MAINLAND HEADWEAR HOLDINGS LIMITED
飛達帽業控股有限公司*
(incorporated in Bermuda with limited liability)
(Stock Code: 1100)

DISCLOSEABLE TRANSACTION ACQUISITION OF 100% EQUITY INTEREST IN THE TARGET COMPANY

Reference is made to the Announcement of the Company dated 19 September 2012 in relation to the entering into of the Letter of Intent regarding the Proposed Acquisition. Unless otherwise stated, capitalised terms used herein shall have the same meanings as ascribed thereto in the Announcement.

The Board is pleased to announce that, further to the Letter of Intent, the Purchaser (being a wholly owned subsidiary of the Company) and the Vendors entered into the Agreement on 28 December 2012 in relation to the Acquisition of 100% 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. On the same date, the Acquisition is completed.

The Consideration for the Acquisition is US$5,000,000 in cash, which is subject to adjustments as provided in the Agreement and may be adjusted by certain of the Vendors' and Target Company's obligations.

As the highest of the applicable percentage ratios exceeds 5% but is lower than 25%, the Acquisition constitutes a discloseable transaction for the Company which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Reference is made to the announcement (the "**Announcement**") of the Company dated 19 September 2012 in relation to the entering into of the Letter of Intent regarding the Proposed Acquisition. Unless otherwise stated, capitalised terms used herein shall have the same meanings as ascribed thereto in the Announcement.

THE AGREEMENT

The Board is pleased to announce that, further to the Letter of Intent, the Purchaser (being a wholly owned subsidiary of the Company) and the Vendors entered into an agreement (the "**Agreement**") on 28 December 2012 in relation to the acquisition (the "**Acquisition**") of 100% equity interest in the Target Company. On the same date (the "**Closing Date**"), the Acquisition is completed.

Date

28 December 2012

Parties

(i) Kingdom Wood Investments Limited as the Purchaser

(ii) Oceans Alive, LLC and Last Mango in Paradise, LLC (each a "**Vendor**" and collectively, "**Vendors**") as the Vendors

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, and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Principal terms of the Agreement

Subject matter

100% equity interest in the Target Company

Consideration

The consideration (the "**Consideration**") for the Acquisition is US$5,000,000 in cash, which is subject to adjustments as provided in the Agreement and may be adjusted by certain of the Vendors' and Target Company's obligations.

The Consideration was arrived at after arm's length negotiation between the Purchaser and the Vendors and had taken into account, among others, the business prospect of the Target Company and the synergy to be brought to the Group through the Acquisition.

Payment of the Consideration

The Consideration has become payable by the Purchaser to the Vendors on the Closing Date in the following manner:

(i) the Purchaser would deposit US$750,000 of the Consideration (the "**Escrow Amount**") with an escrow agent in an interest-bearing account, for a period of six (6) months from the Closing Date;

(ii) any amounts payable by the Vendors to the Purchaser pursuant to the adjustments to Consideration as provided in the Agreement shall be first applied from the Escrow Amount to the extent available without interest; and

(iii) the Purchaser would pay the Vendors US$4,250,000 in cash.

Adjustments to the Consideration

Adjustment at the Closing

Pursuant to the Agreement, the Consideration shall be reduced by the amount, if any, by which the net asset value (as defined in accordance with the United States generally accepted accounting principles) of the Target Company ("**NAV**") at the Closing Date is less than US$1,850,000 (the "**NAV Target**").

For the purpose of measuring the NAV against the NAV Target, prior to the Closing Date, the Vendors have delivered an estimation of the NAV at the Closing Date (the "**Closing NAV**") amounting to US$1,838,979 to the Purchaser.

As the Closing NAV is less than the NAV Target by US$11,021, such amount of shortfall has been deducted from the cash to be paid to the Vendors at the Closing Date (the "**Closing Adjustment**").

Possible adjustment after the Closing

The Purchaser is currently in the process of reviewing the books and records of the Target Company and within a period of ninety (90) days, in case that the Purchaser disagrees with the Closing NAV, the Purchaser shall deliver a notice to the Vendors acknowledging such disagreement, and further adjustment to the Consideration may be made as explained below:

(i) if the Purchaser and the Vendors are able to reach a mutually agreed amount of the NAV during a thirty (30) day period following the delivery of such notice, such mutually agreed amount will be final and binding upon the Purchaser and the Vendors; or

(ii) if the Purchaser and the Vendors are unable to reach such mutually agreed amount of the NAV within such thirty (30) day period, they will appoint a recognised independent accounting firm promptly for the calculation of the NAV. Such accounting firm will deliver a NAV no later than thirty (30) days after its appointment and such NAV will be final and binding upon the Purchaser and the Vendors.

In either case, the final NAV (the "**Final NAV**") will be compared with the Closing NAV and adjustment to the Consideration will be made in the following manner:

If the Final NAV is less than the NAV Target by an amount larger than the Closing Adjustment, the Vendors will pay to the Purchaser the amount of such shortfall as an adjustment to the Consideration.

If the Final NAV exceeds the Closing NAV, the Purchaser will pay to the Vendors by cash within 3 days after the Final NAV has been determined, provided that the amount of such excess will not be larger than the Closing Adjustment. However, as provided in the Agreement, the Final NAV is expected not to be more than the Closing NAV.

If the Final NAV is equal to the Closing NAV, no further adjustment to the Consideration will be made.

Repayment of Bank Loan

The Purchaser has agreed to make repayment of a bank loan owing by the Target Company in the amount of about US$1,500,000 on the Closing Date.

NON-COMPETITION AND NON-SOLICITATION AGREEMENT

On 28 December 2012, the Purchaser, the Target Company and the Vendors (and their members) entered into a non-competition and non-solicitation agreement, pursuant to which, among others, the Vendors have undertaken not to compete with the Target Company and to refrain from making disclosures to the extent set out in such agreement. Save for the obligations of the Vendors regarding confidential information which will remain in effect forever, all obligations of the Vendors contemplated in such agreement will be effective from 28 December 2012 to the three (3) year anniversary of the Closing Date.

INFORMATION ON THE VENDORS

Each of the Vendors is limited liability company formed in the United States. The Vendors are owned by the two founders of the Target Company (each such Vendor being wholly-owned by a different founder). Each Vendor holds a 50% of equity interest in the Target Company at the time of the execution of the Agreement. The Vendors are holding companies of the founders and have no other business other than holding the shares of the Target Company.

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.

FINANCIAL INFORMATION OF THE TARGET COMPANY

Set out below is a summary of the key financial information of the Target Company:

	For the year ended	
US$	**31 December 2010 (unaudited)**	**31 December 2011 (unaudited)**
Turnover	10,738,707	11,551,515
Profits before taxation	404,012	557,928
Profits after taxation	397,371	549,027

US$	**As at 31 October 2012 (unaudited)**
Total assets	4,382,566
Total liabilities	2,147,036
Net assets	2,235,530

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Company and its subsidiaries are principally engaged in manufacture and sales of headwear products, sales of licensed products and tourist souvenir products, with customers located in the People's Republic of China, the United States and Europe. The reasons for and benefits of the Acquisition can be summarised as follows:

(i) the Company can expand its U.S. customer base immediately through the Target Company's existing sales network, especially in women's market in which the Target Company is renowned of; and

(ii) the Company can diversify its product and the more comprehensive product range is expected to in turn bring about higher sales and profits to the Group.

Having taken into account the above reasons and benefits, the Directors (including the independent non-executive Directors) consider that the terms of the Agreement are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As the highest of the applicable percentage ratios exceeds 5% but is lower than 25%, the Acquisition constitutes a discloseable transaction for the Company which is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

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

Hong Kong, 28 December 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*