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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)

CONNECTED AND DISCLOSEABLE TRANSACTION IN RELATION TO ACQUISITION OF 55% SHAREHOLDING IN THE TARGET COMPANY

ACQUISITION

On 5 August 2024, the Purchaser (a wholly owned subsidiary of the Company), the Vendor, the Target Company and Mr. El-Kalaani entered into the Agreement, pursuant to which, among other things, the Purchaser has conditionally agreed to purchase and subscribed for the Subject Shares, at the total consideration of Euro 5,000,000.00. The Subject Shares will represent 55% of the issued share capital of the Target Company as enlarged by the Subscription Shares.

IMPLICATIONS UNDER THE LISTING RULES

As the highest of applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5% but is less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules. The Acquisition is also a connected transaction as Mr. El-Kalaani is a connected person of the Company at the subsidiary level and it is subject to the reporting and announcement requirements but is exempt from circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.101 of the Listing Rules.

THE ACQUISITION

The Board is pleased to announce that on 5 August 2024 (after trading hours)(Hong Kong time), the Purchaser (a wholly owned subsidiary of the Company), the Vendor, the Target Company and Mr. El-Kalaani entered into the Agreement, pursuant to which, among other things, the Purchaser has conditionally agreed to purchase and subscribe for the Subject Shares, at the total consideration of Euro 5,000,000.00. The Subject Shares will represent 55% of the issued share capital of the Target Company as enlarged by the Subscription Shares.

THE AGREEMENT

Details of the terms and conditions of the Agreement are set out below:

Date: 5 August 2024

Parties (i) the Purchaser as purchaser

(ii) the Vendor as vendor

(iii) the Target Company

(iv) Mr. El-Kalaani as the guarantor of the obligations of the Vendor

The ultimate beneficial owner of the Vendor and the Target Company is Mr. El-Kalaani. Please refer to the following paragraph headed “Implications under the Listing Rules” for further information about Mr. El-Kalaani. The Purchaser is wholly owned by the Company and is an investment holding company.

Assets to be acquired

Subject to and in accordance with the terms and conditions of the Agreement, it has been conditionally agreed that: (i) the Vendor shall sell and the Purchaser shall purchase the Sale Shares; and (ii) the Target Company shall issue and the Purchaser shall subscribe for the Subscription Shares. The Sale Shares and the Subscription Shares (collectively, “**Subject Shares**”) will represent 55% of the entire issued share capital of the Target Company as enlarged by the issue of the Subscription Shares. Please refer to the paragraph headed “Information about the Target Company and the Vendor” for more information about the Target Company.

Consideration

Pursuant to the Agreement, the Total Consideration in the sum of Euro 5,000,000.00 (equivalent to about HK\$42,500,000.00) comprises: (i) Euro 1,822,125.12 which is the consideration for the acquisition for the Sale Shares; and (ii) Euro 3,177,874.88 which is the consideration for the subscription for the Subscription Shares.

As at the date of this announcement, the Related Loan which is owed by the Vendor to the Target Company and amounted to about Euro 1,822,125.12. The Target Company has agreed to assign right of claim under the Related Loan to the Purchaser and, in exchange, the Target Company receives a claim on the Purchaser in amount equal to the Related Loan which will be paid as set out below. Accordingly, upon Closing, the Vendor agreed that it will not receive the proceeds for the Sale Shares, but the proceeds will be applied for the settlement in full of the Related Loan.

The Total Consideration shall be payable by the Purchaser in the following manner:

- (a) Euro 1,822,125.12 to the Target Company upon the Closing for the settlement of the claim under the Related Loan; and
- (b) Euro 3,177,874.88 to the Target Company upon the Closing for the issue of Subscription Shares.

At the date of this announcement, the share capital of the Target Company comprised 400 ordinary shares. Upon the Closing, the Target Company will issue 100 new shares and the Purchaser will own 275 shares of the Target Company, representing 55% shareholding.

Basis of the Total Consideration

The Total Consideration was agreed after arm's length negotiation between the Purchaser and the Vendor having taken into account, among other things, (i) the appraised value of the Subject Shares as at 30 April 2024 of approximately Euro 5.9 million, as assessed by an independent valuer using market approach; and (ii) the benefits of the Acquisition brought about to the Group upon Closing as set out in the paragraph headed "Reasons for and Benefits of the Acquisition" below in this announcement.

The original cost of the Sale Shares to Mr. El-Kalaani is estimated to be Euro 7,941.00 as the Target Company has been established by him through the Vendor.

Conditions precedent

Pursuant to the Agreement, the obligations of the parties to the Agreement to complete the transaction are conditional upon fulfillment or waiver (if applicable), among others, of the following major conditions:

- (a) the signing of an addendum to the existing tenancy agreement between the Target Company and the Vendor for a term not more than three years with terms and conditions being fair and reasonable and on normal commercial terms in substitution of the existing tenancy agreement;
- (b) the net asset value of the Target Company will become positive after the Closing;
- (c) the consents of the licensors being obtained in respect of certain major licensing agreements; and

- (d) there are no encumbrances, third party rights, agreement, arrangement or obligation to create or give an encumbrance, in relation to the Sale Shares.

If the above conditions have not been fulfilled on or before 15 September 2024, the provisions of the Agreement (other than certain specified provisions) shall from such date have no effect and no party shall have any liability under them but without prejudice to the rights of any of the parties in respect of antecedent breaches.

Closing

Subject to the fulfillment or waiver (where applicable) of conditions precedent, the Closing shall take place on the Closing Date (or on such other time and/or day as the parties to the Agreement may agree). Upon Closing, the Target Company will become an indirect non-wholly-owned subsidiary of the Company and the financial results of the Target Company will be consolidated with the Group.

INFORMATION ABOUT THE TARGET COMPANY AND THE VENDOR

The Target Company is a leading design company that develops and distributes lifestyle products for a wide range of entertainment, fashion, sports and consumer goods brands of clothing and fashion accessories. It has grown to become one of the biggest licensee organizations in Europe, Middle East and Africa (EMEA). The Target Company is wholly owned by the Vendor which is an investment holding company. The Vendor is indirectly wholly owned by Mr. El-Kalaani.

The table below sets out the financial information (prepared under the Dutch Accounting Standards of the financial years ended 31 December 2022 and 31 December 2023):

	For the year ended	
	31 December	
	2023	2022
	(unaudited)	(audited)
	<i>Euro'000</i>	<i>Euro'000</i>
Revenue	26,981	23,447
Profit/(loss) before taxation	(3,535)	(4,280)
Profit/(loss) after taxation	(2,645)	(3,282)

Based on the unaudited financial statements of the Target Company, the net liability value of the Target Company as at 30 April 2024 amounted to Euro 2,227,000.00 (equivalent to about HK\$18,930,000.00).

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the design, manufacturing and retail of quality casual headwear worldwide. By acquiring the Target Company, the Group will broaden its market geographical coverage to include European Union, Middle East and Africa whilst the Target Company can take advantage of the Group's US establishment and enter its products and services to the US market. The Acquisition also allows the Group to diversify its product lines focusing on headwear only to a more comprehensive full range of apparel and accessory lines. Furthermore, the Acquisition allows the subsidiaries of the Group to access and utilize the Target Company's wide range of licenses to create bigger combined sales revenue.

In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the Acquisition are fair and reasonable and the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

All of the Directors do not have material interest in the Acquisition and they are not required to abstained from voting on the board resolution approving the Acquisition.

IMPLICATIONS UNDER THE LISTING RULES

As the highest of applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the Acquisition is more than 5% but is less than 25%, the Acquisition constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

As Mr. El-Kalaani owns 10% shareholding in H3 Sportgear LLC which is a non-wholly owned subsidiary of the Group, Mr. El-Kalaani is a connected person of the Company at the subsidiary level and the Acquisition is also a connected transaction. By virtue of Rule 14A.101 of the Listing Rules, as the Board (including all the independent non-executive Directors) have approved the transactions and confirmed that the terms of the Acquisition are fair and reasonable, the Acquisition is on normal commercial terms and in the interests of the Company and the Shareholders as a whole, the transactions contemplated under the Agreement thereof are subject to the reporting and announcement requirements but is exempt from circular, independent financial advice and shareholders' approval requirements.

Closing of the Acquisition is subject to the fulfillment of the conditions precedent set out in the Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in the securities of the Company.

DEFINITIONS

Terms or expressions used in this announcement shall, unless the context otherwise requires, have the meanings ascribed to them below:

“Agreement”	the agreement dated 5 August 2024 and entered into by the Vendor, the Purchaser, the Target Company and Mr. El-Kalaani in respect of the sale and purchase of the Sale Shares and the issue of the Subscription Shares
“Acquisition”	the acquisition of the Subject Shares by the Purchaser pursuant to the terms and conditions of the Agreement
“Board”	the board of Directors
“Closing”	closing of the sale and purchase of the Sale Shares and issue of the Subscription Shares pursuant to the Agreement
“Closing Date”	the date of Closing which will be within five business days after the fulfilment and (where appropriate) waiver of the conditions precedents to the Agreement
“Company”	Mainland Headwear Holdings Limited, a company incorporated in the Bermuda with limited liability whose Shares are listed and traded on the Main Board of the Stock Exchange (Stock Code: 1100)
“Director(s)”	the director(s) of the Company
“Euro”	Euro, the lawful currency of the member states of the European Union
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Third Party(ies)”	independent third part(ies) who is/are not connected person(s) of the Company and is/are independent of and not connected with the Company and its directors, chief executive, and substantial shareholders of the Company or any of its subsidiaries or their respective associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“Mr. El-Kalaani”	Mr. Gilbert El-Kalaani, the ultimate beneficial owner of the Target Company and the Vendor
“Purchaser”	Sharp Assets Limited, a company which is incorporated in Hong Kong and wholly owned by the Company
“Related Loan”	the loan owed by the Vendor to the Target Company
“Sale Shares”	175 issued ordinary shares in the capital of the Target Company
“Shareholders”	holders of the issued shares of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subject Shares”	the Sale Shares and the Subscription Shares
“Subscription Shares”	100 ordinary shares to be issued in the capital of the Target Company
“Target Company”	Difuzed B.V., a company incorporated under the laws of the Netherlands
“Total Consideration”	Euro 5,000,000.00 which is the total consideration for the Subject Shares under the Agreement
“Vendor”	Sunset OG B.V., a company incorporated under the laws of the Netherlands

Unless otherwise stated, the conversion of Euro into Hong Kong dollars is based on the exchange rate of Euro 1.00 = HK\$8.50 and is included for illustration purpose only.

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

Hong Kong, 5 August 2024

As at the date hereof, the Board of Directors of the Company comprises nine directors, of which six are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Mr. Ngan Siu Hon, Alexander, Mr. Lai Man Sing, Thomas and Mr. Andrew Ngan; and three are Independent Non-executive Directors, namely Mr. Gordon Ng, Mr. Cheung Tei Sing Jamie and Mr. Li Yinquan.

* *For identification purpose only*