

*Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.*



**KFM KINGDOM HOLDINGS LIMITED**

**KFM金德控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock code: 3816)**

**(1) MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO THE NEW TENANCY AGREEMENT  
AND  
(2) APPOINTMENT OF INDEPENDENT FINANCIAL ADVISER**

**Independent Financial Adviser to the  
Independent Board Committee and the Independent Shareholders**



**MAJOR AND CONNECTED TRANSACTION**

Reference is made to the Announcements. Pursuant to the Existing Tenancy Agreement, the leasing of the Factory Phases I & II will expire on 30 October 2021.

The Board announces that on 20 September 2021, KPP(SZ), an indirectly wholly-owned subsidiary of the Company (as tenant), and the Landlord (as landlord) entered into the New Tenancy Agreement in respect of the leasing of the Factory (including the (i) Factory Phases I & II; and (ii) Factory Phase III) for a term of six years from 1 November 2021 or from the next business day after the date when all conditions precedent being fulfilled (whichever is later) to the sixth year anniversary of the commencement date of the term of leasing of the Factory, as a renewal of the Existing Tenancy Agreement.

## **LISTING RULES IMPLICATIONS**

Pursuant to HKFRS 16, the entering into of the New Tenancy Agreement by KPP(SZ) will require the Group to recognise the Factory as right-of-use assets on its consolidated statement of financial position. Therefore, the entering into of the New Tenancy Agreement will be regarded as an acquisition of asset by the Group under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules. The unaudited value of right-of-use asset recognised by the Company under the New Tenancy Agreement amounted to approximately RMB92.5 million (equivalent to approximately HK\$111.0 million).

As the applicable percentage ratio(s) in respect of the acquisition of right-of-use assets recognised by the Group pursuant to HKFRS 16 based on the consideration under the New Tenancy Agreement is 25% or more but is less than 100%, the entering into of the New Tenancy Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Mr. Sun and Mr. Wong, the executive Directors, indirectly held approximately 45.5% and 12.6% of the entire issued share capital of the Landlord, respectively. The Landlord is an associate of Mr. Sun, and therefore, a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the New Tenancy Agreement also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge of the Directors, no Shareholder has a material interest in the New Tenancy Agreement and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rules 14.44 and 14A.37 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting for approving the New Tenancy Agreement. As the Company has obtained the Written Approval, the Company is exempted from convening a general meeting to approve the New Tenancy Agreement and the transaction contemplated thereunder under Rule 14.44 of the Listing Rules. An application for a waiver of the Shareholders' meeting under Rule 14A.37 of the Listing Rules has been made by the Company and it is expected that no physical Shareholders' meeting will be held by the Company for approving the transaction contemplated under the New Tenancy Agreement.

A circular containing, among other things, further particulars of the New Tenancy Agreement and the transaction contemplated thereunder, the view of the Independent Board Committee and the Independent Financial Adviser will be despatched to the Shareholders on or before 13 October 2021.

## **INTRODUCTION**

Reference is made to the Announcements. Pursuant to the Existing Tenancy Agreement, the leasing of the Factory Phases I & II will expire on 30 October 2021.

The Board announces that on 20 September 2021, KPP(SZ), an indirectly wholly-owned subsidiary of the Company (as tenant), and the Landlord (as landlord) entered into the New Tenancy Agreement in respect of the leasing of the Factory (including the (i) Factory Phases I & II; and (ii) Factory Phase III) for a term of six years from 1 November 2021 or from the next business day after the date when all conditions precedent being fulfilled (whichever is later) to the sixth year anniversary of the commencement date of the term of leasing of the Factory, as a renewal of the Existing Tenancy Agreement.

## **THE NEW TENANCY AGREEMENT**

The principal terms of the New Tenancy Agreement are as follow:

**Date:** 20 September 2021

**Parties:** (1) KPP(SZ) (as tenant); and  
(2) the Landlord (as landlord).

To the best knowledge, information and belief of the Directors having made all reasonable enquiries, the Landlord is indirectly held by Mr. Sun and Mr. Wong, the executive Directors, as to approximately 45.5% and 12.6% as at the date of this announcement, respectively. Therefore, the Landlord is a connected person of the Company.

**Premises:** (i) Factory Phases I & II (comprising two four-storey buildings located in Suzhou, the PRC, with a total gross floor area of approximately 48,500 square metres); and  
(ii) Factory Phase III (one five-storey building located in Suzhou, the PRC, with an expected total gross floor area of approximately 10,200 square metres. As at the date of this announcement, Factory Phase III is under construction and construction thereof is expected to complete by end of 2021)

**Usage:** Industrial use, storage and other commercial use. The Group is currently using the Factory Phases I & II as one of its production base.

**Term:** Six years from 1 November 2021 or from the next business day after the date when all conditions precedent being fulfilled (whichever is later) to the sixth year anniversary of the commencement date of the term of leasing of the Factory.

**Rental fee:** The rental fee for each of (i) Factory Phases I & II; and (ii) Factory Phase III shall be exclusive of water, electricity charges and other utilities (if applicable) and shall be payable by KPP(SZ) to the Landlord as follows:

	<b>Factory Phases I &amp; II</b>	<b>Factory Phase III</b>
<b>1st and 2nd year of term of lease of the Factory</b>	RMB14,548,992 per annum (tax inclusive) (equivalent to approximately HK\$17,458,790)	<ul style="list-style-type: none"> <li>(i) For first three months subsequent to (i) completion of the construction of Factory Phase III; or (ii) 1 January 2022 (whichever is later): Nil</li> <li>(ii) From the beginning of the first day of the fourth month subsequent to (i) completion of the construction of Factory Phase III; or (ii) 1 January 2022 (whichever is later) to the second year anniversary of the term of lease: RMB3,059,400 per annum (tax inclusive) (equivalent to approximately HK\$3,671,280)</li> </ul>
<b>3rd and 4th year of term of lease of the Factory</b>	RMB16,003,891 per annum (tax inclusive) (equivalent to approximately HK\$19,204,669)	RMB3,365,340 per annum (tax inclusive) (equivalent to approximately HK\$4,038,408)
<b>5th and 6th year of term of lease of the Factory</b>	RMB17,604,280 per annum (tax inclusive) (equivalent to approximately HK\$21,125,136)	RMB3,701,874 per annum (tax inclusive) (equivalent to approximately HK\$4,442,249)

The rental fee under the New Tenancy Agreement has been determined after arm's length negotiations between the parties with reference to the prevailing market rental fee for comparable premises in the vicinity of the Factory.

**Rental deposit:** KPP(SZ) shall pay a rental deposit equivalent to the total rental fee payment for two months to the Landlord. When there is a rental fee adjustment, KPP(SZ) shall immediately pay the outstanding balance of deposit arising from the rental fee adjustment to the Landlord. The following table sets out the particulars of deposit payable by KPP(SZ) to the Landlord as follows:

<b>Payment time</b>	<b>Factory Phases I&amp;II (RMB)</b>	<b>Factory Phase III (RMB)</b>
Within three days from the start of the term of the lease	2,424,832	509,900
Three days prior to the beginning of the third year of the term of the lease	2,667,315	560,890
Three days prior to the beginning of the fifth year of the term of the lease	2,934,047	616,979

**Payment terms:** Rental fee shall be paid quarterly. The rent of each quarter shall be payable 15 days prior to the last day of the previous quarter. Any overdue payment will be subject to a daily penalty fee of 0.5% of the overdue amount.

**Conditions precedent:** The New Tenancy Agreement shall take effect upon the following conditions precedent having been fulfilled:

- (1) all necessary consents and approvals in connection with the New Tenancy Agreement and the transaction contemplated thereunder having been obtained by the Company from the Stock Exchange or any government and regulatory authority;
- (2) the Company having issued the announcement and the circular in relation to the New Tenancy Agreement and the transaction contemplated thereunder; and
- (3) the resolutions to approve the New Tenancy Agreement and the transaction contemplated thereunder having been obtained from the independent Shareholders.

All of the above conditions precedents are not waivable by any parties to the New Tenancy Agreement. If the above conditions precedent have not been fulfilled on or before 30 October 2021 or such later date as the parties may agree in writing, the New Tenancy Agreement shall cease and terminate.

**Options to renew:** KPP(SZ) shall have the right to renew the New Tenancy Agreement upon expiry of the initial term for a further term of three years at the then current market rent with six months prior written notice to the Landlord.

**Termination:** Upon the entering of the New Tenancy Agreement, both parties are not allowed to terminate the agreement without the prior written consent of the other party.

If KPP(SZ) intends to terminate the tenancy prior to the expiration of its term, an one-year prior written notice shall be delivered to the Landlord together with a payment equivalent to the total rental fee payable for one year.

## **THE RIGHT-OF-USE ASSET**

The value (unaudited) of the right-of-use asset recognised by the Company under the New Tenancy Agreement amounted to approximately RMB92.5 million (equivalent to approximately HK\$111.0 million) which is the present value of total consideration payable throughout the lease term under the New Tenancy Agreement and adjustment to fair value at initial recognition of refundable rental deposit in accordance with HKFRS 16. Incremental borrowing rate of 7.65% is applied to compute the present value of total consideration payable under the New Tenancy Agreement.

## **INFORMATION ON THE PARTIES**

KPP(SZ) is established under the PRC laws with limited liability and is an indirectly wholly-owned subsidiary of the Company as at the date of this announcement. KPP(SZ) principally engages in manufacturing and sale of fine metal products. The Company's subsidiaries consist of manufacturing and sales of fine metal products and the provision of precision metal stamping and lathing services.

The Landlord is established under the PRC laws with limited liability and is principally engaged in manufacturing and sale of moldings and consultation services, etc.. As at the date of this announcement, the Landlord is indirectly owned by Mr. Sun and Mr. Wong, the executive Directors, as to approximately 45.5% and 12.6%, respectively.

## **REASONS FOR AND BENEFITS OF THE NEW TENANCY AGREEMENT**

The principal businesses of the Group are manufacturing and sales of fine metal products and the provision of precision metal stamping and lathing services. The Group has been leasing various properties in the PRC, including the Factory, for the production of its metal stamping segment. As the term of the Existing Tenancy Agreement will expire on 30 October 2021, KPP(SZ) and the Landlord entered into the New Tenancy Agreement to extend and modify the terms of the Existing Tenancy Agreement.

The Board (excluding the independent non-executive Directors) considers that the entering into of the New Tenancy Agreement is in the ordinary and usual course of business of the Group, and the terms of the New Tenancy Agreement are on normal commercial terms and are in the interests of the Company and the Shareholders as a whole.

Each of Mr. Sun and Mr. Wong is considered to have material interests in the New Tenancy Agreement by virtue of his directorship in the Company and interests in the holding company of the Landlord, and therefore each of them has abstained from voting on the Board resolutions approving the New Tenancy Agreement. Save as disclosed, no other Directors have abstained from voting on the said Board resolutions.

#### **ESTABLISHMENT OF THE INDEPENDENT BOARD COMMITTEE**

The Company has established the Independent Board Committee to advise the independent Shareholders in connection with the New Tenancy Agreement and the transaction contemplated thereunder. The Independent Financial Adviser has been appointed by the Company to advise the Independent Board Committee and the independent Shareholders in connection with the New Tenancy Agreement and the transaction contemplated thereunder.

#### **APPOINTMENT OF THE INDEPENDENT FINANCIAL ADVISER**

The Board wishes to announce that Merdeka Corporate Finance Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the independent Shareholders on the New Tenancy Agreement and the transaction contemplated thereunder. Such appointment has been approved by the Independent Board Committee.

The letter of advice from the Independent Financial Adviser will be included in the circular in relation to the New Tenancy Agreement to be despatched by the Company to the Shareholders in due course.

#### **LISTING RULES IMPLICATIONS**

Pursuant to HKFRS 16, the entering into of the New Tenancy Agreement by KPP(SZ) will require the Group to recognise the Factory as right-of-use assets on its consolidated statement of financial position. Therefore, the entering into of the New Tenancy Agreement will be regarded as an acquisition of asset by the Group under the definition of transaction set out in Rule 14.04(1)(a) of the Listing Rules. The unaudited value of right-of-use asset recognised by the Company under the New Tenancy Agreement amounted to approximately RMB92.5 million (equivalent to approximately HK\$111.0 million).

As the applicable percentage ratio(s) in respect of the acquisition of right-of-use assets recognised by the Group pursuant to HKFRS 16 based on the consideration under the New Tenancy Agreement is 25% or more but is less than 100%, the entering into of the New Tenancy Agreement constitutes a major transaction for the Company and is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the date of this announcement, Mr. Sun and Mr. Wong, the executive Directors, indirectly held approximately 45.5% and 12.6% of the entire issued share capital of the Landlord, respectively. The Landlord is an associate of Mr. Sun, and therefore, a connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the transaction contemplated under the New Tenancy Agreement also constitutes a connected transaction for the Company, and is subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

To the best of the knowledge of the Directors, no Shareholder has a material interest in the New Tenancy Agreement and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rules 14.44 and 14A.37 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting for approving the New Tenancy Agreement. As the Company has obtained the Written Approval, the Company is exempted from convening a general meeting to approve the New Tenancy Agreement and the transaction contemplated thereunder under Rule 14.44 of the Listing Rules. An application for a waiver of the Shareholders' meeting under Rule 14A.37 of the Listing Rules has been made by the Company and it is expected that no physical Shareholders' meeting will be held by the Company for approving the transaction contemplated under the New Tenancy Agreement.

A circular containing, among other things, further particulars of the New Tenancy Agreement and the transactions contemplated thereunder, the view of the Independent Board Committee and the Independent Financial Adviser, will be despatched to the Shareholders on or before 13 October 2021.

## DEFINITIONS

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

“Announcements”	announcements of the Company dated 7 September 2018 and 1 November 2018 in relation to, among others, the Existing Tenancy Agreement
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	KFM Kingdom Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3816)
“connected person”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Existing Tenancy Agreement”	the leasing agreement dated 1 November 2018 and entered into between the Landlord (as landlord) and KPP(SZ) (as tenant) in relation to the leasing of the Factory Phases I & II
“Factory”	collectively, Factory Phases I & II and Factory Phase III
“Factory Phases I & II”	two four-storey factory buildings located in Suzhou, the PRC which were wholly owned by the Landlord as at the date of this announcement with a total gross floor area of approximately 48,500 square metres
“Factory Phase III”	one five-storey factory building located in Suzhou, the PRC (under construction) with an expected total gross floor area of approximately 10,200 square metres. As at the date of this announcement, Factory Phase III is under construction and construction thereof is expected to complete by end of 2021
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

“Independent Board Committee”	the independent board committee, comprising all independent non-executive Directors, formed to advise the independent Shareholders in respect of the New Tenancy Agreement and the transaction contemplated thereunder
“Independent Financial Adviser”	Merdeka Corporate Finance Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), which has been appointed as the independent financial adviser to the Independent Board Committee and the independent Shareholders in relation to the New Tenancy Agreement
“Independent Third Party(ies)”	third parties independent of and not connected (within the meaning of the Listing Rules) with the Company and its connected persons (within the meaning of the Listing Rules)
“KPP(SZ)”	金德精密配件(蘇州)有限公司 (Kingdom Precision Product (Suzhou) Company Limited*), a company established under the laws of the PRC and indirectly wholly-owned by the Company as at the date of this announcement
“Landlord”	金德精密科技(蘇州)有限公司 (Kingdom Precision Science and Technology (Suzhou) Company Limited*), a company established under the laws of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Mr. Sun”	Mr. Sun Kwok Wah Peter, an executive Director
“Mr. Wong”	Mr. Wong Chi Kwok, an executive Director
“New Tenancy Agreement”	the tenancy agreement dated 20 September 2021 and entered into between the Landlord (as landlord) and KPP(SZ) (as tenant) in relation to the leasing of the Factory
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	ordinary shares in the issued share capital of the Company

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Written Approval”	the written approval from Massive Force Limited, which holds 449,999,012 issued Shares (representing 75% of its entire issued share capital as at the date of this announcement) in respect of the New Tenancy Agreement and the transaction contemplated thereunder
“%”	per cent.

By Order of the Board  
**KFM Kingdom Holdings Limited**  
**Mr. Zhang Haifeng**  
*Chairman and non-executive Director*

Hong Kong, 20 September 2021

*For the purpose of this announcement, unless otherwise specified, conversions of RMB into HK\$ are based on the approximate exchange rate of RMB1.00 to HK\$1.20.*

*As at the date of this announcement, the Board comprises (1) Mr. Zhang Haifeng as a non-executive Director; (2) Mr. Sun Kwok Wah Peter and Mr. Wong Chi Kwok as executive Directors; and (3) Mr. Wan Kam To, Ms. Zhao Yue and Mr. Shen Zheqing as independent non-executive Directors.*

\* *For identification purposes only*