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KNT

KNT HOLDINGS LIMITED

嘉藝控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1025)

SUPPLEMENTAL ANNOUNCEMENT IN RELATION TO DISCLOSEABLE TRANSACTION ACQUISITION OF 40% EQUITY INTEREST IN TARGET COMPANY

Reference is made to the announcement of KNT Holdings Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 16 September 2022 (the “**Announcement**”) regarding the Acquisition. Unless otherwise defined, capitalised terms used herein shall have the same meanings as those defined in the Announcement.

The board (the “**Board**”) of directors (the “**Directors**”) of the Company would like to provide supplemental information as follows:

FURTHER INFORMATION ON THE VENDOR

To the best of the Directors’ knowledge, information and belief having made all reasonable enquiries, the ultimate beneficial owners of the Vendor are Mr. Lin Shen (which indirectly owns 52.80% of the equity interests in the Vendor), Mr. Zhu Lin (which indirectly owns 31.68% of the equity interests in the Vendor) and Ms. Zhu Ting (which indirectly owns 11.52% of the equity interests in the Vendor), who are the Independent Third Parties. The Vendor is principally engaged in investment holding, property management, investment, development and operation of outlets and retail shops and has extensive business network in the PRC.

* *For identification purpose only*

CONSIDERATION

As disclosed in the Announcement, the Consideration of RMB20,000,000 for the Acquisition shall be settled in the following manner:

- (i) within 30 days from the date of the Equity Transfer Agreement, the Purchaser will pay a refundable deposit of RMB2 million (or equivalent foreign currency) (the “**Deposit**”) to a mutually agreed escrow account; and
- (ii) within 90 days from the date of the Equity Transfer Agreement, the Purchaser will pay the Vendor the remaining amount of RMB18 million (a) by cash or (b) by bonds or debts instruments issued by the Company for an equivalent sum on terms to be agreed by the parties.

Pursuant to the Equity Transfer Agreement, the Deposit shall be refundable to the Purchaser upon demand by the Purchaser if the Purchaser discovers any inappropriate acts or non-compliance issues in its due diligence process within 90 days. The Acquisition should be completed within 90 days from the date of signing the Equity Transfer Agreement, namely, on or before 15 December 2022. As at the date of this announcement, the Company has not paid the Deposit. The Company is in discussion with the Vendor regarding payment of the Deposit and further conduct of the due diligence. The Deposit will be held by a mutually agreed escrow agent so as to minimize counterparty risk to the Company.

Notwithstanding completion of due diligence and completion of the Acquisition, it is stipulated in the Equity Transfer Agreement that the Purchaser reserves the right to, within one year of the completion of the registration procedures for the transfer of 40% equity interests in the Target Company, require the Vendor to unwind the Acquisition and return the Consideration of RMB20 million to the Purchaser and the Purchaser may exercise such right taking into account, amongst other things, prospects, business development and financial performance of the Target Company and economic outlook. Having considered the background of and publicly available information regarding the Vendor (including company search reports obtained by the Company), the Directors are of the view that the Vendor will likely be able to honour its obligations under the Equity Transfer Agreement and has sufficient financial standing and resources to repay the Consideration to the Company if required to do so.

The Target Company currently has a registered and unpaid capital of RMB50,000,000. Pursuant to the Equity Transfer Agreement, the Vendor undertakes to the Purchaser that, after completion of the registration procedures for the transfer of 40% equity interests in the Target Company to the Purchaser, the Vendor will make a capital contribution of RMB30 million to the Target Company at the same time as the capital contribution of the Purchaser, so that the registered capital of the Target Company will be fully paid up after Completion. It is intended that the Consideration payable by the Purchaser to Vendor will be used to make capital contribution into the Target Company at Completion and the Vendor will make the capital contribution for the balance of the unpaid capital simultaneously so that the unpaid capital will be fully paid up upon Completion. The 40% equity interests to be acquired by the Purchaser will be fully paid up immediately after Completion and the Purchaser will not be required to make any additional capital contribution over the Consideration payable to the Vendor.

FURTHER INFORMATION ON THE TARGET COMPANY AND REASONS FOR AND BENEFIT OF THE ACQUISITION

The Target Company is a company established in the PRC with limited liability on 30 April 2021. The Target Company has been carrying out preparation works for its proposed business operations since its establishment. However, no revenue has been generated to date.

The Target Company is exploring a number of business projects, including a project at a more advanced stage of negotiation with the Vendor and its PRC business partners, who carry out the business of management and/or operation of retail outlets/shops. The Vendor and its business partners are undertaking a project to develop and operate a new modern integrated complex with an estimated area of 3.2 million square meters in Guizhou Province featuring retail stores, cultural tourism and health care business and other ancillary businesses (the “**Guizhou Project**”). It is proposed that the Target Company will provide property management services and sale and distribution of the Group’s garment products to the Guizhou Project through outlets and retail shops. On 3 November 2022, the Target Company entered into a non-binding letter of intent (“**LOI**”) with a PRC business partner which is a subsidiary of the Vendor group focusing on the investment, development, operation and management of traditional and new outlets in Guizhou, but no legally binding agreement has been signed by the parties. Pursuant to the LOI, the Target Company will be given a priority to cooperate with its business partner in relation to property operations and management for the Guizhou Project. Accordingly, the Directors of the view that the Target Company can create a synergy between the respective businesses of the Group and the Target Company in the PRC market. It will also enable the Group to explore and widen its business prospect in the PRC. It is expected that the Target Company will be engaged by the Vendor and/or its business partners for the Guizhou Project in or around 2023.

If the Target Company is engaged to provide property management services and sell and distribute garment products for the Guizhou Project, it could generate a stable and recurrent source of income for the Target Company and indirectly for the Group. As the Vendor and its PRC business partner have business relationships with premium brands and major retailers, the Guizhou Project could attract major brands and fashion retailers and establish a platform of shopping outlets and leisure complex to reach customers in the PRC. This could help the Group expand into the PRC market by selling and distributing its garment products (including bridesmaid dresses, bridal gowns and special occasion dresses) to merchants and customers via the Guizhou Project. The nature of the Guizhou Project as a shopping, leisure and tourism integrated complex also align with the product lines of the Group that are intended for special occasions.

For the year ended 31 March 2022, the Group generated less than 1% of its revenue from the PRC. Given the vast size of the PRC market, the Target Company can enable the Group to expand its business to sell and distribute its garment products to customers in the PRC and increase its revenues.

The Company performed a limited due diligence on the Target Company as the Company has not paid the Deposit and the Vendor is reluctant to provide information pending payment of the Deposit. The Company will perform a more extensive due diligence on the Target Company after payment of the Deposit to ensure that it is satisfied with the business prospects of the Target Company and the benefits to the Company before proceeding with Completion. The Board has considered to invest in alternative target operating similar business but has not identified any other attractive target. Nonetheless, the Target Company with its background and business potential presented an attractive target to the Board which could help the Group expand its business in the sale and distribution of garment products and expand its client base in the PRC, and allow its products to reach consumers in the PRC through the Guizhou Project as well as the platform of the Vendor and its business partners. The Group's revenue base in the Group's business of manufacturing and trading garments will therefore be broadened in the future which can increase investment returns to the Shareholders.

The Company will make a further announcement if the Company does not proceed with the Acquisition. If the Company proceeds with the Acquisition, the Company will make further announcements upon completion of the Acquisition and disclose price sensitive information and provide further update upon expiry of the one-year period after completion and from time to time as and when appropriate.

Financial Information of Target Company

The unaudited total assets and net liabilities of the Target Company as at 31 August 2022 were approximately RMB3,726,111 and RMB3,956,354 respectively. The following information is a summary of the unaudited financial information of the Target Company:

	For the eight months ended 31 August 2022 (unaudited) RMB	For the year ended 31 December 2021 (unaudited) RMB
Net loss before taxation	1,772,885	2,183,469
Net loss after taxation	<u>1,772,885</u>	<u>2,183,469</u>

By Order of the Board
KNT Holdings Limited
Chong Sik
Chairman and Executive Director

Hong Kong, 8 November 2022

As at the date of this announcement, the Board comprises three executive Directors, namely Mr. Chong Sik, Mr. Chong Pun and Mr. Lam Chi Yuen; one non-executive Director, namely, Mr. Hu Shilin; and four independent non-executive Directors, namely, Mr. Leung Martin Oh Man, Mr. Lau Koong Yep, Mr. Yuen King Sum and Mr. Lau Kwok Fan.