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

CONNECTED TRANSACTION IN RELATION TO TENANCY AGREEMENT OF A SUBSIDIARY

INTRODUCTION

Reference is made to the announcement of the Company dated 5 August 2024 in relation to the proposed acquisition of 55% of the issued shares of the Target Company (the "Announcement"). Unless otherwise defined, capitalised terms used in this announcement shall have the same meanings as those defined in the Announcement. The Vendor and the Purchaser completed the Acquisition on 23 August 2024. Pursuant to the Agreement, the Target Company and the Vendor entered into the new tenancy agreement ("New Tenancy Agreement") in respect of the premises ("Premises") as set out below.

NEW TENANCY AGREEMENT

The principal terms of the New Tenancy Agreement are set out below :

Date :	23 August 2024
Parties :	(a) The Target Company as the tenant; and (b) The Vendor as the landlord
Premises :	The business complex consisting of office space, showroom, warehouse, shipping space with parking spaces and the adjacent and underlying land, located at Molenwerf 24, 1911 DB, Uitgeest, the Netherlands.
Gross floor area	8,250 m²
Term :	from date of Closing to 31 July 2027
Monthly rental payment	The monthly rental is agreed to be Euro 40,833 (ex vat).

INFORMATION OF THE PARTIES

The Target Company is incorporated in the Netherlands and 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 shareholders of the Target Company are the Purchaser (as to 55% shareholding) and the Vendor (as to 45% shareholding).

The Vendor is incorporated in the Netherlands and is an investment holding company. The Vendor is indirecly wholly owned by Mr. El-Kalaani.

BASIS FOR DETERMINATION OF THE RENTAL

The terms of the New Tenancy Agreement (including the rental) were determined after arm's length negotiations between the Purchaser and the Vendor and with reference to the open market rent of comparable properties in the vicinity of the Premises.

Based on preliminary estimation of the Company, the value of the right-of-use asset to be recognised by the Company under the New Tenancy Agreement in its consolidated financial statements shall amount to approximately Euro 1.3 million (equivalent to about HK$11.1 million), which is the present value of aggregated lease payments, plus initial direct costs and estimated reinstatement cost with the Lease in accordance with HKFRS 16. Discount rate of approximately 6.5% per annum is applied to compute the present value of aggregate lease payments under the New Tenancy Agreement.

REASONS AND BENEFITS OF THE NEW TENANCY AGREEMENT

The Group is principally engaged in the design, manufacturing and retail of quality casual headwear worldwide. The Target Company has been using the Premises for the business activities. As the Target Company has become a non-wholly-owned subsidiary on the date of the New Tenancy Agreement and the New Tenancy Agreement constitutes a connected transaction of the Company, the entering into the New Tenancy Agreement can ensure the compliance with the requirements under Chapter 14A of the Listing Rules.

In light of the above, the Directors (including the independent non-executive Directors) consider that the terms of the New Tenancy Agreement are fair and reasonable and the New Tenancy Agreement 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 New Tenancy Agreement and they are not required to abstained from voting on the board resolution approving the New Tenancy Agreement.

IMPLICATIONS UNDER THE LISTING RULES

In accordance with HKFRS 16 "Leases", the Company will recognize a right-of-use asset on its consolidated statement of financial position in respect of the New Tenancy Agreement. Accordingly, the entering into of the New Tenancy Agreement will be regarded as an acquisition of asset by the Group for the purpose of the Listing Rules.

As at the date of this announcement, the Vendor is a connected person of the Company at the subsidiary level and the New Tenancy Agreement is a connected transaction. As the highest of the applicable percentage ratios (as defined under Rule 14.07 of the Listing Rules) in respect of the value of the right-of-use assets under the New Tenancy Agreement according to HKFRS 16 (Leases) is more than 0.1% but is less than 5%, such transaction is subject to the reporting and announcement requirements but exempt from the circular, independent financial advice and shareholders' approval requirements pursuant to Rule 14A.76(2) of the Listing Rules.

BASIS OF CONSIDERATION IN RELATION TO THE PROPOSED ACQUISITION OF 55% OF THE ISSUED SHARES OF THE TARGET COMPANY

The Company would like to provide the following additional information in relation to the basis of Total 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.

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 (the "Independent Valuer") using market approach (the "Valuation"); and (ii) the benefits of the Acquisition brought about to the Group upon Closing.

Valuation

Major assumptions adopted in the Valuation

The major assumptions of the Valuation are summarized as follows:

- there will be no major changes in the existing political, legal, economic conditions and taxation law in the jurisdiction where the Target Company currently operates or will operate, which will materially affect the revenue attributable to the Target Company and that the rates of tax payable will remain unchanged and all applicable laws and regulations will be compiled with;
- the financial statements of the Target Company as provided to the Independent Valuer have been prepared in a manner which truly and accurately reflect the financial performance and financial position of the Target Company;
- the Target Company shall secure and retain competent management and key personnel to carry out and support its business operations;
- there are no other unpredictable and force majeure which will cause material adverse effect on the Target Company; and
- there will be no material changes in the Target Company's mode of business operation.

Methodology and multiple approach adopted in the Valuation

The Independent Valuer considered three generally accepted valuation methodologies for the Valuation, being the market approach, the cost approach and the income approach, and considered the market approach as the most appropriate valuation approach for the Valuation as (i) it requires fewer subjective assumptions, which are not easily quantified or ascertained than the income approach; and (ii) compared to the cost approach, the market approach can better reflect the current market expectations of the relevant industry since the price multiples of comparable companies under the market approach were arrived from market consensus.

Under the market approach, the Independent Valuer considered three commonly used multiples for the Valuation, being the price to earnings (''P/E'') multiple, price to book (''P/B'') multiple and price to sale (''P/S'') multiple. As advised by the Independent Valuer, when a company operates at its no earnings level such as the Target Company, the use of P/B multiples may not be an effective measure of the earnings capability of the company as it does not account for the profitability of the business, and fails to reflect the true asset value of the business. Further, the Independent Valuer considered that P/E multiple was not appropriate because the net profit of the Target Company was negative in the trailing 12 months from the date of valuation which is 30 April 2024. Therefore, P/S multiple was adopted as it is commonly used in the valuation of companies which do not have profits and shall be considered as the primary determinant of the value of the Target Company. Given the foregoing and that the earnings of the Target Company for the latest financial year reported at its negative earnings level, the Independent Valuer considered that adopting P/S multiple for the Valuation is fair and reasonable and is in line with the market practice.

Key inputs and assumptions in the Valuation

To appraise the fair value of the Target Company, the Independent Valuer adopted the P/S multiple for the Valuation. The median of P/S multiples of the comparable companies of the Valuation (the ''Comparable Companies'') of approximately 0.49 times is multiplied by the sales amount of the Target Company for the 12 months ended 30 April 2024 of approximately Euro 29 million, and a discount for lack of marketability (the ''DLOM'') of 20.5% is applied. As advised by the Independent Valuer, median is adopted for the Valuation as it is commonly adopted and takes into account of all the values of the Comparable Companies and it is preferred as it accurately reflects the tendency of all values. The Independent Valuer adopted the median of the P/S multiples in the Valuation due to the fact that the dataset of the P/S multiples of the Comparable Companies contains outliers, the mean can be heavily influenced by extreme values; meanwhile the median, being the middle value, shall not be affected by outliers and thus provides a more robust measure of central tendency of the P/S multiples of the Comparable Companies. Details of the Comparable Companies and the DLOM are set forth below.

Comparable Companies

As sourced from Bloomberg, on a best effort basis, the Independent Valuer initially curated a selection of ten comparable companies which are actively trading listed companies of the US or in the Wester Europe, and are within the apparel fashion industry, similar to the business profile of the Target Company. After thorough examination and analysis, the Independent Valuer discerned that six options did not meet the selection criteria for comparability in the Valuation, based on the discrepancies in main revenue streams and business models as compared to the Target Company. Hence, the Independent Valuer has identified an exhaustive list of four Comparable Companies based on the following selection criteria:

- the Comparable Companies shall be listed on the stock exchange and actively trading listed companies of the US or in the Western Europe;

- the Comparable Companies shall be in the same industry as the Target Company (i.e. apparel fashion business selling consumer goods brands of clothing and fashion accessories); and

- the Comparable Companies shall have more than 50% of its revenue generated from provision of apparel fashion business, in particular branded clothing selling to European customers (this is to reflect a suitable comparison for the revenue streams of the Target Company, i.e. the Target Company's primary revenue composition consists of over 50% generated from its apparel fashion business, and approximately 30% originating from the fashion accessories segment).

The principal business activities and the P/S multiples of the Comparable Companies are set out in the table below for illustration purpose only:

Company name	**Stock exchange and relevant stock code**	**Principal business activities**	**P/S multiples** *(times)*
Global Fashion Group S.A.	Frankfurt Stock Exchange GFG	Global Fashion Group S.A. provides e-commerce services. The company offers a range of men's and women's apparels, shoes, and accessories. Global Fashion Group serves customers worldwide.	0.06
Guess?, Inc.	US New York Stock Exchange GES	Guess?, Inc. designs, markets, distributes, and licenses a collection of casual apparel, accessories, and related consumer products. The company offers clothing for men and women, as well as markets other fashion accessories such as watches, jewelry, perfumes, bags, and shoes. Guess? serves customers worldwide.	0.52
Hugo Boss AG	Frankfurt Stock Exchange BOSS	Hugo Boss AG retails apparel. The company offers fashionable style apparel brands products in industry as well as provides delivery services. Hugo Boss serves customers in Germany.	0.85
OVS SpA	Borsa Italiana (Italian Stock Exchange) OVS	OVS SpA is an Italian fashion retailer. The company designs, develops, and creates apparel, beauty, and accessory products for men, women, teens, boys, and girls, as well as offers a portfolio of different apparel brands, each with its own lifestyle. OVS serves customers globally.	0.47
		Median of P/S multiples	**0.49**

DLOM

The Independent Valuer adopted the DLOM of 20.5% with reference to the Stout Restricted Stock Study Companion Guide 2023. The adoption of the DLOM is because ownership interests in closely-held companies are typically not readily marketable compared to similar interest in publicly listed companies, and therefore, a share of stock in a privately-held company is usually worth less than an otherwise comparable share in a publicly held company.

The Board is satisfied that (i) the Independent Valuer has the necessary professional qualifications and relevant experience to perform the valuations of the Target Company; (ii) the scope of work carried out by the Independent Valuer is appropriate for the relevant assessments; and (iii) the valuation assumptions, approach and methodologies adopted by the Independent Valuer for the relevant assessments are fair and reasonable. As such, the Board considers that the Valuation is fair and reasonable, and hence reliable as a basis for determining the Total Consideration.

Based on the above, including taking into consideration the Valuation Report, the detailed analysis of the Target Company's financial position, the market conditions, the potential growth prospectus, and the potential synergy effect with the Group, the Directors (including the independent non-executive Directors) consider that the Total Consideration for the Acquisition of the Target Company is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

Unless otherwise stated, the conversion of Euro into Hong Kong dollars is based on the exchange rate of Euro 1 = HK$8.5 and is included for illustration purpose only.

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

Hong Kong, 29 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*