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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)

RENEWAL OF CONTINUING CONNECTED TRANSACTIONS IN RESPECT OF SUPPLY OF PRODUCTS

On 11 November 2024, Wintax and the Company of one part and NEC and NEHK of the other part entered into Framework 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 five financial years ending 31 December 2029.

As NEHK is a substantial shareholder of the Company, the Transactions (the supply of Products by the Group under the Framework Agreement) 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.76(2) of the Listing Rules, the Transactions (including the New Caps) will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the terms of Framework Agreement and the transactions contemplated thereunder and Alliance Capital has been appointed to advise the Independent Board Committee in respect of the Framework Agreement and transactions contemplated thereunder and the New Cap amounts.

A circular containing, among other things, further information about Framework Agreement, and the New Caps, the letter from Alliance Capital to the Independent Board Committee and the Independent Shareholders and the recommendation from the Independent Board Committee together with the notice of the SGM will be dispatched to the Shareholders in accordance with the Listing Rules on or before 2 December 2024.

INTRODUCTION

Reference is made to the Company’s announcement and circular dated 26 July 2022 and 6 October 2022 respectively in relation to continuing connected transactions under the Previous Manufacturing Agreement. On 31 October 2022, the Company obtained the approval of Independent Shareholders of the extension of the Previous Manufacturing Agreement and the annual caps for the continuing connected transactions for the three years ending 31 December 2024. The Previous Manufacturing Agreement will be expired on 31 December 2024.

FRAMEWORK AGREEMENT

On 11 November 2024, Wintax and the Company of one part (where Wintax and the Company are together referred to hereinafter as “**Manufacturer**”) and NEC and NEHK of the other part entered into the Framework 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**”).

Summary of principal terms of the Framework Agreement

Date: 11 November 2024

Parties: Wintax and the Company (manufacturers)
NEC and NEHK (purchasers)

Term: Effective Date to 31 December 2027 (“**Initial Term**”), which could be extendable for the Extended Term (i.e. an additional term of two years from 1 January 2028 through 31 December 2029).

For details on the Extended Term, please refer to the paragraph headed “Extended Term”.

Transactions: The Purchasers agreed to purchase Products (comprising headwear products) which are supplied and manufactured by the Manufacturer for the Initial Term, which could be extendable for another two years subject to the Independent Shareholders’ approval in SGM by the end of 2027, 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.

- Minimum Annual Consideration:** The Minimum Annual Consideration during the term of the Framework Agreement is agreed to be US\$65 million. When the parties consider that this amount of Minimum Annual Consideration should be changed due to change in circumstances, the parties shall negotiate in good faith and come to consensus on the revision of the Minimum Annual Consideration.
- Payment terms:** The Manufacturer issues to the respective Purchaser an invoice on the Products upon the delivery of the Products. The Purchaser makes 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 Framework Agreement.
- Pricing:** The price of the Products is determined by the parties on normal commercial terms and on arm's length's basis. For details on the pricing policy, please refer to the paragraph headed "Pricing Policy and Internal Controls".
- Termination:** The Purchasers shall have the right to terminate the Framework 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;
- (v) If the Company, Wintax, Mr. Ngan, Madam Ngan or any third party or affiliate owned by, related to, or associated with the Company, Wintax, 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 either by the Purchasers as a result of the Purchasers association with the Company, Wintax, Mr. Ngan, Madam Ngan;
- (vi) If the Company undergoes a change in majority or controlling ownership without first obtaining the consent of NEC;
- (vii) If any of the license agreements between NEC and its customers is terminated or if any such customer no longer approves of the Company as a designated manufacturer of licensed products; or
- (viii) If a petition under any bankruptcy or insolvency law is filed by or against a party to the Framework Agreement, or if either party suspends business or commits any act amounting to a business failure.

Any party to the Framework Agreement shall have the right to terminate the Framework Agreement 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.

Condition Precedent

The term of the Framework Agreement will commence on the Effective Date and shall terminate on 31 December 2027 (“**Initial End Date**”) and the period between the Effective Date and Initial End Date is the “**Initial Term**”. The Framework Agreement may be extended for an additional term (“**Extended Term**”) from 1 January 2028 (“**Extended Start Date**”) through 31 December 2029 (“**Extended End Date**”).

Initial Term

The Initial Term of the Framework Agreement is conditional on the fulfilment of the following condition and will become effective on the Effective 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 Framework Agreement and the transactions contemplated herein (including the continuing connected transactions together with the annual caps in relation to supply of the Products under the Framework Agreement) for the period of the Initial Term.”

If the above condition is not fulfilled on or before 31 March 2025, the Framework Agreement and everything therein contained shall be null and void and of no effect and every party to the Framework Agreement shall be released from any liability and obligations contained thereof, except for any accrued rights and antecedent breach.

Extended Term

The Extended Term of the Framework Agreement is effective and conditional on the fulfilment of the following condition on or before the Extended 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 Framework Agreement and the transactions contemplated herein (including the continuing connected transactions together with the annual caps in relation to supply of the Products under the Framework Agreement) for the period of the Extended Term.”

If the above condition is not fulfilled on or before the Extended Start Date, the Framework Agreement and everything therein contained shall be terminated on the Initial End Date and every party to the Framework Agreement shall be released from any liability and obligations contained thereof, except for any accrued rights and antecedent breach.

Pricing Policy and Internal Controls

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 the Framework Agreement) as the price of the Products will depend on other variables (such as complexity of specifications, quantity of the Products, and the prevailing market price of similar products and each step in the manufacture of the similar products) to be determined at the stage of issuance of purchase orders. The price of the Products is determined by the parties on normal commercial terms and by arm's length negotiation. The more complicated the specification is, the higher the production cost and price of the Products are. While the price of the Products may be reduced with the increase in the quantity of the Products, the price of the Products is also determined between the Purchasers and the Manufacturer with reference to the prevailing market price of similar products, being comparable prices offered by the Group to independent third party for similar products having taken into account the technology and quality of the products.

The management of the Manufacturer would regularly conduct market research and gather relevant information to ascertain the prevailing market price of similar products, and would review the comparable prices for the similar products in each case to ensure that there are sufficient comparable prices to which it could refer to. For example, the management will (i) obtain quotations from other manufacturers with similar capacity and capability as the Group or which may engage in competition with the Group for price comparison on at least a seasonal basis; and (ii) analyse and compare the retail price of similar products offered by a variety of retailers, ranging from upper-tier retailers to mass retailers and specialty stores.

In the event that there are no sufficient comparable prices for similar products offered by the Group or there are no similar products in the market, the Manufacturer has to substantially rely on other factors (such as cost for supply and manufacture of the Products and mark-up rate) for the determination of the prices of the Products. Since these Products typically involve special processing methods during the course of manufacturing, tight manufacturing schedule, unique designs for a particular event or campaign, or relatively smaller order size, the actual price offered by the Manufacturers may vary significantly on a case-by-case basis. In fixing the price of these Products, the Group relies on the mechanism and internal control procedures mentioned below, which have been adopted by the Group for the determination of the prices of the Products under the Framework Agreement with or without sufficient comparable prices of similar products.

Due to the proprietary nature of the Products under the Framework Agreement, none of them has a fixed unit price or standard price, or has a published reference price, the Group will determine and monitor the prices of the Products for each purchase order based on the following mechanism and internal control procedures:

- (a) the Manufacturer adopts a cost-plus pricing system to determine the Products' preliminary price (the "**Preliminary Pricing**"). When the Manufacturer receives particulars of a purchase order, it will estimate (i) the costs for the supply and manufacture of the ordered Products and (ii) the mark-up rate after taking into account of specifications, cost of materials, quantity and delivery schedule for the ordered Products, market supply and demand, the prevailing market price of similar products, and the gross profit margin of the Manufacturer's similar products. With the estimated costs and mark-up rate of the ordered Products, the Manufacturer arrives at a preliminary price for such Products;
 - where there are similar products of the Manufacturer or similar products in the market, the Manufacturer will rely on the comparable prices offered by the Manufacturer to at least two independent third parties and the prevailing market price of similar products in the market, which will form the foundation for determining the preliminary price of the Products. In order to safeguard the interests of the Manufacturer, such information will be updated regularly through the market research conducted by the management of the Manufacturer. Subsequently, as part of the Preliminary Pricing, the Manufacturer further takes into account, among others, any adjustment in the cost of materials and labour, size of the purchase order, delivery schedule as well as the then capacity of the Manufacturer;

- where there are no sufficient comparable prices for similar products of the Manufacturer or similar products in the market the Manufacturer will rely on other factors in the Preliminary Pricing, such as the costs of the Products. As mentioned above, these Products typically differentiate themselves from other Products in terms of manufacturing complexity, quantity and designs. It is impractical for the Manufacturer to place specific reliance on any individual factor under the Preliminary Pricing. Instead, the Manufacturer generally adopts an ad hoc analysis in respect of the relevant purchase order on a case-by-case basis by considering all the circumstances with reference to the Preliminary Pricing. The preliminary price of the Products derived therefrom are subject to the evaluation of the senior management and regular review as illustrated below;
- (b) the Sales & Marketing Director in the Sales & Marketing Department of the Manufacturer reviews and finalises the price for the ordered Products in every new order and reviews the prices of the Products for repeated orders at least once every year to ensure that the Products' price is consistent with the prevailing market price of similar products and is no less favourable to the price of similar products offered to the independent customers;
- (c) a committee (“**Committee**”) consisting of the executive Directors and chief financial officer of the Company has been set up to conduct a monthly review on the gross profit margin by customer to ensure that the price offered to the Purchasers is in line with the price offered to the independent customers and to provide guidance to the pricing of the Products; and
- (d) the Finance Department of the Manufacturer checks the ageing report of account receivables every month to review customers' settlement status. If the Purchasers fail to pay in accordance with the payment term, the Finance Department reports to the Committee for close monitoring of the payment and consideration of further appropriate action.

Pursuant to rule 14A.55 of the Listing Rules, the independent non-executive Directors will review the Framework Agreement and the Transactions on an annual basis, and confirm in the Company's annual report that the continuing connected transactions contemplated under the Framework Agreement are entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) in accordance with the Framework Agreement on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

Pursuant to Rule 14A.56 of the Listing Rules, the Company will engage its auditors to report on the continuing connected transactions contemplated under the Framework Agreement on an annual basis and provide a letter to the Board confirming whether anything has come to their attention that causes them to believe that the continuing connected transactions contemplated under the Framework Agreement (i) have not been approved by the Board; (ii) are not, in all material respects, in accordance with the pricing policies of the Group; (iii) are not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and (iv) have exceeded the approved annual caps in connection therewith.

After taking account of the above price setting and reviewing process, the Directors are of the view that the Manufacturer has an adequate internal control system to safeguard that the price of the Products is determined by the parties on normal commercial terms and by arm's length negotiation, and no less favourable than those offered to independent customers.

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 2022 and 31 December 2023 and 9 months ended 30 September 2024:

Value of Transactions (HK\$)	9 months ended 30 September 2024	Year ended 31 December 2023	Year ended 31 December 2022
Historical amounts	461,764,000	598,728,000	761,903,000
Approved Caps	1,278,000,000	1,239,000,000	895,000,000

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 2027 are set out as below:

Value of Transactions	Year ending 31 December 2025	Year ending 31 December 2026	Year ending 31 December 2027
Proposed New Caps (in US\$)	140,530,000	154,583,000	170,041,000
Proposed New Caps (in HK\$)	1,093,323,000	1,202,656,000	1,322,919,000

The above New Caps are proposed based on: (i) the historical growth of the sales amount with NEC; (ii) the internal budget plan relating to indication of estimated order from NEC; and (iii) general buffer.

INFORMATION OF THE PARTIES TO THE MANUFACTURING AGREEMENT

The Group is principally engaged in the design, manufacturing and retail of quality casual headwear worldwide.

NEC is a US based company engaging in the global marketing, sale, and manufacturing of headwear and apparel. It is a leading licensee and marketer of sports and fashion headwear and apparel in the US. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, NEC is ultimately and beneficially owned by Mr. Christopher Koch.

NEHK, being a substantial shareholder of the Company, is an affiliate of NEC and primarily engages in the business of investment holding. To the best knowledge, information and belief of the Directors having made all reasonable enquiries, NEHK is ultimately and beneficially owned by Mr. Christopher Koch.

REASONS FOR AND BENEFITS OF ENTERING INTO THE FRAMEWORK AGREEMENT

New Era is an international lifestyle brand with an authentic sports heritage that dates back over 100 years. Best known for being the official on-field cap for Major League Baseball, New Era is a significant and fundamental brand in Sports, Fashion and Culture. It is globally recognised for its headwear collections, but also has comprehensive product offerings in apparel and accessories for men, women and youth. NEC has a myriad of licensed entities from various sports, entertainment and fashion properties, in addition to its own branded product. The fourth-generation family-owned business is headquartered in Buffalo, N.Y. and operates facilities in Canada, Europe, Brazil, Japan, Mexico, Australia, Korea and Hong Kong. As mentioned in NEC's website, in 2016, NEC became the official on court cap of the NBA, making NEC the only brand in sports history to have exclusive on-field, sideline and on court headwear rights for all three major U.S. leagues at the same time. New Era is a visionary brand, driven by innovation and originality in its quest to always create the very best product supported by world class marketing.

NEC is one of the most well-established and important customers of the Group. The supply of Products to NEC Group has generated significant profitable business to the Group in recent years. The Previous Manufacturing Agreement will expire on 31 December 2024. By entering into the Framework Agreement, the Group is able to continue to derive benefit from supply of the Products to the Purchasers. The transactions contemplated under the Framework Agreement can also promote the synergies and benefits for both the Company and NEC.

The terms of the Framework Agreement were negotiated between the parties at arm's length. In view of the benefits derived from the transactions under the Framework Agreement, the Directors (excluding the independent non-executive Directors) are of the view that the Framework Agreement is on normal commercial terms and in ordinary and usual course of business of the Group, and the Framework Agreement together with the proposed New Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole. The independent non-executive Directors would not be able to form the view in relation to the above aspects until they have discussed with Alliance Capital and have reviewed its letter of advice. As Mr. James S. Patterson is an executive Director appointed by NEC and has material interest in the Framework Agreement, he has abstained from voting on the board resolution approving the Framework Agreement.

IMPLICATION UNDER THE LISTING RULES

As NEHK owns 83,581,050 Shares (representing about 19.48% of the issued share capital of the Company) as at the date of this announcement, it is a connected person of the Company under the Listing Rules. As the Transactions (the supply of Products by the Group under the Framework 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. NEHK, its ultimate beneficial owners and their respective associates are required to abstain from voting in a general meeting in respect of resolution proposed for approval of the above continuing connected transactions.

As the proposed New Caps of Transactions will exceed the thresholds set out in Rule 14A.76(2) of the Listing Rules, the Framework Agreement and the Transactions (including the New Caps) will be subject to the reporting, announcement and Independent Shareholders' approval requirements pursuant to Chapter 14A of the Listing Rules.

GENERAL

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

Independent Board Committee comprising the independent non-executive Directors has been formed to advise the Independent Shareholders on the Framework Agreement and the transactions contemplated thereunder and Alliance Capital has been appointed as independent financial adviser to advise the Independent Board Committee and Independent Shareholders in respect of the Framework Agreement and transactions contemplated thereunder and the New Cap amounts.

A circular containing, among other things, further information about Framework Agreement, and the New Caps, the letter from Alliance Capital to the independent board committee and the Independent Shareholders and the recommendation from the Independent Board Committee will be dispatched to the Shareholders in accordance with the Listing Rules on or before 2 December 2024.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions having the following meanings:

“Alliance Capital”	Alliance Capital Partners Limited, the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the fairness and reasonableness of the Framework Agreement
“Annual Period(s)”	the annual periods during the term of the Framework Agreement (five years ending 31 December 2029)
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Mainland Headwear Holdings Limited(飛達帽業控股有限公司), a company incorporated under the laws of Bermuda, 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
“Effective Date”	1 January 2025 or the date of fulfillment of the condition precedent of the Framework Agreement, whichever is later
“Extended Term”	the period from 1 January 2028 to 31 December 2029 (both dates inclusive)
“Framework Agreement”	the framework agreement dated 11 November 2024 between Wintax and the Company of one part and NEC and NEHK of the other part in relation to the manufacture and supply of Products
“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
“Independent Board Committee”	an independent board committee of the Board, comprising Mr. Gordon Ng, Mr. Cheung Tei Sing Jamie and Mr. Li Yinquan, all being independent non-executive Directors, to advise the Independent Shareholders as to the fairness and reasonableness of the Framework Agreement
“Independent Shareholders”	Shareholders other than NEHK, its ultimate beneficial owners and their respective associates
“Initial Period”	the period from the Effective Date to 31 December 2027 (both dates inclusive)
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	Macau Special Administrative Region of the People’s Republic of China
“Madam Ngan”	Ngan Po Ling, Pauline, Director and spouse of Mr. Ngan
“Manufacturer”	the Company, Wintax and other subsidiaries of the Company
“Minimum Annual Consideration”	the minimum commitment of the Purchasers in respect of the consideration of purchase of Products for the Annual Periods under the Previous Manufacturing Agreement and the Framework Agreement
“Mr. Ngan”	Ngan Hei Keung, Chairman and Executive Director of the Company
“NEC”	New Era Cap, LLC, a Delaware State Corporation
“NEC Group”	NEC and its subsidiaries and affiliates
“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 2027
“Previous Manufacturing Agreement”	the agreement dated 22 November 2019 between Wintax and the Company of one part and NEC and NEHK of the other part in relation to the manufacture and supply of Products
“Products”	any headwear, accessories 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
“SGM”	the special general meeting of the Company to be convened for the Independent Shareholders to approve the Framework Agreement
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Share(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transactions”	the supply of the Products by the Manufacturer to the Purchasers under the Framework Agreement
“substantial shareholder”	has the meaning ascribed to it under the Listing Rules
“US”	the United States of America
“US\$”	United States dollars, the lawful currency of the United States of America
“Wintax”	Wintax Trading Limited, a company incorporated in Macau and a wholly owned subsidiary of the Company
“%”	per cent

Unless otherwise stated, the conversion of US dollars into Hong Kong dollars are based on the exchange rate of US\$1 = HK\$7.78 for illustration purpose only.

By Order of the Board
Ngan Hei Keung
Chairman

Hong Kong, 11 November 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*