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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)

MAJOR TRANSACTION IN RELATION TO ACQUISITION OF THE ENTIRE ISSUE SHARE CAPITAL OF THE TARGET COMPANY

Financial Advisor



SOMERLEY CAPITAL LIMITED

The Board is pleased to announce on 25 April 2019 (after trading hours) (Hong Kong time), (i) the Purchaser (a wholly-owned subsidiary of the Company) and the Vendor entered into the Sale and Purchase Agreement, pursuant to which the Vendor has conditionally agree to sell, and the Purchaser has conditionally agreed to purchase, the Sale Shares, representing the entire issued share capital of the Target Company in issue as at the date of this announcement, for a total consideration of US\$9,000,000 (subject to Performance Adjustment), which shall be satisfied by way of cash. Upon Completion, the Target Company will be become an indirect wholly-owned subsidiary of the Company, and all the financial results and assets and liabilities of the Target Company will be consolidated to the financial statements of the Group.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios (as defined in the Listing Rules) in respect of the Acquisition are more than 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting, announcement, circular and shareholders' approval requirements under the Listing Rules.

The Company has obtained written Shareholders' approval for the Sale and Purchase Agreement and the transactions contemplated therein in accordance with Rule 14.44 of the Listing Rules from, SYIL and Madam Ngan, a closely allied group of Shareholders. As at the date of this announcement, SYIL and Madam Ngan are beneficially interested in 219,952,000 Shares, representing approximately 54.27% of the entire issued share capital of the Company. Pursuant to Rule 14.44(2) of the Listing Rules, the written Shareholders' approval from SYIL and Madam Ngan will be accepted in lieu of holding a general meeting of the Shareholders. Accordingly, no physical Shareholders' meeting will be convened by the Company to approve the execution and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder.

A Circular containing further information on the Sale and Purchase Agreement and the transactions contemplated thereunder is expected to be despatched to the Shareholders on or before 20 May 2019 in accordance with the Listing Rules.

Shareholders and potential investors of the Company should note that the Acquisitions is subject to the satisfaction of the conditions precedent under the Sale and Purchase Agreement and therefore may or may not proceed. Shareholders and potential investors of the Company are reminded to exercise caution when dealing in the securities of the Company.

THE ACQUISITION

The Board is pleased to announce that on 25 April 2019 (after trading hours) (Hong Kong time), the Purchaser (a wholly owned subsidiary of the Company) and the Vendor entered into the Sale and Purchase Agreement, pursuant to which, among other things, the Purchaser has conditionally agreed to purchase from the Vendor, and the Vendor has conditionally agreed to sell the Sale Shares, which shall represent the entire issued capital of the Target Company as at the date of this announcement, at the total consideration of US\$9,000,000.00 (subject to Performance Adjustment).

THE SALE AND PURCHASE AGREEMENT

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

Date: 25 April 2019

Parties: (i) the Purchaser as purchaser; and
(ii) the Vendor as vendor

The Vendor was one of the Group’s customers in 2009. They have known each other in the industry for many years. To the best of the Directors’ knowledge, information and belief after having made all reasonable enquiries, the Vendor is an Independent Third Party. Saved as disclosed, the Vendor does not have any relationship with the Company and its connected persons. The Purchaser is wholly owned by the Company and was incorporated in Samoa on 11 April 2019 and has not commenced business.

Assets to be acquired

Subject to and in accordance with the terms and conditions of the Sale and Purchase Agreement, the Vendor has conditionally agreed to sell and the Purchaser has conditionally agreed to purchase the Sale Shares, representing the entire issued share capital of the Target Company as at the date of this announcement.

Consideration

Pursuant to the Sale and Purchase Agreement, the Total Consideration for the sale and purchase of the Sale Shares shall be in the sum of US\$9,000,000 (subject to Performance Adjustment), which shall be payable by the Purchaser in the following manner:

- (a) the Purchaser shall pay to the Vendor a sum of US\$7,000,000 (less the accountants’ audit cost in relation to the Accountants Audit Report which shall be borne by the Vendor) in cash (the “**Cash Consideration**”) at the Completion Date; and
- (b) a sum of US\$2,000,000 shall be transferred by the Purchaser to the Escrow Agent at the Completion Date in connection with the subsequent payment to the Vendor in respect of the Performance Adjustment (the “**Performance Consideration**”), which shall be calculated as follows:
 - (i) In the event that the 2019 Net Profit Before Tax equals or exceeds the amount of US\$1,500,000.00, the Escrow Agent shall distribute to the Vendor the entire amount of the Performance Consideration; or
 - (ii) In the event that the 2019 Net Profit Before Tax is less than US\$1,500,000.00 but greater than zero, the Escrow Agent shall distribute to the Vendor from the Performance Consideration the amount:

$$\text{US\$2,000,000.00} \quad \times \quad \frac{\text{the 2019 Net Profit Before Tax amount}}{\text{US\$1,500,000.00}}$$

Following such distribution to the Vendor, the remaining balance of the Performance Consideration shall be returned to the Purchaser; or

- (iii) In the event that the 2019 Net Profit Before Tax is zero (or if there is a net loss), then the Escrow Agent shall not distribute any amount to the Vendor from the Performance Consideration and shall distribute the entire remaining balance of the Performance Consideration to the Purchaser.
- (c) a sum of US\$675,000 from the Cash Consideration will be deposited with and held by the Escrow Agent for possible payment of costs and losses incurred by the Purchaser by virtue of Vendor's breaches of representations or covenants in the Sale and Purchase Agreement.

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 historical financial information of the Target Company; (ii) the future business prospects of the Target Company; and (iii) other reasons and benefits of the Acquisition as stated under the section headed "Reason for and benefits of the Acquisition" below.

Conditions precedent

Pursuant to the Sale and Purchase Agreement, the obligations of the parties to the Sale and Purchase Agreement to complete the sale and purchase of the Sale Shares are conditional upon fulfillment or waiver (if applicable) of the following conditions:

- (a) no governmental authority shall have enacted, issued, promulgated, enforced or entered any governmental order which is in effect and has the effect of making the transactions contemplated by the Sale and Purchase Agreement illegal, otherwise restraining or prohibiting consummation of such transactions or causing any of the transactions contemplated thereunder to be rescinded following the Completion thereof;
- (b) the Buyer and Seller shall have negotiated and finalized the Escrow Agreements prior to the date five (5) days in advance of the Completion Date;
- (c) the compliance with all necessary approval, disclosure and other requirements of the Stock Exchange and obtaining of all stockholder and other party approvals required of the Purchaser or the Company on or before the Completion;
- (d) the completion of and satisfaction of the Purchaser with the results of financial due diligence, legal due diligence and operational due diligence regarding the Target Company on or before 30 May 2019;
- (e) the receipt of the Accountants' Audit Reports of the Target Company for the fiscal years ended April 30 of 2016, 2017 and 2018, and for the six month periods ended October 31 of 2017 and 2018, showing compliance with the regulatory requirements of the Listing Rules on or before 30 May 2019;

- (f) issuance of any other necessary third party consents or approvals on or before 30 May 2019;
- (g) the respective representations and warranties of the Purchaser and the Vendor contained in the Sale and Purchase Agreement , the other Transaction Documents and any certificate or other writing shall be true and correct in all material respects on and as of the date of the Sale and Purchase Agreement and on and as of the Completion Date;
- (h) the Vendor and the Purchaser shall have duly performed and complied in all material respects with all agreements, covenants and conditions required by the Sale and Purchase Agreement and each of the other Transaction Documents to be performed or complied with by the Vendor or the Purchase prior to or on the Completion Date;
- (i) no material action shall have been commenced against the Purchaser, the Vendor or the Company, which would prevent the Completion;
- (j) there shall not have occurred any Material Adverse Effect, nor shall any event or events have occurred that, individually or in the aggregate, with or without the lapse of time, could reasonably be expected to result in a Material Adverse Effect from the date of the Sale and Purchase Agreement; and
- (k) the Transaction Documents (other than the Sale and Purchase Agreement) shall have been executed and delivered by the parties thereto and true and complete copies thereof shall have been delivered to the other party.

The condition (c) above includes the requirements of the Shareholders having approved the execution of the Sale and Purchase Agreement and the transactions contemplated thereunder in accordance with the Listing Rules or if permitted under the Listing Rules, the obtaining of written approval of the Shareholder(s) in lieu of holding a general meeting of the Company under Rule 14.44 of the Listing Rules when the transaction contemplated hereunder is classified as a “major transaction” under the Listing Rules but does not include the dispatch of a circular to the Shareholders under Rule 14.38A of the Listing Rules.

For condition (f) above, the Company expects to obtain the necessary third party consents or approvals, including consents required from the lender under the Aquarius Loan and the landlords for the operating leases of the Target Company. As at the date of this announcement, based on the latest discussions with relevant parties, the Company expects that there will be no change in the line of credit under the Aquarius Loan or the lease terms of the operating leases of the Target Company.

If the conditions (including the necessary third party consents or approval under condition (e) above) have not been fulfilled by the Purchaser on or before Long Stop Date, the provisions of the Sale and Purchase 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.

Completion

Subject to the fulfillment or waiver (where applicable) of conditions precedent, the Completion shall take place on the Completion Date (or on such other time and/or day as the Purchaser and the Vendor may agree).

Employment agreement between the Vendor and the Target Company

Pursuant to the Sale and Purchase Agreement, the Vendor and the Target Company will enter into an employment agreement before Completion to ensure continuous contribution of the Vendor, the president of the Target Company, in the Target Company. It is currently expected that the employment agreement will have a term of 2 years which will be automatically renewed annually if there is no objection by parties. Pursuant to the employment agreement, the Vendor will continue to act as the president of the Target Company, with a fixed annual remuneration of US\$240,000, together with discretionary bonus and remuneration through a profit sharing scheme. The terms of the employment agreement are determined by parties through arm's length negotiations and with reference to historical remuneration paid by the Target Company to the Vendor.

INFORMATION ABOUT THE TARGET COMPANY

The Target Company was incorporated in 1969 and is headquartered in St. Louis, Missouri, the USA. The Target Company is engaged in designing and marketing accessories for men, women and children in the USA. The Target Company sells licensed, private label and custom headwear, small leather goods, bags, and accessories to many retailers in the USA. As at the date of this announcement, the Target Company is beneficially wholly-owned by the Vendor and the Vendor is the founder and the president of the Target Company.

Financial Information of the Target Company

Set out below is the financial information of the Target Company extracted from the draft accountants' report on the Target Company for the six months ended 31 October 2018 and the two financial years ended 30 April 2018 and 30 April 2017 prepared in accordance with HKFRSs:

	For the six months ended	For the year ended	
	31 October 2018	30 April 2018	30 April 2017
	US\$'000	US\$'000	US\$'000
Revenue	21,839	34,688	31,019
Profit from operations	1,705	636	496
Net profit before tax for the period/year	1,593	505	425
Net profit after tax for the period/year	1,115	315	273
Net assets at period/year end	8,839	7,724	7,409

An accountant's report of the Target Company shall be included in the Circular to be despatched to the Shareholders in respect of the Acquisition.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the design, manufacturing and retail of quality casual headwear worldwide. The Board is looking for new business opportunities in the accessories business and suitable businesses which have significant growth potential for the Group.

The Directors consider that it is beneficial for the Group to seek suitable investment opportunities and the new business, through the Acquisition, will diversify the income stream of the Company and broaden the Group's revenue base and expand its business in the USA.

As the Target Company operates its business in the USA for nearly 50 years and it is an established company in designing, manufacturing and marketing accessories and is one of the country's largest suppliers of accessories for men, women and children. The Target Company sells licensed, private label and custom headwear, small leather goods, bags, and accessories to many retailers in the USA. In light of this, the Directors consider that through the Acquisition, the Group could step forward in strengthening and to further expand the Group's existing business segment by widening the spectrum from headwear to the accessories segment. In order to maximise return to the Company and the Shareholders in the long run, the Directors believe that the Acquisition, should it be materialised, will enhance the corporate development of the Group which will be in the best interests of the Company and its Shareholders as a whole.

The Directors (including the independent non-executive Directors) consider that the terms of the Sale and Purchase Agreement to be fair and reasonable and on normal commercial terms and the Acquisition is in the interests of the Company and the Shareholders as a whole.

IMPLICATIONS OF THE LISTING RULES

As the applicable percentage ratios (as defined under the Listing Rules) in respect of the Acquisition are more than 25% but all of them are less than 100%, the Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules, and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Vendor is an Independent Third Party no Shareholder has a material interest in the Acquisition which is different from other Shareholders, and therefore no Shareholder is required to abstain from voting on the relevant resolution(s) in respect of the Sale and Purchase Agreement and the transactions contemplated thereunder to be proposed at the general meeting if the Company is to convene a general meeting for approving the Sale and Purchase Agreement and the transactions contemplated thereunder.

The Company has obtained written Shareholders' approval for the Sale and Purchase Agreement and the transactions contemplated therein in accordance with Rule 14.44 of the Listing Rules from, SYIL and Madam Ngan, a closely allied group of Shareholders. As at the date of this announcement, SYIL and Madam Ngan are beneficially interested in 219,952,000 Shares, representing approximately 54.27% of the entire issued share capital of the Company. Pursuant to Rule 14.44(2) of the Listing Rules, the written Shareholders' approval from SYIL and Madam Ngan will be accepted in lieu of holding a general meeting of the Shareholders. Accordingly, no physical Shareholders' meeting will be convened by the Company to approve the execution and performance of the Sale and Purchase Agreement and the transactions contemplated thereunder.

A Circular containing further information on the Sale and Purchase Agreement and the transactions contemplated thereunder is expected to be despatched to the Shareholders on or before 20 May 2019 in accordance with the Listing Rules.

Completion of the Acquisition is subject to the fulfillment of the conditions precedent set out in the Sale and Purchase 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:

“2019 Net Profit Before Tax”	the net profit before tax shown on the Accountants’ Net Profit Before Tax Statement or as otherwise provided in the Sale and Purchase Agreement in the event of a dispute
“Accountants’ 2019 Audit Report”	audited financial statements of the Target Company for the fiscal year ending April 30, 2019, which audit shall be conducted in compliance with the HKFRSs
“Accountants Audit Reports”	audited financial statements of the Target Company for the fiscal years ended April 30 2016, 2017 and 2018, and for the six months ended October 31 2018, which audits shall be conducted in compliance with the HKFRSs
“Accountants’ Net Profit Before Tax Statement”	a separate detailed calculation to be issued simultaneously with the Accountants’ 2019 Audit Report of the Target Company’s net profit before tax for the 2019 tax year, which net profit before tax amount shall be calculated under the same method used by the Target Company for the immediately prior tax years
“Acquisition”	the acquisition of the Sale Shares pursuant to the terms and conditions of the Sale and Purchase Agreement
“Aquarius Loan”	the indebtedness of the Target Company relating to the operations and activities of the Target Company
“Board”	the board of Directors
“Business Days”	any day except Saturday, Sunday or any other day on which federally chartered banks in the USA are authorised or required by the applicable law to be closed for business
“Circular”	the circular required to be despatched by the Company to its Shareholders in relation to the Transactions under the Listing Rules
“Completion”	completion of the sale and purchase of the Sale Shares pursuant to the Sale and Purchase Agreement

“Completion Date”	the date on which the Completion will take place and should be within 10 Business Days after the last of the conditions precedent to the Completion has been satisfied or waived (other than conditions which, by their nature, are to be satisfied upon Completion)
“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
“Escrow Agent”	an institutional escrow agent having offices in the St. Louis, Missouri metropolitan area, designated to serve as escrow agent under the Escrow Agreements
“Escrow Agreements”	the escrow agreements among the Purchaser, the Vendor and the Escrow Agent, to be executed and delivered at the Completion providing for the holding and disbursement of up to US\$2,000,000 to Vendor in respect of the Performance Adjustment and of up to a total sum of US\$675,000 to Purchaser in the event of certain breaches of representations or covenants under the Sale and Purchase Agreement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKFRSs”	Hong Kong Financial Reporting Standards, the financial reporting standards used by the accountants for the purpose of its auditing and presentation of the financial statements of the Target Company, which included conversion adjustments, if any, from U.S. General Accepted Accounting Principles, the financial reporting standards adopted by the Target Company, to HKFRSs the financial reporting standards adopted by the Group
“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) (as defined under the Listing Rules) 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
“Long Stop Date”	30 May 2019
“Madam Ngan”	Madam Ngan Po Ling, Pauline, an executive Director
“Material Adverse Effect”	any event, occurrence, fact, condition or change that is, or could reasonably be expected to become, individually or in the aggregate, materially adverse to (a) the business, results of operations, prospects, condition (financial or otherwise) or assets of the Target Company, or (b) the ability of the Vendor or the Purchaser (as applicable) to consummate the transactions contemplated under the Sale and Purchaser Agreement on a timely basis
“Performance Adjustment”	the payment adjustment of the Performance Consideration pursuant to the Sale and Purchase Agreement
“Purchaser”	Mainland Aquarius Investments Ltd, a company which is incorporated in Samoa and wholly owned by the Company
“Sale and Purchase Agreement”	the conditional sale and purchase agreement dated 25 April 2019 entered into between the Vendor and Purchaser in respect of the sale and purchase of the Sale Shares
“Sale Shares”	200 issued and outstanding common shares of the Target Company representing the entire issued share capital as at the date of this announcement
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the share capital of the Company

“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“SYIL”	Successful Years International Co., Ltd. which is incorporated in the British Virgin Islands and is wholly owned by Mr. Ngan Hei Keung and Madam Ngan, both are executive Directors
“Target Company”	Aquarius, Ltd., a company incorporated in the USA with limited liability
“Total Consideration”	the Cash Consideration and Performance Consideration
“Transaction Documents”	the Sale and Purchase Agreement and such other documents as are required under the Sale and Purchase Agreement to be executed and delivered at Completion, including the Escrow Agreements and the employment agreement between the Vendor and the Target Company
“USA”	the United States of America
“US\$”	the lawful currency of the USA
“Vendor”	Mr. Alexander Schonwald, an Independent Third Party who holds the entire issued share capital of the Target Company

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

Hong Kong, 25 April 2019

As at the date hereof, the Board of Directors of the Company comprises eight directors, of which five are Executive Directors, namely Mr. Ngan Hei Keung, Madam Ngan Po Ling, Pauline, BBS, JP, Mr. James S. Patterson, Ms. Maggie Gu and Mr. Ngan Siu Hon, Alexander; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.