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**THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in KFM Kingdom Holdings Limited, you should at once hand this circular with the accompanying form of proxy to the purchaser or transferee or to the bank manager, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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**KFM KINGDOM HOLDINGS LIMITED**

**KFM金德控股有限公司**

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

**(Stock Code: 3816)**

**MAJOR AND CONNECTED TRANSACTION  
IN RELATION TO THE NEW TENANCY AGREEMENT**

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



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Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" in this circular.

1 November 2021

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## DEFINITIONS

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*In this circular, unless the context otherwise requires, the following expressions have the following meanings:*

“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
“Business Day(s)”	day (excluding Saturday, Sunday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which commercial banks are open for business in Hong Kong
“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
“controlling Shareholder”	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, the 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 Latest Practicable Date with a total gross floor area of approximately 48,500 square metres

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## DEFINITIONS

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“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 Latest Practicable Date, 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 SFO, 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 and the transaction contemplated thereunder
“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 Latest Practicable Date
“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

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## DEFINITIONS

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“Latest Practicable Date”	29 October 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
“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 circular, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shares”	ordinary shares in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Valuer”	Cushman & Wakefield Limited
“Written Approval”	the written approval from Massive Force Limited, which holds 449,999,012 issued Shares (representing 75% of the entire issued share capital of the Company as at the Latest Practicable Date) in respect of the New Tenancy Agreement and the transaction contemplated thereunder
“%”	per cent.

\* For identification purpose only



**KFM KINGDOM HOLDINGS LIMITED**  
**KFM金德控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*  
**(Stock Code: 3816)**

*Non-executive Director:*

Mr. Zhang Haifeng (*Chairman*)

*Executive Directors:*

Mr. Sun Kwok Wah Peter

Mr. Wong Chi Kwok

*Independent non-executive Directors:*

Mr. Wan Kam To

Ms. Zhao Yue

Mr. Shen Zheqing

*Registered office:*

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

*Principal place of business*

*in Hong Kong:*

Workshop C, 31/F, TML Tower

3 Hoi Shing Road, Tsuen Wan

New Territories, Hong Kong

1 November 2021

*To the Shareholders*

Dear Sir or Madam,

**MAJOR AND CONNECTED TRANSACTION**

**I. INTRODUCTION**

Reference is made to the (i) Announcements; and (ii) announcement of the Company dated 20 September 2021. Pursuant to the Existing Tenancy Agreement, the leasing of the Factory Phases I & II will expire on 30 October 2021.

On 20 September 2021 (after trading hours), 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.

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## LETTER FROM THE BOARD

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The purpose of this circular is to provide you with, among other things, (i) further details of the New Tenancy Agreement and the transaction contemplated thereunder; (ii) certain financial information as required under the Listing Rule; (iii) further information of the Group; and (iv) the valuation report on the Factory.

### II. MAJOR AND CONNECTED TRANSACTION

#### THE TENANCY AGREEMENT

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

**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 45.4% and 12.6% as at the Latest Practicable Date, respectively. Therefore, the Landlord is a connected person of the Company. For further detailed breakdown of the shareholding of the Landlord, please refer to the paragraph headed "IV. Information on the parties" in this Letter from the Board.

**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 Latest Practicable Date, 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.

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## LETTER FROM THE BOARD

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The long lease term for the New Tenancy Agreement was determined on normal commercial basis and was reasonable with reference to, among others:

- (i) the market practice for industrial leasing and similar terms in previous tenancy agreements that the Group had entered into for factories in Shenzhen and Huizhou;
- (ii) the huge capital expenses that had been and would be committed by the Group for acquiring machinery and equipment in the Factory; and
- (iii) sustainability of the Group's operation.

**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:

	Factory Phases I & II	Factory Phase III
1st and 2nd year of term of lease of the Factory	RMB14,548,992 per annum (tax inclusive) (equivalent to approximately HK\$17,458,790)	(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 (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)
3rd and 4th year of term of lease of the Factory	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)
5th and 6th year of term of lease of the Factory	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)



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## LETTER FROM THE BOARD

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The rental fee under the New Tenancy Agreement has been determined after arm's length negotiations between the parties.

In the valuation, the Valuer has considered the prevailing market rental fee for different comparable premises in the vicinity of the Factory. The comparable premises were selected based on the following criteria:

- (i) The subject premise has to be located in the new and high-tech district of Suzhou; and
- (ii) The usage of the subject premise has to be industrial.

Based on the above selection criteria, a complete list of comparable premises were identified as follows:

1. Premise A, an industrial premise located at the high-tech district of Suzhou, comprising a three-storey factory with a total gross floor area of approximately 3,262 square metres. The lease is a five-year lease, starting from January 2017 with an annual rental fee of approximately RMB1,006,000;
2. Premise B, an industrial premise located at the high-tech district of Suzhou, comprising an one-storey factory with a total gross floor area of approximately 2,499 square metres. The lease is a five-year lease, starting from December 2019 with an annual rental fee of approximately RMB885,000;
3. Premise C, an industrial premise located at the high-tech district of Suzhou, comprising a four-storey factory with a total gross floor area of approximately 22,000 square metres. The lease is a three-year lease, starting from September 2021 with an annual rental fee of approximately RMB6,046,000; and
4. Premise D, an industrial premise located at the high-tech district of Suzhou, comprising an one-storey factory with a total gross floor area of approximately 2,430 square metres. The lease is a three-year lease, starting from September 2021 with an annual rental fee of approximately RMB834,000.

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## LETTER FROM THE BOARD

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There will be an increment of the rental fee under the New Tenancy Agreement in the third and the fifth year of the term of lease. Such increment was set with reference to (i) the increment mechanism set out in the previous tenancy agreements that the Group had entered into for the factories in Shenzhen and Huizhou; and (ii) the current inflation rate, which the Directors consider to be reasonably determined for the long-term industrial leasing.

**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 the deposit payable by KPP(SZ) to the Landlord:

<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;

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## LETTER FROM THE BOARD

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- (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.

As at the Latest Practicable Date, apart from the abovementioned condition (3), none of the conditions precedent has been fulfilled.

**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.

### III. FINANCIAL EFFECTS OF ENTERING INTO THE NEW TENANCY AGREEMENT

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.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Interest expenses on the lease liabilities will be recognised at the rate of 7.65% per annum. After the commencement date of the lease, the lease liabilities are adjusted by the interest accretion and lease payments.

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## LETTER FROM THE BOARD

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### IV. 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 Latest Practicable Date. KPP(SZ) principally engages in manufacturing and sales 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 sales of moldings and consultation services, etc.. As at the Latest Practicable Date, the Landlord is indirectly owned by Mr. Sun and Mr. Wong, the executive Directors, as to approximately 45.4% and 12.6%, respectively. For further detailed breakdown of the shareholding of the Landlord, please refer to the information below.

<b>Name of the ultimate beneficial owner of the Landlord</b>	<b>Relationship with the Company/shareholders of the Landlord</b>	<b>Approximate percentage of issued share capital of the Landlord</b>
Mr. Sun	Executive Director	45.4%
Mr. Wong	Executive Director	12.6%
Mr. Yau Lam Chuen	Independent third party	12.6%
Mr. Yung Ching Tak	Director of a subsidiary of the Company	9.2%
Mr. Chan Lin On	Employee of a subsidiary of the Company	6.2%
Mr. Lam Kin Shun	Director of a subsidiary of the Company	5.4%
Mr. He Lin	Director of the Landlord, employee of a subsidiary and the nephew-in-law of Mr. Sun	4.0%
Mr. Yeung Man Chiu	Employee of a subsidiary of the Company	3.1%
Mr. Alan Suen	Brother of Mr. Sun	1.4%

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## LETTER FROM THE BOARD

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### V. REASONS FOR AND BENEFITS OF ENTERING INTO 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 Factory Phases I & II, 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 (including the independent non-executive Directors after considering the advice from the Independent Financial Adviser) 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.

### VI. 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 Latest Practicable Date, Mr. Sun and Mr. Wong, the executive Directors, indirectly held approximately 45.4% 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

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## LETTER FROM THE BOARD

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connected transaction for the Company, and is subject to the announcement, reporting and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

### **VII. WRITTEN APPROVAL FROM THE SHAREHOLDERS IN RESPECT OF THE NEW TENANCY AGREEMENT**

Pursuant to Rules 14.44 and 14A.37 of the Listing Rules, a written Shareholders' approval in lieu of resolutions passed at a general meeting may be obtained by the Company if (i) no Shareholder has a material interest in the New Tenancy Agreement and the transaction contemplated thereunder and no Shareholder is required to abstain from voting if a general meeting of the Company was convened for the approval of the New Tenancy Agreement and the transaction contemplated thereunder; and (ii) the written approval has been obtained from a Shareholder or a closely allied group of Shareholders who together hold more than 50% of the issued Shares with voting rights at a general meeting of the Company to approve the New Tenancy Agreement and the transaction contemplated thereunder.

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.

On 20 September 2021, the Company obtained the Written Approval from the controlling Shareholder, namely Massive Force Limited, which as at the Latest Practicable Date beneficially held 449,999,012 Shares, representing 75.0% of the issued share capital of the Company. Accordingly, since (i) the Company's controlling Shareholder has approved the New Tenancy Agreement and the transaction contemplated thereunder in writing pursuant to Rules 14.44 and 14A.37 of the Listing Rules; (ii) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the New Tenancy Agreement and the transaction contemplated thereunder; and (iii) a waiver from the Stock Exchange was granted on 4 October 2021, the Company is not required to convene an extraordinary general meeting in connection with the New Tenancy Agreement and the transaction contemplated thereunder.

### **VIII. FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the appendices to this circular.

### **IX. RECOMMENDATION**

As stated in the preceding paragraphs, the Directors (including the independent non-executive Directors after considering the advice from the Independent Financial Adviser) considered the New Tenancy Agreement was entered into in the ordinary and usual course of business of the Group, on normal commercial terms, the terms thereof are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

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## LETTER FROM THE BOARD

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Although a general meeting will not be convened by the Company to approve the New Tenancy Agreement and the transaction contemplated thereunder, if such a general meeting were to be convened by the Company, the Board would recommend the independent Shareholders to vote in favour of the resolutions to approve the New Tenancy Agreement and the transaction contemplated thereunder.

### X. WARNING NOTICE

**Completion of the transaction contemplated under the New Tenancy Agreement is subject to the satisfaction of the conditions precedent. Therefore, the transaction contemplated under the New Tenancy Agreement may or may not proceed. Shareholders and potential investors of the Company are advised to exercise caution when dealing in securities of the Company, and are recommended to consult their professional advisers if they are in any doubt about their position and as to actions that they should take.**

Yours faithfully,  
By order of the Board  
**KFM Kingdom Holdings Limited**  
**Zhang Haifeng**  
*Chairman and non-executive Director*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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*The following is the text of a letter from the Independent Board Committee setting out its recommendation to the Independent Shareholders in relation to the New Tenancy Agreement and the transaction contemplated thereunder.*



**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 November 2021

*To the independent Shareholders*

Dear Sirs or Madams,

### **MAJOR AND CONNECTED TRANSACTION**

We refer to the circular dated 1 November 2021 (the “**Circular**”) to the Shareholders of which this letter forms part. Unless otherwise specified, terms defined in the Circular shall have the same meanings in this letter.

We have been appointed to form the Independent Board Committee to advise the independent Shareholders in respect of the New Tenancy Agreement and the transaction contemplated thereunder, details of which are set out in the “Letter from the Board” contained in the Circular. The Independent Financial Adviser has been appointed to advise the independent Shareholders and us in this regard.

Details of the advice of the Independent Financial Adviser and the principal factors and reasons that the Independent Financial Adviser has taken into consideration in giving such advice are set out in the “Letter from the Independent Financial Adviser” in the Circular. Your attention is also drawn to the “Letter from the Board” in the Circular and the additional information set out in the appendices thereto.

Having taken in to account the (i) terms of the New Tenancy Agreement and the transaction contemplated thereunder; and (ii) factors referred to in the “Letter from the Independent Financial Adviser” in the Circular, we are of the opinion that the terms of the New Tenancy Agreement and the transaction contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the independent Shareholders) are concerned; (ii) entered into in the ordinary and usual course of business of the Group; (iii) on normal commercial terms; and (iv) in the interests of the Group and the Shareholders as a whole.



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**LETTER FROM THE INDEPENDENT BOARD COMMITTEE**

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Accordingly, had the New Tenancy Agreement and the transaction contemplated thereunder been required to put forward for consideration and approve at a general meeting of the Company, we would recommend you to approve them.

Yours faithfully,  
For and on behalf of  
The Independent Board Committee

**Mr. Wan Kam To**  
*Independent non-executive  
Director*

**Ms. Zhao Yue**  
*Independent non-executive  
Director*

**Mr. Shen Zheqing**  
*Independent non-executive  
Director*



Room 1108-1110, 11/F  
Wing On Centre  
111 Connaught Road Central  
Hong Kong

1 November 2021

*To: The independent non-executive Directors and the Independent Shareholders of  
KFM Kingdom Holdings Limited*

Dear Sirs/Madams,

## **MAJOR AND CONNECTED TRANSACTION IN RELATION TO THE NEW TENANCY AGREEMENT**

### **INTRODUCTION**

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of the New Tenancy Agreement and the transaction contemplated thereunder, details of which are set out in the letter from the Board (the “**Board Letter**”) contained in the circular dated 1 November 2021 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used herein have the same meanings as those defined in the Circular unless the context requires otherwise.

References are made to (i) the Announcements; (ii) the announcement of the Company dated 20 September 2021; and (iii) the Circular. 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).

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 Latest Practicable Date, Mr. Sun and Mr. Wong, the executive Directors, indirectly held approximately 45.4% 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.

On 20 September 2021, the Company had obtained the Written Approval from the controlling Shareholder, namely Massive Force Limited, which as at the Latest Practicable Date beneficially held 449,999,012 Shares, representing 75.0% of the issued share capital of the Company. Accordingly, since (i) the Company's controlling Shareholder has approved the New Tenancy Agreement and the transaction contemplated thereunder in writing pursuant to Rules 14.44 and 14A.37 of the Listing Rules; (ii) no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the New Tenancy Agreement and the transaction contemplated thereunder; and (iii) a waiver from the Stock Exchange was granted on 4 October 2021, the Company is not required to convene an extraordinary general meeting in connection with the New Tenancy Agreement and the transaction contemplated thereunder.

### OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships with or interests in the Company or any other parties that could reasonably be regarded as relevant to the independence of us. In the last two years, we have acted as an independent financial adviser to the independent non-executive Directors of the Company in relation to the transaction entered into between Able Elite Holdings Limited and Cosmic Master Holdings Limited on 13 August 2021 as detailed in the announcement of the Company dated 13 August 2021. Given (i) our independent role in the aforementioned engagement; and (ii) our fees for the aforementioned engagement represented an insignificant percentage of our revenue, we consider that the aforementioned engagement would not affect our independence to form our opinion in respect of the New Tenancy Agreement and the transaction contemplated thereunder. Apart from normal professional fees paid or payable to us in connection with this appointment as the Independent Financial Adviser, no arrangements exist whereby we had received any fees or benefits from the Group, or

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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their respective substantial shareholder(s) or connected person(s), as defined under the Listing Rules. Accordingly, we are qualified to give independent advice in this case.

### **BASIS OF OUR ADVICE**

In formulating our opinion and recommendation, we have relied on the statements, information, opinions and representations contained in or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (the “**Management**”). Our review procedures include, among others, review of (i) the annual report of the Group for the year ended 31 March 2021; (ii) the Circular; (iii) the Valuation Report; (iv) relevant announcements published by the Company; and (v) review of other relevant public information. We have assumed that all statements, information and representations made or referred to in this Circular and all information and representations which have been provided by the Company and its advisers, the Directors and the Management, for which they are solely and wholly responsible, were true at the time they were made and continue to be true as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion and intention made by the Directors in this Circular were reasonably made after due and careful enquiry and were based on honestly-held opinions.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries that, to the best of their knowledge and belief, there are no omission of other facts that would make any statements in the Circular misleading. We have no reason to believe that any information and representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any omission of any material facts that would render the information provided and the representations made to us untrue, inaccurate or misleading. We have not, however, conducted any independent in-depth investigation into the business affairs, financial position or future prospects of the Group, nor have we carried out any independent verification of the information provided by the Directors and the management of the Company.

Our opinion is based on the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. This letter is issued to the Independent Board Committee and the Independent Shareholders, solely in connection for their consideration of the New Tenancy Agreement and the transaction contemplated thereunder, and except for its inclusion in this Circular, is not to be quoted or referred to, in whole or in part, nor shall this letter be used for any other purpose without our prior written consent.

### **PRINCIPAL FACTORS AND REASONS CONSIDERED**

In arriving at our opinions and recommendations in respect of whether the New Tenancy Agreement and the transaction contemplated thereunder is in the interests of the Company and the Shareholders as a whole and fair and reasonable so far as the Independent Shareholders are concerned, we have taken into account the principal factors and reasons set out below.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 1. Background of and reasons for and benefits of the New Tenancy Agreement

#### 1.1 Information of the Landlord

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 Latest Practicable Date, the Landlord is indirectly owned by Mr. Sun and Mr. Wong, the executive Directors, as to approximately 45.4% and 12.6%, respectively.

#### 1.2 Information of the Group

The Company is an investment holding company and the Group is principally engaged in the manufacturing and sales of precision metal stamping products and metal lathing products.

KPP(SZ) is established under the PRC laws with limited liability and is an indirectly wholly-owned subsidiary of the Company as at the Latest Practicable Date. KPP(SZ) principally engages in manufacturing and sale of fine metal products.

### 2. Reasons for and benefits of entering into the New Tenancy Agreement

Making reference to the Existing Tenancy Agreement as disclosed in the Board Letter and the Announcements. The Group has been leasing the Factory since 1 November 2018.

As the term of the Existing Tenancy Agreement will expire on 30 October 2021, KPP(SZ) and the Landlord have entered into the New Tenancy Agreement to extend and modify the terms of the Existing Tenancy Agreement.

### 3. Principal terms of the New Tenancy Agreement

Summarised below are the principal terms and conditions of the New Tenancy Agreement.

**Date:** 20 September 2021

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

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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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 45.4% and 12.6% as at the Latest Practicable Date, respectively. Therefore, the Landlord is a connected person of the Company. For further detailed breakdown of the shareholding of the Landlord, please refer to the paragraph headed “IV. Information on the parties” in the Board Letter.

- 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 Latest Practicable Date, 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.

The long lease term for the New Tenancy Agreement was determined on normal commercial basis and was reasonable with reference to, among others:

- (i) the market practice for industrial leasing and similar terms in previous tenancy agreements that the Group had entered into for factories in Shenzhen and Huizhou;
- (ii) the huge capital expenses that had been and would be committed by the Group for acquiring machinery and equipment in the Factory; and
- (iii) sustainability of the Group’s operation.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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**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)	(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  (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)

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**LETTER FROM THE INDEPENDENT FINANCIAL ADVISER**

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	<b>Factory Phases I &amp; II</b>	<b>Factory Phase III</b>
<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 the deposit payable by KPP(SZ) to the Landlord:

<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



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**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.

As at the Latest Practicable Date, apart from the abovementioned condition (3), none of the conditions precedent has been fulfilled.

**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 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.

In practice, the incremental borrowing rate of real estate can be determined starting from (i) property yield; or (ii) secured borrowing rate in the lease denominated currency. As KPP(SZ) does not have a recent secured borrowing rate, the incremental borrowing rate was determined by an independent valuer using the property yield build-up method which represents the general required rental return from similar properties adjusted for lease-specific (lease length) and lessee-specific (credit quality) features. The expected property yield was 5.625% as sourced from the “Asia Pacific Real Estate: Still Good Value in a Changed World” published by Colliers in June 2020. No adjustment was made for lease length as the six year term of the New Tenancy Agreement is considered a common commercial lease length in the PRC. Estimated by comparing the credit yield of median credit rating of companies in the same industry as KPP(SZ) which was sourced from S&P Capital IQ, an upward adjustment of 2.02% was applied taking into account the credit rating of KPP(SZ) for an aggregate incremental borrowing rate of 7.645% or approximately 7.65%.

**4. Reasons for and benefits of entering in to 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.

Since the completion of the disposal of the Landlord by the Group on 1 November 2018, the Group did not own and leased all of its production bases. Accordingly, the leasing of production bases is in the ordinary and usual course of business for the Group.

Reference is made to the proposed disposal of Kingdom (Reliance) Precision Parts Manufactory Holdings Limited (the “**Disposal**”) as disclosed in an announcement of the Company dated 13 August 2021. Assuming completion of the Disposal, the Group will have the Factory as its sole production base remaining. Accordingly, the Factory represents a significant revenue generating asset of the Group. In the case that the Existing Tenancy Agreement is to expire without the Group entering into the New Tenancy Agreement, the Group will lose a significant revenue generating asset if the Group is unable to secure another industrial premise to lease for its metal stamping segment. Also,

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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if the Group were to lease a new industrial premise, there would be significant capital commitments involved related to, among other things, relocation of equipment, staff, materials, etc. The Group would also potentially suffer significant losses from the pause in operations during any potential relocation.

The Group has been operating part of its metal stamping segment out of Phase I and Phase II of the Factory since January 2016 and accordingly the personnel employed by the Group at the Factory are intricately familiar with the facilities. The Factory also currently holds several certifications pursuant to various industrial, environmental and other relevant regulatory requirements in the PRC and any possible relocation would result in the Group having to retrain employees and recertify any new facilities and equipment accordingly.

The Phase III expansion of the Factory (that is expected to be completed by the end of 2021) will also add approximately 21.0% total gross floor area to the Factory which the Group will utilise to expand its metal stamping production base.

Taking into account (i) the entering into of the New Tenancy Agreement is in the ordinary and usual course of business of the Company; (ii) the significant time and capital commitment of a relocation; and (iii) the long operating history of the Factory under the Group, we consider that the entering into of the New Tenancy Agreement is fair and reasonable and in the interest of the Company and its Shareholders as a whole.

### 5. Our analysis of the terms of the New Tenancy Agreement

#### *The Rental Fee*

In our discussions with the Management and Directors and as disclosed in the Circular, we noted that the rental fee under the New Tenancy Agreement (the “**Rental Fee**”) was determined after arm’s length negotiations between the parties of the New Tenancy Agreement with reference to the prevailing market rental fee for comparable premises in the vicinity of the Factory (the “**Market References**”). We noted that the rental fee per square metre for the first two years under the New Tenancy Agreement is identical to the rental fee per square metre for the entire three year term of the Existing Tenancy Agreement. Taking into account that no adjustment was made to the rental fee per square metre for the Factory between the Existing Tenancy Agreement and the New Tenancy Agreement, upon entering into the New Tenancy Agreement, the Group will be able to rent the Factory for an additional two years at the same rental fee per square metre, resulting in an aggregate of five years (i.e. inclusive of the three years pursuant to the Existing Tenancy Agreement) without adjustment of the rental fee per square metre of the Factory.

According to our discussions with the Management and Directors, the selection criteria of the Market References include principally properties that (i) are designated for industrial production; (ii) are within the same district as the Factory; and (iii) has rent information publicly available to the Company, and no adjustments were made to the Market References as they were used for reference purposes only.

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We have reviewed the Market References and noted that they ranged in size from 648m<sup>2</sup> to 3,233m<sup>2</sup> and the rental fees of the Market References ranged from RMB27.0/gross m<sup>2</sup> to RMB36.0/gross m<sup>2</sup>. We noted that the Rental Fee (i.e. RMB25.0/gross m<sup>2</sup>) was lower than all of the Market References but we also noted that the Market References were smaller than the Factory in size.

As advised by the Directors, the Company had also engaged Cushman & Wakefield (the “**Valuer**”) to provide an independent opinion on the fair market rental fee of the Factory (the “**Valuation**”). The Valuation indicated that a fair market rental fee for the Factory for a term of six years without varying rent was RMB19,320,000 per annum.

We noted (i) that the annual Rental Fee of the Factory for the first two years of the New Tenancy Agreement (i.e. RMB17,608,392) is approximately 8.86% lower than that of the Valuation (i.e. RMB19,320,000); (ii) the annual Rental Fee of the Factory for the third and fourth years of the New Tenancy Agreement (i.e. RMB19,369,231) is approximately equivalent to the Valuation (i.e. RMB19,320,000); and (iii) the annual Rental Fee of the Factory for the fifth and sixth years of the New Tenancy Agreement (i.e. RMB21,306,154) is approximately 10.28% higher than the Valuation (i.e. RMB19,320,000). We also understand that, when taking into account the accumulative Rental Fee of RMB116,567,554 across the six year term of the New Tenancy Agreement, the average Rental Fee is RMB19,427,926 per annum, which is approximately equivalent to the Valuation (i.e. RMB19,320,000).

We have reviewed the Valuation Report issued by the Valuer in relation to the Valuation as of 30 September 2021 (the “**Valuation Date**”) and have also discussed with the Valuer in regards to the work it has performed and the methodology, bases and assumptions and adjustments adopted in arriving at the Valuation.

According to the Valuation Report and our discussions with the Valuer, in computing the Valuation, the Valuer has adopted the market comparison method in its assessment by making reference to comparable market rent evidences in similar locations in its market rent assessment. This method rests on the wide acceptance of the market rent evidences as the best indicator and pre-supposes that evidence of relevant rent evidences in the marketplace can be extrapolated to similar properties, subject to allowances for variable factors. The market comparison method is the generally accepted method of assessment for the monthly rent of properties and we noted that the market comparison method was adopted by the Valuer on the basis that (i) it is commonly accepted method for rent assessments of properties with similar nature to the Factory; (ii) the market comparison method incorporates market rental value and most accurately reflects current market conditions; and (iii) there are sufficient transaction records for conducting an adequate market comparison.

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We have obtained and reviewed the list of comparable rental evidence (the “**Valuer Comparable(s)**”) identified by the Valuer for the Factory and it was to our understanding that the Valuer has identified 4 suitable Valuer Comparables according to (i) city, district (location, environment, transportation and accessibility); (ii) the quality of the Valuer Comparable (decoration standard, etc.); (iii) building characteristics (storey, building age, size); and (iv) lease commencement date. We noted that the Valuer Comparables (i) are all in the same district as the Factory; (ii) were all completed since 2010; (iii) were leased since January 2017; and (iv) the details of the Valuer Comparables were sourced from several property agents and the Valuer’s property database.

According to our discussions with the Valuer, we noted that relevant adjustments were made to the Valuer Comparables in accordance to (i) date of lease; (ii) transaction situation; (iii) accessibility; (iv) property age; (v) lease term; (vi) building height; (vii) rent-free period; (viii) building condition; (ix) number of floors; and (x) size.

Based on our discussion with and review of the Valuer Comparables adopted by the Valuer, we are of the view that the Valuer Comparables are appropriate and accurate for compiling the market rent of the Factory. We also noted that the Valuer had performed a visual inspection of the Factory with no serious defects noted however no in depth surveys or tests were performed by the Valuer.

In the course of performing the assessment, the Valuer confirmed that they have complied with all the requirements of the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors and the requirements as set out in Chapter 5 and Practice Note 12 of the Listing Rules.

The Valuation has been made on the assumption that (i) the Valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the letting, or any element of value available only to a specific lessor or lessee; (ii) the lessor leases the properties in the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the market rent of the Factory; (iii) the Valuation is on a 100% interest basis; (iv) the Factory is free from encumbrances, restrictions and outgoing of an onerous nature, which could affect its market rent; (v) the Factory is leased for a term of 6 years from the Valuation Date without varying rent, turnover rent or rental incentive; and (vi) the Factory Phase III is leased on a full completion basis. We have obtained the certificate of title of the Factory and enquired with the Management and Directors who have confirmed that there are no aforesaid arrangements that would affect the market rental of the Factory. Based on the above, we have not identified any factors that would cause us to doubt the fairness and reasonableness of the assumptions applied in the Valuation.

We have also enquired on the Valuer’s qualification and experience in relation to the Valuation. We noted that the Valuer is an established global valuation firm

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with extensive experience performing rental valuations for listed companies in Hong Kong. We have also noted that the key personnel of the Valuer responsible for the Valuation is a member of the Hong Kong Institute of Surveyors and has over 25 years' experience providing property valuation services in Hong Kong and the PRC to several multinational companies, including Hong Kong listed companies. The Valuer confirmed that they are not connected with and are independent to the Group. We have also reviewed the terms of the Valuer's engagement with the Group, and noted that its scope of work is appropriate to the opinion required to be given and there is no limitation on the scope of work which might adversely impact on the degree of assurance given by the Valuer in the Valuation.

In light of the above, we consider that the methodology, basis and assumptions adopted by the Valuer in assessing the monthly rent are fair and reasonable.

Whilst we noted that the terms of the New Tenancy Agreement are fundamentally the same as the Existing Tenancy Agreement, in order to analyse the other core terms of the New Tenancy Agreement, specifically the rental fee adjustment, lease period, security deposit, and renewal option, for comparison purposes we have also requested and obtained 2 lease agreements entered into by the Group with independent third parties (the "I3P Leases").

In order to further analyse whether the rental fee adjustment and lease period is in line with market practice, we have also performed our own desktop research for comparable lease agreements that (i) were entered into by a listed issuer on the Stock Exchange as lessee with a non-connected lessor; (ii) is for the lease of an industrial premises in the PRC; and (iii) entered into within 12 months of the Latest Practicable Date. Under the aforementioned criteria, we have identified the below 9 comparable lease agreements (the "I3P Comparables").

Date of announcement	Company name (stock code)	Term of lease (years)	Lease adjustment	Lease adjustment frequency (years)
September 30, 2021	Best Pacific International Holdings Limited (2111)	3	10%	1
September 6, 2021	Sun Hing Printing Holdings Limited (1975)	10	15%	3
June 22, 2021	Trio Industrial Electronics Group Limited (1710)	15	10%	3

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Date of announcement	Company name (stock code)	Term of lease (years)	Lease adjustment	Lease adjustment frequency (years)
April 23, 2021	Trio Industrial Electronics Group Limited (1710)	15	10%	3
March 1, 2021	Tongda Hong Tai Holdings Limited (2363)	3	0%	0
January 20, 2021	Echo International Holdings Group Limited (8218)	4	10%	1
January 6, 2021	China International Development Corporation Limited (264)	5	10%	1
January 5, 2021	Gold Peak Industries (Holdings) Limited (40)	10	10%	5
December 3, 2020	Come Sure Group (Holdings) Limited (794)	9	10%	3
	Average	8.22	9.44%	2.22

*Note:* The above illustrated term of lease and lease adjustment figures are approximations based on information published by the respective companies.

***Rental fee adjustment***

We understand from the Circular that the adjustment of the Rental Fee was set with reference to (i) the increment mechanism set out in previous tenancy agreements that the Group had entered into for the factories in Shenzhen and Huizhou; and (ii) the current inflation rate.

We noted that under the New Tenancy agreement that the Rental Fee would be increased 10.0% every 2 years as compared to 12.0% every 3 years and 10.0% every 2 years for the I3P Leases. The rental adjustment for the New Tenancy Agreement is in aggregate higher than one but equivalent to the other of the I3P Leases. We also noted that there was no adjustment of the rental fee per square metre during the Existing Tenancy Agreement and between the Existing Tenancy Agreement and the New Tenancy Agreement. In the case that the Group enters into the New Tenancy Agreement, taking into account the original term of 3 years under the Existing

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Tenancy Agreement and the initial 2 years of the New Tenancy Agreement where the rental fee per square metre is the same as the Existing Tenancy Agreement, the Group would be able to rent the Factory for 5 years at the same rental fee per square metre with no adjustment.

Taking into consideration of the initial rental fee of RMB17,608,392 and the final rental fee of RMB21,306,154, the rental increase represents a compound annual growth rate (“CAGR”) of approximately 3.23% across the aggregate of the six year term under the New Tenancy Agreement. According to data published by the National Bureau of Statistics of China, the producer price index (“PPI”), which represents the average movement in selling prices from domestic production over time and is considered a measure of inflation based on input costs to producers, recorded a record high year-on-year (“YOY”) change of 9.5% in September 2021, the highest rate ever recorded for over 20 years. The average YOY change of the PRC’s PPI for the six months prior to the entering into of the New Tenancy Agreement was approximately 7.9%.

In addition, as illustrated in the table above, the I3P Comparables had lease adjustment rates ranging from none to approximately 15% with an average lease adjustment rate of approximately 9.44% and a lease adjustment frequency ranging from none to every 5 years with an average of 2.22 years. The 10% lease adjustment rate of the New Tenancy Agreement is within range of the I3P Comparables, the same as the majority of the I3P Comparables and only 0.56 percentage points higher than the average of the I3P Comparables. The lease adjustment frequency of the New Tenancy Agreement of 2 years is within range of the I3P Comparables and only approximately 9.91% shorter than the average of the I3P Comparables.

Having considered the abovementioned factors, we are of the view that the rental fee adjustment to be within market practice and fair and reasonable.

Taking into account that (i) the Rental Fee per square metre for the first two years is lower than the Market References; (ii) the average Rental Fee across the six year term of the New Tenancy Agreement is approximately equivalent to the Valuation; and (iii) the rental fee adjustment under the New Tenancy Agreement is within market practice, we consider the Rental Fee including the rental adjustment under the New Tenancy Agreement to be within market practice and is fair and reasonable.

### *Lease period*

We noted from the Circular and from our discussions with the Management and Directors that the lease term for the New Tenancy Agreement was determined with reference to, among others (i) the market practice for industrial leasing and similar terms in previous tenancy agreements that the Group had entered into for factories in Shenzhen and Huizhou; (ii) the huge capital expenses that had already been and would be committed by the Group for acquiring machinery and equipment in the Factory; and (iii) the sustainability of the Group’s operations.



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We noted the lease periods under by the I3P Leases was six years and five years which is the same and similar to the lease period under the New Tenancy Agreement respectively.

As illustrated in the above table, the I3P Comparables had lease periods ranging from 3 years to 15 years with an average of 8.22 years. The lease period of 6 years under the New Tenancy Agreement is within the range of the I3P Comparables and below the average of the I3P Comparables. Whilst the lease period under the New Tenancy Agreement is below the average of the I3P Comparables, there is a 3 year renewal option under the New Tenancy Agreement which if entered into would result in a similar lease term to the average of the I3P Comparables.

Taking into account the abovementioned factors, we are of the view that the lease period of the New Tenancy Agreement is within market practice and fair and reasonable.

### *Security deposit*

The security deposit of the New Tenancy Agreement is equivalent to 2 months of the Rental Fee which is the same and lower than the 2 months and 4 months under the I3P Leases respectively. Accordingly we consider the security deposit of 2 months as contemplated under the New Tenancy Agreement is not less favourable than that of the I3P Leases.

### *Renewal option*

The New Tenancy Agreement includes a renewal option of 3 years. We noted that the I3P Leases contained renewal options that, whilst giving the Group priority over other parties, have no set terms and is subject to negotiation. As there is a definite option of renewal with the terms already known to the Group that can be immediately entered into as needed, we are of the view that the renewal option of the New Tenancy Agreement is more favourable than that of the I3P Leases.

Based on the above analysis, we are of the opinion that the principal terms, specifically the Rental Fee, rental fee adjustment, lease period, security deposit and renewal option, of the New Tenancy Agreement are comparable and no less favorable than the terms as offered by an independent third parties and accordingly are fair and reasonable.

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## LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

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### 6. Financial effect of the lease on the Group

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 above right-of-use asset amount recognised by the Company.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Interest expenses on the lease liabilities will be recognised at the rate of 7.65% per annum. After the commencement date of the lease, the lease liabilities are adjusted by the interest accretion and lease payments.

### OPINION AND RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into of the New Tenancy Agreement is in the ordinary and usual course of business of the Group, in the interests of the Company and the Shareholders as a whole, and that the terms of the New Tenancy Agreement are on normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

Yours faithfully,  
For and on behalf of  
**Merdeka Corporate Finance Limited**  
**Wallace So**  
*Director*

*Mr. Wallace So is a Responsible Officer under the SFO to engage in Type 6 (advising on corporate finance) regulated activity and has over 10 years of experience in corporate finance.*

## 1. FINANCIAL SUMMARY

Financial information of the Group for the three years ended 31 March 2021 are disclosed on pages 52 to 126 of the annual report 2019 of the Group published on 19 July 2019, pages 50 to 126 of the annual report 2020 of the Group published on 23 July 2020, and pages 49 to 118 of the annual report 2021 of the Group published on 21 July 2021, respectively, which were published on both the website of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company's website ([www.kingdom.com.hk](http://www.kingdom.com.hk)).

## 2. STATEMENT OF INDEBTEDNESS

### Borrowings

As at 31 August 2021, the Group's borrowings were as follows:

	<b>As at 31 August 2021 (HK\$'000)</b>
Leases liabilities	76,286
Unsecured Borrowings from a related company (with accrued interest)	<u>138,101</u>
<b>Total</b>	<b><u>214,387</u></b>

### Security

As at 31 August 2021, the Group did not have any borrowings which were secured by way of charge over the Group's assets.

Saved as disclosed and apart from intra-group liabilities and normal trade and other payables, the Group did not have any outstanding indebtedness in respect of any mortgages, charges or debentures, loan capital, overdrafts, loans debt securities or other similar indebtedness, or hire purchase commitments, guarantees or material contingent liabilities as at 31 August 2021.

## 3. MATERIAL ADVERSE CHANGE

Save as disclosed in the announcement of the Company dated 25 August 2021 regarding the financial performance of the Group for the six months ending 30 September 2021, where it was disclosed that the Company was expecting to record a loss of approximately HK\$8.0 million to HK\$10.0 million for the six months ending 30 September 2021, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2021 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

#### 4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries and taking into account the Group's internal resources, cash flow from operations, facilities available to the Group, are of the opinion that the Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular, in the absence of unforeseeable circumstances.

The Company has obtained the relevant confirmation as required under Rule 14.66(12) of the Listing Rules.

#### 5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

The Group is principally engaged in the manufacturing and sales of precision metal stamping and metal lathing products.

The Group recorded revenue of approximately HK\$678.3 million for the year ended 31 March 2021, with a decrease by approximately HK\$308.4 million or 31.3% as compared to the same for the year ended 31 March 2020. The total gross profit of the Group decreased by approximately HK\$83.1 million from approximately HK\$235.1 million for the year ended 31 March 2020 to approximately HK\$152.0 million for the year ended 31 March 2021. The net profit amounted to approximately HK\$18.4 million during the year ended 31 March 2021, which had increased as compared to the net profit of approximately HK\$0.6 million of the same period last year. Net assets attributable to the owners of the Group were approximately HK\$555.5 million as at 31 March 2021, while it was approximately HK\$508.5 million as at 31 March 2020.

The adverse conditions seen in the year ended 31 March 2021 are expected to remain in the foreseeable future. The China-US tension on political and trade disputes will likely subsist for a period of time. The world economies are struggling for a recovery despite high vaccinations rate against the pandemic virus, while there are inevitable dampening market sentiments and rising unemployment. The pandemic also affects business environment and consumer behaviour worldwide, and many companies accelerated the digitalisation of their business processes after the outbreak of the pandemic. At the same time, manufacturing industries in China are expected to continue facing difficulties. The increasing labour cost, material cost and production costs in China will remain the major challenges to the Group. It is also expected that certain number of the Group's customers will continue relocating their businesses to the Southeast Asia to get away with the sanctions imposed by the United States of America. The decrease in demands due to geopolitical and health issues has affected the Group's businesses, in particular the metal lathing segment which relies heavily on consumer electronics industry and their foreign ultimate customers.

Looking forward, there is not much sign for an imminent possibility of easing in the tension between China-US and the pandemic is also expected to continue to affect the global economy and business environment. However, the Group has been making its best effort to endure the economic hardship by streamlining the operation for optimal efficiency, closely assessing the external challenges and taking appropriate actions to mitigate those impacts, as necessary. The Group has been striving to develop more new customers in the region to broaden its customer base. The Group has been successful in broadening its customer base for its metal stamping segment, which has benefited from the surge of demands from the data and network industry arising from an acceleration of digitalisation of business processes and higher volume of internet activities since the lockdowns due to the outbreak of COVID-19. The Group will also put more efforts in maintaining good relationships with its existing customers. Last but not least, the Group will continue looking for new, long term and sustainable business opportunities to enhance the Group's performance, with the aim to creating better value for customers, shareholders and investors.

*The following is the text of a letter and valuation report prepared for the purpose of incorporation in this circular received from Cushman & Wakefield Limited, an independent property valuer, in connection with its opinion of the rental value of the property interest to be leased by the Company as at 30 September 2021.*



27/F One Island East  
Taikoo Place  
18 Westlands Road  
Quarry Bay  
Hong Kong

1 November 2021

The Directors  
KFM Kingdom Holdings Limited  
Workshop C, 31/F  
TML Tower  
3 Hoi Shing Road  
Tsuen Wan  
New Territories  
Hong Kong

Dear Sirs,

**Re: Major and connected transaction in relation to the new tenancy agreement of KFM Kingdom Holdings Limited (the “Company” and/or its subsidiaries, the “Group”)**

Instructions,  
Purpose &  
Valuation Date

In accordance with the instructions from KFM Kingdom Holdings Limited (the “**Company**”) for us to provide our opinion of the market rent of the property to be leased to the Company or its subsidiaries (collectively the “**Group**”) in the People’s Republic of China (the “**PRC**”) (as more particularly described in the attached valuation report), we confirm that we have inspected the property, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing the Company with our opinion of the market rent of such property as of 30 September 2021 (the “**valuation date**”).

Valuation Basis

Our valuation of the property represents its market rent which in accordance with the HKIS Valuation Standards 2020 issued by The Hong Kong Institute of Surveyors is defined as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm’s length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion”.

We confirm that the valuation is undertaken in accordance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities published by The Stock Exchange of Hong Kong Limited and the HKIS Valuation Standards 2020 issued by The Hong Kong Institute of Surveyors.

Valuation  
Assumptions

Our valuation of the property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the letting, or any element of value available only to a specific lessor or lessee.

Our valuation has been made on the assumption that the lessor leases or lets the property on the market without the benefit of a deferred term contract, leaseback, joint venture, management agreement or any similar arrangement, which could serve to affect the market rent of the property.

Unless otherwise stated, our valuation of the property is on a 100% interest basis.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the property nor any expenses or taxation which may be incurred in effecting a lease.

Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its market rent.

Method of  
Valuation

In valuing the property, we have adopted Market Comparison Method which is universally considered the most acceptable method for assessing the rent of most forms of real estate. This involves the analysis of recent market rental evidences of similar properties to compare with the property under assessment. Each comparable is analysed on the basis of its unit rent; each attribute of the comparable is then compared with the property and where there is a difference, the unit rent is adjusted in order to arrive at the appropriate unit rent for the property.

The major factors of comparison used to value the property include city, district (location and environment, transportation and accessibility), the quality of the property itself (decoration standard, etc.), storey, building age, size, and lease commencement date.

Source of Information	<p>We have relied to a very considerable extent on the information given by the Group regarding the title to the property and the interests of the Group in the property. We have accepted advice given to us on such matters as identification of property, date of completion of the property, particulars of occupancy, floor areas, floor plans, interests attributable to the Group and all other relevant matters.</p> <p>Dimensions, measurements and areas included in the valuation report are based on the copies of documents or other information provided to us by the Group and are therefore only approximations. No on-site measurement has been carried out. We have had no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.</p> <p>We would point out that the copies of documents of the property in the PRC provided to us are mainly compiled in Chinese characters and the transliteration into English represents our understanding of the contents. We would, therefore, advise you to make reference to the original Chinese editions of the documents and consult your legal adviser regarding the legality and interpretation of these documents.</p>
Title Investigation	<p>We have been provided with copies of the title documents relating to the property in the PRC. We have not been able to conduct title searches and have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us. We are also unable to ascertain the title of the property in the PRC and we have therefore relied on the advice given by the Group regarding the interests of the Group in the property in the PRC.</p> <p>In valuing the property, we have assumed that the owner of the property has an enforceable title to the property and has free and uninterrupted rights to use, occupy, assign or lease the property for the whole or part of the unexpired term as granted. We have not verified the authentication of the real estate title certificates and we assume that the copy of relevant documents provided by the Company are true and accurate.</p>
Site Inspection	<p>Ms. Liz Xu, Valuer with 1 year of experience in valuation of properties in the PRC, of our Suzhou Office inspected the exterior and, wherever possible, the interior of the property on 14 September 2021.</p>



No structural survey of the completed buildings has been made, but in the course of our inspection, we did not note any serious defects. We are, however, not able to report that the property is free of rot, infestation or any other structural defects. No test was carried out on any of the services. We have not carried out investigations on-site to determine the suitability of the soil conditions and the services etc. of the property for any development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no unexpected extraordinary expenses or delays will be incurred during the construction period.

Unless otherwise stated, we have not been able to carry out the on-site measurement to verify the site and floor areas of the property and we have assumed that the areas shown on the copies of the documents handed to us are correct.

Currency Unless otherwise stated, all monetary sums stated in our valuation are in Renminbi (“**RMB**”), the official currency of the PRC.

Other Disclosure We hereby confirm that Cushman & Wakefield Limited and the valuers conducting the valuations have no pecuniary or other interests that could conflict with the proper valuation of the property or could reasonably be regarded as being capable of affecting our ability to give an unbiased opinion.

We confirm that we are an independent qualified valuer, as referred to Rule 5.08 of the Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Market Volatility The recent outbreak of the Novel Coronavirus (COVID-19) has brought high volatility to global financial markets and uncertainty to the property market. It is expected that property rental values will be very sensitive to development of the pandemic and changes in the financial markets. The extents of impact on different sectors of the market are different and the time for marketing and negotiating lease of a property will be longer than normal. There will be less certainty as to how long a valuation may sustain and property rental prices may fluctuate rapidly and materially over a short period of time. Our valuation of the property is valid only at the valuation date and any subsequent changes in market conditions as well as the resulting impacts on property rental values after the valuation date cannot be taken into account. If any party intends to make reference to our valuation when entering into any transaction, the party must bear in mind the high market volatility during this period of time and that property rental values may or may not have changed since the valuation date.

Intended Use and User of Report      This valuation report is issued only for the use of the Company for incorporation into its circular.

We enclose herewith our valuation report for your attention.

Yours faithfully,  
For and on behalf of  
**Cushman & Wakefield Limited**  
**Grace S.M. Lam**

*MRICS, MHKIS, RPS(GP)*

*Director*

Valuation & Advisory Services, Greater China

*Note:* Ms. Grace S.M. Lam is a member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyor and Registered Professional Surveyor (General Practice). Ms. Lam has over 25 years' experience in the valuation of properties in the PRC and Hong Kong. Ms. Lam has sufficient current national knowledge of the market, and the skills and understanding to undertake the valuation competently.

## VALUATION REPORT

## Property to be leased by the Group in the PRC

Property	Description and tenure	Particulars of occupancy	Market rent in existing state as of 30 September 2021								
Factory Phases I, II and III at No. 881 Jinshan Road South, High-Tech District, Suzhou City, Jiangsu Province, the PRC (中國江蘇省蘇州市高新區金山南路881號廠房一、二及三期)	<p>The property comprises Factory Phases I and II completed in about 2015 and Factory Phase III planned to be completed in 2021, which were all erected upon a parcel of industrial land with a total site area of 52,000 sq.m.</p> <p>The property is located at Jinshan Road South and Xiangjiang Road West, which is in High-Tech District in Suzhou City.</p> <p>The completed portion of Phases I and II of the property is subject to an existing tenancy of 3 years due to expire on 31 October 2021. The landlord and the tenant (the Group) propose a lease renewal agreement starting from 1 November 2021 to renew the tenancy for a relatively larger portions as described below for another 6 years upon expiry.</p> <p>Pursuant to the lease renewal agreement, the property has a total leasable gross floor area of 58,694.64 sq.m with details as follows:</p>	<p>As at the valuation date, portion of the property comprising the completed portion of Factory Phases I and II with total leased floor area of 48,496.64 sq.m were leased to the Group due to expire on 31 October 2021 and the monthly rent payable was RMB1,212,416.00 (inclusive of value added tax (“VAT”), but exclusive of building management fees and utilities charges).</p> <p>As at the valuation date, the remaining portion of the property comprising Factory Phase III of the property with a leasable gross floor area of 10,198.00 sq.m is under construction and planned to be completed on 31 December 2021.</p>	<p>RMB1,610,000 (RENMINBI ONE MILLION SIX HUNDRED AND TEN THOUSAND) per month, excluding VAT, building management fees and utilities charges (see Note (1))</p>								
	<table border="1"> <thead> <tr> <th>Use</th> <th>Leasable gross floor Area (sq.m)</th> </tr> </thead> <tbody> <tr> <td>Factory Phases I and II</td> <td>48,496.64</td> </tr> <tr> <td>Factory Phase III</td> <td>10,198.00</td> </tr> <tr> <td>Total:</td> <td><u>58,694.64</u></td> </tr> </tbody> </table>	Use	Leasable gross floor Area (sq.m)	Factory Phases I and II	48,496.64	Factory Phase III	10,198.00	Total:	<u>58,694.64</u>		
Use	Leasable gross floor Area (sq.m)										
Factory Phases I and II	48,496.64										
Factory Phase III	10,198.00										
Total:	<u>58,694.64</u>										

*Notes:*

- (1) The rental valuation is conducted on the assumption that the property is let for a term of 6 years from the valuation date without varying rent, turnover rent or rental incentive and that Factory Phase III will be let on full completion basis.
- (2) We have considered various rental comparables as available in the market. We have made appropriate adjustments to reflect the differences between the property and the comparables in different aspects including but not limited to city, district (location and environment, transportation and accessibility), the quality of the industrial properties (decoration standard, etc.), storey, building age, size, and lease commencement date, etc.

Assuming the renewal tenancy of the property commences on the valuation date and is freely disposable and transferable, the capitalized value of the market rent under this 6-year tenancy would be in the range of RMB93,530,000. The adopted capitalization rate is estimated by reference to the yields generally expected by the market for comparable properties of similar use type, which implicitly reflect the type and quality of the property, the expectation of the potential future rental growth, capital appreciation and relevant risk factors. The capitalization rate adopted is reasonable and in line with the market norm having regard to the analyzed yields of transactions of the relevant use type.

- (3) We have been provided with copies of real estate title certificates, certificate of state-owned land use rights and permit for commencement of construction works by the Company in relation to the current title to the property. The lessor of the tenancy agreement is the legal owner of the property. In valuing the property, we have assumed that the owner of the property has an enforceable title to the property and has free and uninterrupted rights to use, occupy, assign or lease the property for the whole or part of the unexpired term as granted. We have not verified the authentication of the real estate title certificates and the certificate of state-owned land use rights and we have assumed that the copies of relevant documents provided by the Company are true and accurate.

Pursuant to Real Estate Title Certificate No. (2017) 5070645 dated 20 September 2017, the land use rights of the property with site area of 52,000 sq.m are due to expire on 2 May 2063 for industrial use.

- (4) We have assumed that all consents, approvals and licences from relevant government authorities for the development have been obtained without onerous conditions or delays. We have also assumed that the design and construction of the property are in compliance with the local planning regulations and have been approved by the relevant authorities.

We have assumed that transferable land use rights in respect of the property for a specific land use term at nominal annual land use fee have been granted and that any premium has already been fully settled.

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. SHARE CAPITAL

As at the Latest Practicable Date, the authorised share capital of the Company comprised 4,500,000,000 ordinary Shares, which is in turn in HK\$450,000,000, while the issued share capital of the Company comprises 600,000,000 ordinary Shares, which is in turn in HK\$60,000,000.

As at the Latest Practicable Date, the Company had no outstanding options, warrants, derivatives or convertible securities which may confer any right to the holder thereof to subscribe for, convert or exchange into new Shares as at the Latest Practicable Date.

## 3. DISCLOSURE OF INTERESTS

### (a) Directors' and chief executives' interests in the Company or its associated corporations

As at the Latest Practicable Date, no Directors or chief executive of the Company had any interests and short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO or required, pursuant to section 352 of the SFO, to be entered in the register referred to therein or required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules.

**(b) Substantial Shareholders and other persons' interests in Shares and underlying Shares**

As at the Latest Practicable Date, substantial Shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follow:

*Long positions in Shares and underlying Shares*

<b>Name of person</b>	<b>Capacity</b>	<b>Number of Shares held</b>	<b>Approximate percentage of issued share capital of the Company as at the Latest Practicable Date</b>
Massive Force Limited	Beneficial owner	449,999,012 <i>(Note)</i>	75.00%

*Note:*

These Shares were held by Massive Force Limited, which is owned as to 40% by Mr. Zhang Yongdong.

As at the Latest Practicable Date, none of the Directors was a director or an employee of a company who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, the Company was not notified by any persons (other than Directors or chief executive of the Company as discussed above) who had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

**4. COMPETING INTEREST**

So far as the Directors are aware, none of the Directors or their respective associates had interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group as at the Latest Practicable Date.

**5. DIRECTORS' SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had entered into any existing or proposed service contract with the Company, or any of its subsidiaries or associated companies which was not determinable by the employer within one year without payment of compensation (other than statutory compensation).

**6. DIRECTORS' INTERESTS IN CONTRACTS OR ASSETS**

As at the Latest Practicable Date, save for the (i) leasing of the premises located at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, the car parking spaces located at numbers 65 and 66, 3/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong (for further details, please refer to the circular of the Company dated 6 March 2020); (ii) Existing Tenancy Agreement; and (iii) the New Tenancy Agreement,

- (i) there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group; and
- (ii) none of the Directors had any direct or indirect interest in any assets which had been since 31 March 2021 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**7. LITIGATION**

As at the Latest Practicable Date, to the best of the Directors' knowledge, information and belief, no member of the Group was engaged in any litigation, arbitration or claim of material importance and no litigation, arbitration or claim of material importance is known to the Directors to be pending or threatened against any member of the Group that would have a material adverse effect on the results of operation or financial conditions of the Group.

## 8. QUALIFICATION AND CONSENT OF EXPERTS

- (a) The following sets out the qualifications of the experts who have given their respective opinion or advice or statements as contained in this circular:

Name	Qualification
Merdeka Corporate Finance Limited	A corporation licensed to carry out type 6 (advising on corporate finance) regulated activity under the SFO
Cushman & Wakefield	Valuer

- (b) As at the Latest Practicable Date, each of the above experts had no shareholding in the Company or any other member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in the Company or any other member of the Group.
- (c) As at the Latest Practicable Date, each of the above experts had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 March 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased to any member of the Group.
- (d) As at the Latest Practicable Date, each of the above experts had given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of its report or letter or its name and logo in the form and context in which they respectively appear.

## 9. MATERIAL CONTRACTS

As at the Latest Practicable Date, the following contracts (not being contracts in the ordinary course of business) have been entered into by the Company or any of its subsidiaries within two years immediately preceding the Latest Practicable Date and are or may be material:

- (a) the sale and purchase agreement dated 22 January 2020 and entered into between Able Elite Holdings Limited (“**Able Elite**”), as vendor, and Kingdom International Group Limited, as purchaser, in relation to the sale and purchase of the entire issued shares of KFM Group Limited at a consideration of HK\$44.0 million;
- (b) the leasing agreement dated 13 March 2020 and entered into between Golden Express Capital Investment Limited (“**GECI**”) (as landlord) and Able Elite (as tenant) in relation to the leasing of the car parking space located at number 65,



- 3/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at a rental fee of HK\$52,800 per annum;
- (c) the leasing agreement dated 13 March 2020 and entered into between GECl (as landlord) and Able Elite (as tenant) in relation to the leasing of the car parking space located at number 66, 3/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at a rental fee of HK\$52,800 per annum;
- (d) the leasing agreement dated 13 March 2020 and entered into between GECl (as landlord) and Able Elite (as tenant) in relation to the leasing of the premises located at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at a rental fee of HK\$1,944,000 per annum;
- (e) the tenancy agreement dated 27 October 2020 and entered into between Reliance Precision Smart Production (Huizhou) Company Limited\* (德利賚精密製造(惠州)有限公司) formerly known as Reliance Technology (Huizhou) Company Limited\* (德利賚科技(惠州)有限公司) (as tenant) and Huizhou Weidi Packaging Materials Company Limited\* (惠州市偉迪包裝材料有限公司) (as landlord) in relation to the leasing of the Tea Garden Industrial Park, Jiangjun Road, Qiuzhang Street Office, Huiyang District, Huizhou City, Guangdong Province, the PRC\* (中國廣東省惠州市惠陽區秋長街道辦將軍路茶園工業園) at a rental fee of (i) RMB10,476,000 per annum for the first three years of lease; and (ii) RMB11,733,120 per annum after the first three years of lease;
- (f) the renovation agreement dated 2 March 2021 and entered into between Reliance Precision Smart Production (Huizhou) Company Limited\* (德利賚精密製造(惠州)有限公司) and Shenzhen Yijiayi Commercial Real Estate Investment Company Limited\* (深圳市一佳一商業地產投資有限公司) regarding the renovation work, including installation of the power distribution system, air conditioning system, sewage system and carrying out renovation work for the factory in the production facility (the “**Production Facility**”) of the Group located at No. 55 Jiangjun Road, Qiuzhang Street Office, Huiyang District, Huizhou City, Guangdong Province, the PRC\* (中國廣東省惠州市惠陽區秋長街道辦將軍路) at a consideration of RMB16,000,000;
- (g) the systems supply agreement dated 2 March 2021 and entered into between Reliance Precision Metal Manufacturing (Shenzhen) Company Limited\* (德利賚精密五金製品(深圳)有限公司), Shenzhen Pengans Technology Company Limited\* (深圳市鵬安視科技有限公司) and Tencent Cloud Computing (Beijing) Company Limited\* (騰訊雲計算(北京)有限責任公司) regarding the systems supply work, including (i) the supply of a software system consist of an internet of things platform in the Production Facility which connects with a cloud server; and (ii) the set up and installation of the IoT Platform System in the Production Facility at a consideration of RMB19,180,000;

- (h) the disposal agreement dated 13 August 2021 and entered into between Able Elite, as vendor, and Cosmic Master Holdings Limited, as purchaser, in relation to the sale and purchase of the entire issued shares of Kingdom (Reliance) Precision Parts Manufactory Holdings Limited at a consideration of HK\$66,000,000; and
- (i) the New Tenancy Agreement.

#### 10. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company ([www.kingdom.com.hk](http://www.kingdom.com.hk)) for 14 days from the date of this circular:

- (a) the valuation report issued by the Valuer, the text of which is set out in Appendix II to this circular;
- (b) the written consent referred to in the section headed “8. Qualification and consent of experts” in this appendix;
- (c) the New Tenancy Agreement; and
- (d) this circular.

#### 11. MISCELLANEOUS

- (a) The company secretary of the Company is Mr. Kwok For Chi, who is a member of the Hong Kong Institute of Certified Public Accountants.
- (b) The registered office of the Company is situated at Conyers Trust Company (Cayman) Limited, Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.
- (c) The head office and principal place of business of the Company in Hong Kong is at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.
- (d) The principal share registrar of the Company is Suntera (Cayman) Limited at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay Grand Cayman KY1-1110, Cayman Islands.
- (e) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (f) The English text of this circular shall prevail over its Chinese text.