headwear products and sales of licensed products, with customers located in the PRC, Japan, the United States and Europe. The reasons for the Proposed Acquisition can be summarised as follows:

The Company believes that through the Proposed Acquisition, the product range that can be offered by the Company will be more comprehensive, which in turn will bring more sales and profits to the Group in different aspects including expansion of its customer base immediately through the Target Company's existing sales network, especially in women's market in which the Target Company is renowned of. The Company can utilise the Target Company's manufacturing network outside of the PRC to expand its manufacturing capacities and capabilities. The well-established and strongly recognised brand owned by the Target Company can benefit the sales in the Company's retail operations throughout the PRC.

GENERAL

The Proposed Acquisition may or may not proceed. Shareholders and potential investors are reminded to exercise caution when dealing in the Shares. Save for several legally binding clauses, mainly relating to exclusivity, the terms set out in the Letter of Intent **are not legally binding**. The final terms of the Sale and Purchase Agreement are subject to further negotiations between the parties and have yet to be finalised, and may therefore deviate from those set out in the Letter of Intent.

Subject to the terms of the Sale and Purchase Agreement, if the Proposed Acquisition materialises, it is presently expected that the Proposed Acquisition may constitute a discloseable transaction for the Company under the Listing Rules. Further announcement(s) will be made by the Company in accordance with all applicable requirements of the Listing Rules as and when appropriate, when the Company signs the Sale and Purchase Agreement or decides to terminate the Letter of Intent or when there is material development on the Proposed Acquisition.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

"Board"	the board of Directors
"Closing"	the completion of the Proposed Acquisition
"Closing Date"	30 November 2012 or such other date as agreed upon by the Purchaser and the Vendors
"Company"	Mainland Headwear Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Stock Exchange
"Director(s)"	the director(s) of the Company
"Escrowed Amount"	an amount equal to US$2 million of the Purchase Price to be deposited into a third-party escrow account by the Purchaser to secure the indemnity obligations of the Vendors
"Group"	the Company and its subsidiaries
"Letter of Intent"	the non-legally binding letter of intent (save for certain legally binding clauses including mainly the exclusivity as set out in this announcement) dated 19 September 2012 entered into among the Purchaser and the Vendors in relation to the Proposed Acquisition
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"NAV"	the Target Company's total assets (as defined by and determined in accordance with Generally Accepted Accounting Principles) as of the Closing Date less the Target Company's total liabilities (as defined by and determined in accordance with Generally Accepted Accounting Principles) as of the Closing Date
"NAV/NWC Target"	the NAV or the NWC, as applicable, as of the last day of the last full calendar month prior to the Closing Date

"NWC"	the Target Company's consolidated total current asset (as defined by and determined in accordance with Generally Accepted Accounting Principles) as of the Closing Date less the Target Company's total current liabilities (as defined by and determined in accordance with Generally Accepted Accounting Principles) as of the Closing Date. For the purposes of calculating the Target Company's NWC, the Target Company's consolidated current liabilities shall include all the Target Company's debt (whether short- or long- term) and all liabilities for taxes as of the Closing Date (whether or not such liabilities for taxes would then be due and payable)
"PRC"	the People's Republic of China
"Proposed Acquisition"	the proposed acquisition by the Purchaser or a subsidiary of the Purchaser from the Vendors of the 90% equity interest in the Target Company as contemplated under the Letter of Intent
"Purchase Price"	up to US$10 million, being the consideration of the Proposed Acquisition
"Purchaser"	Kingdom Wood Investments Limited, a company incorporated in the British Virgin Islands with limited liability and a wholly-owned subsidiary of the Company
"Sale and Purchase Agreement"	the definitive agreement to be entered into between the Purchaser and the Vendors for the purpose of the sale and purchase of the 90% equity interest in the Target Company
"Share(s)"	ordinary share(s) of HK$0.10 each in the capital of the Company
"Shareholder(s)"	holder(s) of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Target Company"	San Diego Hat Company, a company incorporated in the United States with limited liability
"US$"	United States dollar

"Vendors"	existing shareholders of the Target Company
"Vendors' Obligations"	(i) all Target Company's debt (whether short- or long-term) regardless of whether such debt is paid prior to the Closing; (ii) all transaction fees and expenses of the Target Company and the Vendors (including fees and expenses of investment bankers, attorneys and accountants), whether paid or payable; (iii) all bonuses or severance payments paid or payable to the Target Company's directors, employees and/or consultants, including those payable in connection with the Proposed Acquisition; (iv) any other expenses or costs that are non-recurring and out of the ordinary course of business; and (v) any other liabilities as determined by the Purchaser

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

Hong Kong, 19 September 2012

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

* *For identification purpose only*