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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)**

### **DISCLOSEABLE TRANSACTION IN RELATION TO PROPOSED COLLABORATION AGREEMENT**

#### **THE COLLABORATION AGREEMENT**

The Board hereby announces that on 2 March 2023 (after trading hours), the Company and MML, an indirect wholly-owned subsidiary of the Company entered into the Collaboration Agreement with the Sonora Government and H. City Hall in relation to a proposed infrastructure investment project to construct and develop infrastructures, including factory, warehouse, residential units, roads, and other relevant infrastructure, at the land of 150 hectares situated in Mexico as provided by H. City Hall within a period of five years.

#### **IMPLICATIONS UNDER THE LISTING RULES**

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of transactions contemplated under the Collaboration Agreement is more than 5% but less than 25%, the transactions contemplated under the Collaboration Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

\* *for identification purpose only*

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Set out below are the principal terms of the Collaboration Agreement:

- Date: 2 March 2023 (after trading hours)
- Parties:
  - (1) the Company
  - (2) MMML
  - (3) the Sonora Government
  - (4) H. City Hall

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, each of the Sonora Government and H. City Hall is an Independent Third Party.

**Principal Terms of the proposed Project**

***1. The Collaboration***

Under the Collaboration Agreement, it is intended that the Land shall be transferred to a fiduciary fund to be created in Mexico and formalized by means of a trust arrangement (the “**Trust**”). The Trust shall be controlled by the Mainland Companies in favour of H. City Hall for a period of five years (the “**Fulfillment Period**”) and to utilize the Land for the following purposes (the “**Conditions**”):

- (a) constructing and operating a factory of more than 150,000 sq.ft. with at least 800 employees within the first 24 months;
- (b) constructing a warehouse of more than 200,000 sq.ft. within the second 24 months; and
- (c) commencing the construction of residential units, roads and infrastructure, fences and walls at the Land in the last 12 months.

## **2. Arrangement after the five-year period**

If the Mainland Companies meets all of the Conditions above within the period of five years from the execution of the Collaboration Agreement, H. City Hall will transfer the legal ownership, free of charge and free of any contribution or lien, of the Land in favour of the Mainland Companies provided that any federal income tax generated by the transfer of the land will be paid in a timely manner by the Mainland Companies.

If, at the end of the Fulfillment Period, the Conditions above are not met, but the Mainland Companies are actively developing the Land, the transfer of the Land will be delayed until the Conditions are met.

If for any reason the Conditions above are not met by the end of the Fulfillment Period or waived by the State of Sonora and the Land is not actively in development, the Land will be sold and the proceed from the sale will be divided among the parties as follows:

- (a) the amount equivalent to the price of the land established as of the date of the Collaboration Agreement, being US\$11.25 million (equivalent to approximately HK\$87.75 million) (the “**Current Market Value**”), based on the preliminary valuation of the Land undertaken by an independent professional valuer, who estimated according to the latest transaction in the area, taking into account the size, classification and location of the Land, shall be delivered to H. City Hall; and
- (b) any remaining amount, namely any profit derived from the sale, shall be delivered to the Mainland Companies,

provided that,

- (i) Mainland Companies shall be granted a first right of refusal to purchase the land, either in part or in full, at the market value as at the date of such offer or the Current Market Value, whichever is lower; and
- (ii) in case of a decrease in value of the Land, or a loss resulted in the sale of the Land, Mainland Companies are not liable for the loss, and the entire proceed will be given to H. City Hall.

## **3. Prerogatives granted by the Sonora Government and H. City Hall:**

- (i) If there is any refunds of taxes to Mainland Companies in accordance with the laws of Mexico, such refund shall not take longer than the time established in the law, and in the case where the time is not established in the law, refunds will be made within 120 days of the filing of relevant refund applications;

- (ii) finance the investment in the first one thousand residential units to be developed by the Company at a substantially lower interest rate than that of banking institutions or entities, provided that the beneficiaries of such housing units are incorporated to the state housing program INFONAVIT;
- (iii) grant an exclusive permit to operate a free trade zone, such that the Mainland Companies will be the sole operator of free trade zone in Agua Prieta, Sonora, for a period of 20 years; and
- (iv) grant property tax exemption during the first 5 years and a reduction of 50% on property tax thereafter, provided that the Mainland Companies employs over 501 workers;
- (v) grant payroll tax exemption for 5 years for any new employees.

**4. Other undertakings:**

Mainland Companies undertake to agree with the communal landowners of Agua Prieta, the provision of food services and supplies, cleaning services and up to 50% of the surveillance in the Company at a competitive market rate.

If the undertakings under the Collaboration Agreement are out of the jurisdiction of the Sonora Government and/or the H. City Hall, the Sonora Government and the H. City Hall will assist the Mainland Companies, to the best of their abilities, in obtaining such approvals, permits, or grants.

**INFORMATION OF THE SONORA GOVERNMENT AND H. CITY HALL**

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, as at the date of this announcement, the Sonora Government is the government of the state of Sonora of Mexico and H. City Hall is the territorial division and political and administrative organisation of the municipality of Agua Prieta of Sonora of Mexico, each of which and whose ultimate beneficial owner are Independent Third Parties.

## **REASONS FOR AND THE BENEFIT OF THE PROPOSED PROJECT**

The Group is principally engaged in manufacture and sales of apparel, small leather goods, bags and accessories. The Group manufactures a wide range of licensed casual headwear products, including baseball caps, bucket hats, winter caps, Gatsby hats, headbands and sun visors, with its major manufacturing plants currently in Bangladesh and Shenzhen, the PRC.

The Board is of the view that the proposed Project provides an opportunity for the Group to diversity its geographical risk in manufacturing business and to better serve its customers by constructing a new manufacturing factory in Mexico. As stated in the Collaboration Agreement, the Group intend to construct a new factory and warehouse, the construction cost of which is expected to be approximately US\$6.75 million and US\$9 million, respectively, which will be funded by the Group's internal resources; according to the current timeline, the Group target to have the trial production by the fourth quarter this year.

Further, with the assistance of the Sonora Government, the Group can benefit from the proposed Project which allows the Group to lower its various operational costs: (a) as some of the Group's customers are located in the USA, with the factory and warehouse situated at the Land, which will be a free trade zone in Mexico and the distance to the border of USA is less than 2 kilometers, the Board is of the view that this can save various costs of the Group such as rental costs, logistic costs, labour costs and import duty when conducting businesses in the USA, and enable the Group to shorten delivery time to cope with the customers' demand of express delivery; (b) in terms of taxation, the Sonora Government will provide various tax exemption to the Group; (c) in relation to the residential units, the Sonora Government will finance part of the residential units, and the units will also be used as accommodation of the Group's employees after completion, and thus saving the Group's costs in this aspect.

In view of the above, the Board is of the view that entering into the Collaboration Agreement is in the benefit of the Company and its shareholders as a whole.

## **IMPLICATIONS OF THE LISTING RULES**

As the highest applicable percentage ratio under Rule 14.07 of the Listing Rules in respect of transactions contemplated under the Collaboration Agreement is more than 5% but less than 25%, the transactions contemplated under the Collaboration Agreement constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules and is subject to the reporting and announcement requirements under the Listing Rules.

## DEFINITIONS

In this announcement, the following expressions have the meanings set out below unless the context requires otherwise:

“Board”	the board of Directors
“close associate(s)”	has the same meaning ascribed to it under the Listing Rules
“Collaboration Agreement”	the collaboration agreement entered into between the Parties on 2 March 2023
“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 same meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“H. City Hall”	H. City Hall of municipality of Agua Prieta, Sonora, Mexico
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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
“Land”	the land located in the west side of downtown Agua Prieta, with an area of 150 hectares taken from the property identified as rustic Plot of land number 165 Z1 P1/2, with an area of 221-52-60,929 hectares, located on the highway Agua Prieta-Nacozari, of the Ejido Agua Prieta, municipality of Agua Prieta, Sonora, Mexico
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mainland Companies”	the Company and MMML

“MMML”	Mainland Mexico Manufacturing Limited, a company incorporated under the laws of Samoa with limited liability and an indirect wholly subsidiary of the Company
“Parties”	the Company, MMML, Sonora Government and H. City Hall, each a “Party”
“PRC”	the People’s Republic of China, which shall, for the purpose of this announcement only, exclude Hong Kong, Macau Special Administrative Region and Taiwan
“Project”	the construction and development of the Land, including factory, warehouse, residential units, roads, and other relevant infrastructure within a period of five years
“Share(s)”	the ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder”	the holder(s) of the Share(s)
“Sonora Government”	the government of the state of Sonora of Mexico
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“substantial shareholder”	has the meaning ascribed to it in the Listing Rules
“sq. ft”	square feet
“USA”	the United States of America
“US\$”	the lawful currency of the USA
“%”	per cent

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

Hong Kong, 3 March 2023

*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, Mr. Ngan Siu Hon, Alexander and Mr. Lai Man Sing; and three are Independent Non-executive Directors, namely Mr. Leung Shu Yin, William, Mr. Liu Tieh Ching, Brandon, JP and Mr. Gordon Ng.*