THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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.

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

Financial adviser to KIG Real Estate Holdings Limited

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

ALTUS CAPITAL LIMITED

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

A notice convening the EGM to be held at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 31 January 2024 at 10:00 a.m. is out on pages EGM-1 to EGM-2 of this circular.

A letter from the Board is set out on pages 5 to 19 to this circular. A letter from the Independent Board Committee is set out on pages 20 to 21 to this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 41 to this circular.

Whether or not you intend to attend the EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM (no later than 10:00 a.m. on Monday, 29 January 2024 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such case, the form of proxy previously submitted shall be deemed to be revoked.

15 January 2024

CONTENTS

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

"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Board"	the board of Directors
"Business Day(s)"	a day on which the Stock Exchange is open for the transaction of business
"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(s)"	has the meaning ascribed thereto under the Listing Rules
"controlling shareholder"	has the meaning ascribed thereto under the Listing Rules
"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting to be held at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 31 January 2024 at 10:00 a.m., to consider and, if appropriate, to approve the resolution contained in the notice of the meeting which is set out on page EGM-1 of this circular, or any adjournment thereof
"Enlarged Group"	the Group including the Target Group
"Factories"	(i) two four-storey factory buildings with a total gross area of approximately 48,500 square metres; and (ii) one five-storey factory building with a total gross area of approximately 10,200 square metres, all of which are located in Suzhou, the PRC
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollar(s) the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Board Committee"	the independent board committee, comprising all independent non-executive Directors, namely Mr. Wan Kam To, Ms. Zhao Yue and Mr. Shen Zheqing, formed to advise the Independent Shareholders in respect of the KPST Acquisition

"Independent Financial Adviser" or "Altus"	Altus Capital Limited, a corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities 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 KPST Acquisition
"Independent Shareholders"	the Shareholders, other than Massive Force, KIG Real Estate and their respective associates
"KIG Real Estate"	KIG Real Estate Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, which was beneficially owned by Mr. Peter Sun, Mr. Wong, Mr. Yau, Mr. Yung, Mr. Lam Kin Shun, Mr. Chan Lin On, Mr. Yeung Man Chiu, Mr. Suen Fai Chuen Alan (younger brother of Mr. Peter Sun) and Sunny Nova Limited (which was beneficially wholly-owned by Mr. He Lin, an employee of the Group, the nephew-in-law of Mr. Peter Sun and Mr. Suen Fai Chuen Alan) as to approximately 45.4%, 12.6%, 12.6%, 9.2%, 5.4%, 6.2%, 3.2%, 1.4% and 4.0%, respectively, as at the Latest Practicable Date
"KPST Acquisition"	the acquisition of the KPST Sale Shares pursuant to the KPST SPA
"KPST Completion"	completion of the KPST Acquisition in accordance with the provisions of the KPST SPA
"KPST Hong Kong"	Kingdom Precision Science and Technology Limited, a company incorporated in Hong Kong with limited liability, being wholly-owned subsidiary of the Target Company
"KPST Sale Shares"	70 shares of the Target Company, representing 70.0% of the entire issued share capital thereof
"KPST SPA"	the sale and purchase agreement dated 1 December 2023 and entered into between the Company and KIG Real Estate in respect of the KPST Acquisition
"KPST Suzhou"	金德精密科技(蘇州)有限公司 (Kingdom Precision Science and Technology (Suzhou) Company Limited*), a company established in the PRC, a member of the Target Group and wholly-owned the Factories as at the Latest Practicable Date
"Latest Practicable Date"	10 January 2024, 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
"Long Stop Date"	31 March 2024 or such other date as may be agreed in writing by KIG Real Estate and the Company
"Massive Force"	Massive Force Limited, a company incorporated in the British Virgin Islands with limited liability, (i) holding approximately 75.0% of the total issued share capital of the Company; and (ii) being beneficially owned by Pan Tihui, Yu Hsuan-jung and Cheung Yuen Tung as to approximately 30%, 30% and 40%, respectively, as at the Latest Practicable Date
"MF Completion"	completion of the sale and purchase of the MF Sale Shares in accordance with the provisions of the MF SPA
"MF Sale Shares"	449,999,012 Shares to be acquired by KIG Real Estate from Massive Force pursuant to the MF SPA, which represents approximately 75.0% of the entire issued share capital of the Company as at the date of the MF SPA, and "MF Sale Share" means any of them
"MF Share Sale"	the acquisition of MF Sale Shares by KIG Real Estate from Massive Force in accordance with the terms and conditions of the MF SPA
"MF SPA"	the sale and purchase agreement dated 1 December 2023 and entered into between Massive Force and KIG Real Estate in respect of the sale and purchase of MF Sale Shares
"Mr. Peter Sun"	Mr. Sun Kwok Wah Peter, an executive Director, a shareholder of KIG Real Estate who held approximately 45.4% of the total issued share capital thereof as at the Latest Practicable Date
"Mr. Wong"	Mr. Wong Chi Kwok, an executive Director, a shareholder of KIG Real Estate who held approximately 12.6% of the total issued share capital thereof as at the Latest Practicable Date
"Mr. Yau"	Mr. Yau Lam Chuen, a shareholder of KIG Real Estate who held approximately 12.6% of the total issued share capital thereof as at the Latest Practicable Date
"Mr. Yung"	Mr. Yung Ching Tak, a shareholder of KIG Real Estate who held approximately 9.2% of the total issued share capital thereof as at the Latest Practicable Date

"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
"SFC"	the Securities and Futures Commission of Hong Kong
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company
"Shareholder(s)"	the holder(s) of the Share(s)
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Takeovers Code"	the Hong Kong Code on Takeovers and Mergers issued by the SFC, as amended, supplemented, or otherwise modified from time to time
"Target Company"	Kingdom Precision Science and Technology Holding Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by KIG Real Estate as at the Latest Practicable Date
"Target Group"	collectively, the Target Company, KPST Hong Kong and KPST Suzhou
"US"	the United States of America
"%"	per cent.

For the purpose of this circular, conversion of RMB into HK dollars is based on the approximate exchange rate of RMB1 to HK$1.1. Such exchange rate is for the purpose of illustration only and does not constitute a representation that any amounts in HK dollars or RMB have been, could have been or may be converted at such or any other rate or at all.

* *For identification purposes 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

15 January 2024

To the Shareholders

Dear Sir or Madam,

MAJOR AND CONNECTED TRANSACTION

I. INTRODUCTION

Reference is made to the announcement of the Company dated 1 December 2023.

The purpose of this circular is to provide you with, among other things, (i) further details of the KPST SPA and the transaction contemplated thereunder; (ii) a letter of recommendation from the Independent Board Committee to the Independent Shareholders; (iii) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (iv) valuation reports on each of the Target Company and the Factories; and (v) other information as required under the Listing Rules.

II. MAJOR AND CONNECTED TRANSACTION

On 1 December 2023 (after trading hours), the Company (as purchaser) and KIG Real Estate (as vendor) entered into the KPST SPA, pursuant to which the Company conditionally agreed to purchase and KIG Real Estate conditionally agreed to sell the KPST Sale Shares, representing 70.0% of the entire issued share capital of the Target Company, at a consideration of HK$168.0 million.

The KPST SPA

Details of the KPST SPA and the transaction contemplated thereunder are set out below:

Date: 1 December 2023 (after trading hours)

Parties:

(1) the Company, as the purchaser; and

(2) KIG Real Estate, as the vendor.

As at the Latest Practicable Date, Mr. Peter Sun and Mr. Wong, the executive Directors, held approximately 45.4% and 12.6% of the entire issued share capital of KIG Real Estate respectively. In addition, Mr. Yau, Mr. Yung, Mr. Lam Kin Shun, Mr. Chan Lin On, Mr. Yeung Man Chiu, Mr. Suen Fai Chuen Alan and Mr. He Lin, directors of the members of the Group, held approximately 12.6%, 9.2%, 5.4%, 6.2%, 3.2%, 1.4% and 4.0% of the entire issued share capital of KIG Real Estate, respectively. Mr. Suen Fai Chuen Alan is also a brother of Mr. Peter Sun, while Mr. He Lin is the nephew-in-law of Mr. Peter Sun. Save as disclosed, KIG Real Estate and its beneficial owners were third parties independent from the Group.

Subject matter: Pursuant to the KPST SPA, the Company has conditionally agreed to acquire and KIG Real Estate has conditionally agreed to sell the KPST Sale Shares, representing 70.0% of the entire issued share capital of the Target Company. Through the KPST Acquisition, the Company will indirectly control KPST Suzhou, which holds the Factories.

Conditions precedent: KPST Completion is conditional upon the satisfaction (or, if applicable, the waiver) of the following conditions precedent:

(1) the approval by the Shareholders (or, as the case may be, the independent shareholders of the Company who are allowed to vote and are not required to abstain from voting) at the EGM of the KPST SPA and the transaction contemplated therein, and all other consents and acts required under the Listing Rules or the Takeovers Code (where applicable) having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange or the SFC (where applicable);

(2) the MF SPA in respect of the MF Share Sale having become unconditional (other than the condition relating to the KPST SPA having become unconditional);

(3) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the KPST SPA having been obtained and remaining in full force and effect;

(4) the Company being reasonably satisfied with the results of the due diligence exercise (whether legal, accounting, financial, operational, or other aspects that the Company considers relevant) on the Target Group, their related assets, liabilities, activities, operations, prospects and other status which the Company, its agents or professional advisers think necessary and appropriate to conduct; and

(5) the Company being satisfied that, from the date of the KPST SPA to KPST Completion, there has not been any material adverse change in respect of any member of the Target Group and as a whole.

The Company may waive any of the conditions precedent above (other than those set out in paragraphs (1), (2) and (3) above) at its sole and absolute discretion at or before 12:00 noon (Hong Kong time) on the Long Stop Date.

As of the Latest Practicable Date, (i) KIG Real Estate and the Company were not aware of (a) any consents and acts required under the Listing Rules or the Takeovers Code; (b) any waivers required from the Stock Exchange or the SFC; and (c) any waivers, consents and approvals required from any relevant governments or regulatory authorities or other relevant third parties as set out under conditions precedent in paragraphs (1) and (3) above; and (ii) none of the conditions precedent set out above has been satisfied.

As at the Latest Practicable Date, none of the conditions precedent mentioned above have been fulfilled.

If any of the conditions precedent set out above has not been fulfilled (or, if applicable, waived by the Company) on or before the Long Stop Date, the KPST SPA will terminate with immediate effect and the parties thereto shall have no further obligations or liabilities thereunder save for antecedent breach.

Consideration and payment terms: The consideration for the KPST Acquisition is HK$168.0 million, which shall be paid by the Company on the date of KPST Completion in cash or cashier order or by transferring the amount payable to the bank account designated by KIG Real Estate or in other manners as agreed by the Company and KIG Real Estate.

The consideration of the KPST Acquisition was determined based on fair negotiation with reference to, among other things, the valuations of the Target Company and the Factories as appraised by Cushman & Wakefield Limited (the "**Valuer**"), being an independent valuer engaged by the Company, using the asset-based approach and the market approach respectively. The valuation of the Target Company and the Factories is approximately HK$258.0 million and RMB252.0 million (equivalent to approximately HK$277.2 million) as at 31 October 2023, respectively. Please refer to Appendices V and VIA to this circular for the full text of such valuation reports.

As mentioned in the paragraph headed "V. Reasons for and benefits of the KPST Acquisition" in the letter from the Board below, KPST Suzhou, together with the Factories (consisting of only two four-storey factory buildings ("**Phases I and II**") at the material time) owned by it, was disposed of by the Group to a company controlled by Mr. Peter Sun in 2018. At the material time, an additional five-storey factory building ("**Phase III**") was yet to be constructed. Therefore, the consideration for the disposal of KPST Suzhou was determined with reference to, among others, the valuation of the Factories (consisting of only Phases I and II). The Factories were valued at HK$155.3 million by the Valuer based on a replacement costs approach at the material time. Phase III was constructed by end of 2021.

The Board noted that there was a substantial difference between the valuation of the Factories currently appraised by the Valuer using the market approach (i.e. approximately RMB252.0 million (equivalent to approximately HK$277.2 million)) as at 31 October 2023) and the aggregate estimated value of the Factories using the replacement costs approach (i.e. approximately HK$189.8 million, being the sum of the (i) valuation of the Factories of approximately HK$155.3 million as appraised by the Valuer in 2018; and (ii) total additions of approximately HK$34.5 million for Phase III for the years ended 31 March 2021, 2022 and 2023 as set out in note 15 to Accountants' Report on the Target Group as set out in Appendix II to this circular). Despite such substantial difference and change of methodology adopted by the Valuer to appraise the value of the Factories, the Board is of the view that the consideration of the KPST Acquisition, with reference to the value of the Target Company and the Factories using the market approach, to be fair and reasonable and in the interest of the Company and the Shareholders as a whole due to the following reasons:

(1) Market approach is considered a common method to adopt when market comparables are available — as advised by the Valuer, market approach is a common method to be adopted when there is sufficient relevant information to show the price levels that buyers are willing to pay for similar properties on the market. Other methods, such as replacement cost method, would only be adopted if there is insufficient sales data and market transactions. For instance, at the early stage of property development, methods, such as replacement costs approach, would be adopted. Thus, with current matured industrial property market in Suzhou, market approach is considered to be an appropriate method to reflect a fair and reasonable value of the Target Company and the Factories for the KPST Acquisition. As advised by the Valuer, the use of market approach is in line with the industry practice;

(2) Current circumstances have changed, as compared to the same in 2018 — In 2018, as Suzhou, in particular the area (the "**Area**") that the Factories was located at, was considered to be a rural area with factories located thereat mainly used for self-use purpose, there were lack of comparable sales transactions to use market approach to appraise the value of the Factories in 2018. With insufficient market data at the material time, the Valuer could only use the replacement cost approach to appraise the value of the Factories. Since the disposal of KPST Suzhou in 2018, (i) there have been more factories in Suzhou, including in the Area; and (ii) there has been a trend of relocation of factories in the PRC to lower cost regions, such as the Southeast Asia as a result of the tension between China-US on trade disputes and the increasing labour cost and material cost in the PRC. Thus, there have been more sales transactions involving factories in Suzhou in the market. Accordingly, with change of circumstances resulting more market data on hand, market approach is a much more appropriate method to reflect the value of the Factories in a more accurate way for the KPST Acquisition, as compared to replacement cost approach; and

(3) Consideration represented discount to the valuation of the Group's possible proportionate interests in the Target Company and the Factories — The Group conditionally agreed to acquire 70% of the Target Company. 70% of the valuation of the Target Company and the Factories amount to approximately HK$180.6 million and RMB176.4 million (equivalent to approximately HK$194.0 million) as at 31 October 2023, respectively. As such, the consideration of HK$168.0 million for the KPST Acquisition represented a discount to the valuation of the Group's possible proportionate interests in the Target Company and the Factories, which the Board (including the members of the Independent Board Committee after having been advised by the Independent Financial Adviser) consider to be fair and reasonable, and in the interests of the Company and the Shareholders as a whole.

The consideration of the KPST Acquisition will be satisfied by way of the Group's internal resources.

Completion: KPST Completion shall take place at or before 4:00 p.m. (Hong Kong time) on the fifth Business Day after the last condition precedent having been fulfilled (or, if applicable, waived) or such other later date as the Company and KIG Real Estate may agree in writing.

Immediately upon KPST Completion, the Target Company will become a non-wholly-owned subsidiary of the Company.

III. INFORMATION ON THE PARTIES INVOLVED

The Company

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

KIG Real Estate

KIG Real Estate is a company incorporated in the British Virgin Islands with limited liability. As at the Latest Practicable Date, KIG Real Estate is beneficially owned by Mr. Peter Sun, Mr. Wong, Mr. Yau, Mr. Yung, Mr. Lam Kin Shun, Mr. Chan Lin On, Mr. Yeung Man Chiu, Mr. Suen Fai Chuen Alan and Sunny Nova Limited (which was beneficially wholly-owned by Mr. He Lin) as to approximately 45.4%, 12.6%, 12.6%, 9.2%, 5.4%, 6.2%, 3.2%, 1.4% and 4.0%, respectively. Mr. Suen Fai Chuen Alan is the younger brother of Mr. Peter Sun, while Mr. He Lin is an employee of the Group, the nephew-in-law of Mr. Peter Sun and Mr. Suen Fai Chuen Alan. KIG Real Estate is principally engaged in investment holding.

The Target Group

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, KIG Real Estate wholly owned the entire issued share capital of the Target Company, which holds 100% equity interests in KPST Suzhou through its wholly-owned subsidiary, namely KPST Hong Kong. As at the Latest Practicable Date, the Target Group was principally engaged in the investment in the Factories.

The Factories comprise (i) two four-storey factory buildings with a total gross area of approximately 48,500 square metres; and (ii) one five-storey factory building with a total gross area of approximately 10,200 square metres, all of which are located in Suzhou, the PRC.

The aggregate of the remuneration payable to and benefits in kind receivable by the sole director of the Target Company will not be varied in consequence of the KPST Acquisition.

For details of the financial information of the Target Company and its subsidiaries for the three years ended 31 March 2023 and the six months ended 30 September 2023, please refer to Appendix II to this circular.

IV. FINANCIAL EFFECT OF THE KPST ACQUISITION

Upon KPST Completion, the Target Company will become a non-wholly-owned subsidiary of the Company and the financial results, assets and liabilities of the Target Group will be included in the consolidated financial statements of the Group.

For further details, please refer to Appendix IV to this circular.

V. REASONS FOR AND BENEFITS OF THE KPST ACQUISITION

KPST Suzhou owns the Factories and the Group has been operating at the Factories as one of its production bases since completion of its construction in November 2015. The Group's metal stamping business were then operated at (i) the Factories which are owned by KPST Suzhou; and (ii) two other production bases being leased by the Group.

In about 2018, under the backdrop of concerns over (i) the surging operational costs in the PRC; (ii) the continuous relocation of the production base of the Group's customers from PRC to the Southeast Asia; (iii) the rising trend of interest rates initiated in the US; and (iv) tariff retaliations arising from the escalating trade disputes between the US and the PRC, the Group targeted to streamline its operation and looked for a stronger financial position with light asset operation and lower geared structure, in order to achieve a better return on assets. In particular, the Board then engaged a professional advisor to conduct a comprehensive review in order to cope with the ongoing challenges faced by the Group at the material time from the micro and macro business and economic perspective.

In light of the Group's financial situation at the material time, in particular high gearing, poor liquidity, low interest cover and low asset return, the Group was advised that it should adopt a light asset model with sale-and-lease back arrangement on the properties of the Group, including the Factories. By way of adopting such light asset model, it was suggested that the Group would be able to improve its operational flexibility, reduce its debts, release capital gain from the properties (including the Factories), and minimise impact on the operation at the material time instantly. Thus, KPST Suzhou, together with the Factories owned by it, was disposed of by the Group to a company controlled by Mr. Peter Sun in 2018 at a consideration of HK$108.5 million. For further details, please refer to the Company's announcements dated 7 September 2018 and 1 November 2018, and the Company's circular dated 18 October 2018.

After the disposal of KPST Suzhou, the Group continued operating at the Factories as one of its production bases by leasing the Factories. The first lease agreement was with a term of three years and it expired in 2021. The current leasing agreement (the "**2021 Leasing Agreement**") with KPST Suzhou with respect to the leasing of the Factories was entered into in 2021. For further details, please refer to the Company's announcement dated 20 September 2021 and the Company's circular dated 1 November 2021.

As at 30 September 2023, the carrying amount of the lease liabilities derived from the 2021 Leasing Agreement was approximately HK$76.3 million, while the right-of-use assets, which mainly represented the Factories, amounted to approximately HK$69.0 million.

During the year ended 31 March 2023 and the six months ended 30 September 2023, the Group made lease payment of approximately RMB17.6 million (equivalent to approximately HK$19.4 million) and RMB8.8 million (equivalent to approximately HK$9.7 million) to KPST Suzhou, respectively, pursuant to the 2021 Leasing Agreement. According to the 2021 Leasing Agreement, the rental expenses would increase by 10% for every two years. The increment in rental expenses took place in November 2023, and the current rental expenses under the 2021 Leasing Agreement were approximately RMB19.4 million (equivalent to approximately HK$21.3 million) per annum.

The Directors are of the view that the acquisition of the Factories via the KPST Acquisition would be beneficial to the Company and the Shareholders as a whole based on the following reasons:

(1) the KPST Acquisition could provide an excellent opportunity to complement the Group's existing business; and it could facilitate more flexible and efficient future business planning:

The Group has been operating at the Factories since November 2015. Since recent China-US trade dispute focuses on high-technology industry, such as chips manufacturing, artificial intelligence, etc., the Directors are of the view that the Group's business, i.e. metal stamping business would not be materially adversely affected by the US government sanctions policy. Accordingly, the Directors consider that light-asset strategy may no longer be the most suitable business model for the Group and the Group may have to re-adjust its business strategy. The revenue derived from the production at the Factories increased by approximately 72% from approximately HK$352 million for the year ended 31 March 2018 to approximately HK$605 million for the year ended 31 March 2023. This indicated that there is a strong demand for a permanent production base for the Group. In addition, having considered that (a) the Group's gearing ratio has significantly improved from approximately 78.7% for the year ended 31 March 2018 to approximately 4.4% for the year ended 31 March 2023; and (b) the financial benefits that the KPST Acquisition, if materialised, could bring to the Group as set out in sub-paragraphs (3) and (4) below, it is considered that although the Group is still aiming for a lower gearing structure and better return on assets, the light-asset operation approach may not, at present, be the most optimal business option for the Group in light of the Group's current improved financial position.

It is believed that when the Factories became under control by the Group upon the KPST Completion, the Group would have more flexibility with the usage, alteration and/or development of the Factories so that the Group would be able to operate at the Factories more efficiently, and/or expand its business operations (if any) without seeking consent from third party landlord.

(2) Mr. Peter Sun and Mr. Wong, as the controlling shareholders of KIG Real Estate, are also of the view that should KIG Real Estate acquires Shares from Massive Force pursuant to the management buy-out (i.e. the MF Share Sale), the Group could better plan and steer its future long-term business development if the Group could have ownership over its core production base as opposed to leasehold interests which could be subject to risks of termination or increased finance costs over rental payments. Hence, it was also one of the terms for the MF Share Sale that the Group should acquire the Factories from KIG Real Estate via the KPST Acquisition; and the KPST Completion is conditional upon, among other things, the MF SPA in respect of the MF Share Sale having become unconditional (other than the condition relating to the KPST SPA having become unconditional), while

the MF Completion is conditional upon, among other things, the KPST Acquisition having become unconditional (other than the condition relating to the MF SPA having become unconditional);

(3) the Group would be able to save the lease payment and have better cash flow as a whole as the lease payment with respect to the Factories payable by the Group to KPST Suzhou would be eliminated after the KPST Completion upon the Target Group becoming non-wholly-owned subsidiaries of the Group. It is expected that the Group would be able to save an annual lease payment of approximately RMB19.4 million (equivalent to approximately HK$21.3 million) for the year ending 31 March 2025 onward, based on the assumption that the KPST Completion taking place on 1 April 2024; and

(4) although the Group will have to settle the amount of consideration payable for acquisition of the Factories from its internal resources, which would take approximately 11 years to payback (being the total consideration for the KPST Acquisition/70.0% of the annual rental payment of approximately RMB13.6 million (equivalent to approximately HK$15.0 million) as mentioned above), the Group would be able to better allocate its resources in future since substantial portion of the cash to be used for lease payment of the Factories to KPST Suzhou, being an outgroup company prior to the KPST Completion, would no longer be applicable and could be used within the Group after the KPST Completion. The Group explored relocation of the production at the Factories as an alternative for seeking a permanent production base. However, based on the costs incurred by the Group in connection with the relocation of its production base from Shenzhen Xili to Huizhou in 2021, it is expected that the Group would incur relocation costs of approximately HK$96 million. In addition, based on the Group's past experience, relocation of production base would result in disruption in the production as well as significant loss in experienced staff and manpower. As such, the Directors are of the view that the Group's continuous operation at the Factories and the KPST Acquisition would enable the Group to change the Factories into the Group's permanent production base, which would be the better option for the Group to have more flexibility in the allocation of resources with minimal operational impact, resulting the Group being able to optimise its financial performance by expanding its business and enhance the Group's operational efficiency.

Having considered the above, the Directors (including the members of the Independent Board Committee after having been advised by the Independent Financial Adviser) consider that the terms of the KPST SPA and the KPST Acquisition contemplated thereunder are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

Mr. Peter Sun and Mr. Wong, owning the Target Company as to approximately 45.4% and 12.6% respectively, have abstained from voting on the relevant board resolutions approving the KPST SPA and the transaction contemplated thereunder in view of their respective material interests therein. Mr. Zhang Haifeng, being the representative of Massive Force, has also abstained from voting on such Board resolutions on the ground of corporate governance given (i) the KPST Completion is conditional upon, among other things, the MF SPA in respect of the MF Share Sale having become unconditional (other than the condition relating to the KPST SPA having become unconditional); and (ii) the MF Completion is conditional upon, among other things, the KPST Acquisition having become unconditional (other than the condition relating to the MF SPA having become unconditional). The other Board members (being the independent non-executive Directors and, hence the members of the Independent Board Committee) voted for the Board resolutions approving the KPST SPA and the transaction contemplated thereunder.

VI. LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the KPST Acquisition are more than 25% but less than 100%, the KPST Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Therefore, it is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, KIG Real Estate is ultimately beneficially owned as to 45.4% and 12.6% by Mr. Peter Sun and Mr. Wong, both being executive Directors, respectively. Accordingly, KIG Real Estate is an associate of Mr. Peter Sun and a connected person of the Company. The KPST Acquisition therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

VII. INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISER

The Independent Board Committee (comprising all independent non-executive Directors) has been established to advise the Independent Shareholders in respect of the KPST SPA and the transaction contemplated thereunder, and to advise the Independent Shareholders on how to vote at the EGM. A letter from the Independent Board Committee is set out on pages 20 to 21 of this circular.

Altus has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the KPST SPA and the transaction contemplated thereunder. A letter from the Independent Financial Adviser is set out on pages 22 to 41 of this circular.

VIII. EGM

In order to ascertain the right to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 26 January 2024 to Wednesday, 31 January 2024 (both days inclusive) during which period no transfer of Shares will be registered.

Shareholders are reminded that in order to be entitled to attend and vote at the EGM, all properly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong not later than 4:30 p.m. on Thursday, 25 January 2024.

A notice convening the EGM to be held at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 31 January 2024 at 10:00 a.m. is set out on pages EGM-1 to EGM-2 of this circular. At the EGM, ordinary resolution will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the KPST SPA and the transaction contemplated thereunder by way of poll.

Whether or not you are able to attend the EGM in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong as soon as possible and in any event not less than 48 hours before the time of the EGM (no later than 10:00 a.m. on Monday, 29 January 2024 (Hong Kong time)) or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish and in such case, the form of proxy previously submitted shall be deemed to be revoked.

Where a "black" rainstorm warning is in force or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted or "extreme conditions" caused by super typhoons is in force at 8:00 a.m. on Wednesday, 31 January 2024, the EGM to be held at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, on Wednesday, 31 January 2024 at 10:00 a.m. will be postponed. The Company will post an announcement on the website of the Stock Exchange (www.hkexnews.hk) and the Company (www.kingdom.com.hk) to notify Shareholders of the date, time and place of the rescheduled meeting. The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force. Having considered their own situations, Shareholders should decide on their own whether they would attend the EGM under any bad weather condition and if they do so, they are advised to exercise care and caution.

Pursuant to Rule 13.39(4) of the Listing Rules, all votes of the Shareholders at general meetings must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

In the case of an equality of votes on a poll, the chairman of the meeting shall, subject to the Company's articles of association, be entitled to casting vote in addition to any other vote he may have.

As (i) the KPST Completion is conditional upon, among other things, the MF SPA in respect of the MF Share Sale having become unconditional (other than the condition relating to the KPST SPA having become unconditional); and (ii) the MF Completion is conditional upon, among other things, the KPST Acquisition having become unconditional (other than the condition relating to the MF SPA having become unconditional), Massive Force has a material interest in KPST Acquisition. As at the Latest Practicable Date, Massive Force held 449,999,012 Shares, representing approximately 75.0% of the entire issued share capital of the Company. Accordingly, Massive Force and its associate are required to abstain from voting at the EGM on the resolution approving the KPST SPA. Save for the aforementioned and to the best of the Directors' knowledge and belief, after making all reasonable enquiries, no other Shareholder has a material interest in each of the KPST Acquisition and the MF Share Sale, and is required to abstain from voting on the resolution(s) approving the KPST SPA and the transaction contemplated thereunder.

IX. RECOMMENDATION

The Directors (including all the independent non-executive Directors whose views are set out in the letter from the Independent Board Committee) consider that the terms of the KPST SPA and the transaction contemplated thereunder, which were determined after arm's length negotiations between the parties thereto, are on normal commercial terms, and are fair and reasonable, and although the entering into of the KPST SPA was not made in the ordinary and usual course of business of the Group, it is in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors (including all the independent non-executive Directors) recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the KPST SPA and the transaction contemplated thereunder.

X. FURTHER INFORMATION

Your attention is also drawn to (i) letter from the Independent Board Committee; (ii) letter from the Independent Financial Adviser; and (iii) the additional information set out in the appendices to this circular.

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

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 KPST Acquisition.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3816)

15 January 2024

To the Independent Shareholders

Dear Sirs or Madams,

MAJOR AND CONNECTED TRANSACTION

We refer to the circular dated 15 January 2024 (the "**Circular**") issued by the Company 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 KPST SPA 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 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 into account the (i) terms of the KPST SPA and the transaction contemplated thereunder; and (ii) the factors referred to in the "Letter from the Independent Financial Adviser" in the Circular, we are of the opinion that despite the entering into of the KPST SPA was not in the ordinary and usual course of business of the Company, the terms of the KPST SPA and the transaction contemplated thereunder are (i) fair and reasonable so far as the Shareholders (including the Independent Shareholders) are concerned; (ii) on normal commercial terms; and (iii) in the interests of the Group and the

Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM to approve the KPST SPA and the transaction contemplated thereunder.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board; (ii) the letter from the Independent Financial Adviser; and (iii) the additional information set out in the appendices to the Circular.

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

Mr. Wan Kam To	**Ms. Zhao Yue**	**Mr. Shen Zheqing**
Independent non-executive Director	*Independent non-executive Director*	*Independent non-executive Director*

The following is the text of a letter of advice from Altus Capital, the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the KPST Acquisition, which has been prepared for the purpose of incorporation into this Circular.

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

15 January 2024

To the Independent Board Committee and the Independent Shareholders

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

Dear Sir/Madam,

MAJOR AND CONNECTED TRANSACTION

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the KPST Acquisition, details of which are set out in the "Letter from the Board" contained in the circular of the Company dated 15 January 2024 (the "**Circular**"). Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

On 1 December 2023 (after trading hours), the Company (as purchaser) and KIG Real Estate (as vendor) entered into the KPST SPA, pursuant to which the Company conditionally agreed to purchase and KIG Real Estate conditionally agreed to sell the KPST Sale Shares, representing 70.0% of the entire issued share capital of the Target Company, at a consideration of HK$168.0 million.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios in respect of the KPST Acquisition are more than 25% but less than 100%, the KPST Acquisition constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Therefore, it is subject to the notification, announcement, circular and shareholders' approval requirements under Chapter 14 of the Listing Rules.

As at the Latest Practicable Date, KIG Real Estate is ultimately beneficially owned as to 45.4% and 12.6% by Mr. Peter Sun and Mr. Wong, both being executive Directors, respectively. Accordingly, KIG Real Estate is an associate of Mr. Peter Sun and a connected person of the Company. The KPST Acquisition therefore constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules and is subject to the reporting, announcement, circular, independent financial advice and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee comprising all the independent non-executive Directors, namely Mr. Wan Kam To, Ms. Zhao Yue and Mr. Shen Zheqing, has been established to consider and advise the Independent Shareholders as to (i) whether the terms of the KPST SPA and the transaction contemplated thereunder are fair and reasonable; (ii) whether the entering into of the KPST SPA is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the EGM, after taking into account the recommendation of the Independent Financial Adviser.

THE INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms of the KPST SPA and the transaction contemplated thereunder are fair and reasonable; (ii) whether the entering into of the KPST SPA is on normal commercial terms, in the ordinary and usual course of business of the Group and in the interests of the Company and the Shareholders as a whole; and (iii) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the EGM.

We (i) are not associated or connected, financially or otherwise, with the Company or KIG Real Estate, their respective controlling shareholders or any parties acting, or presumed to be acting, in concert with any of them; and (ii) are acting as the independent financial adviser to the independent committee of the Board established for the purpose of providing recommendations in respect of the possible unconditional mandatory cash offer for the Shares, details of which are set out in the Company's announcement dated 1 December 2023. Save for the aforesaid engagement, we have not acted as an independent financial adviser or financial adviser in relation to any transactions of the Company or KIG Real Estate, their respective controlling shareholders or any parties acting in concert with any of them in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules and Rule 2.6 of the Takeovers Code, and given that (i) the remuneration for our engagement to opine on the terms of the KPST SPA and transaction contemplate thereunder is at market level and not conditional upon successful passing of the resolution to be proposed at the EGM; (ii) no arrangement exists whereby we shall receive any fees or benefits from the Company (other than our said remuneration) or KIG Real Estate, their respective controlling shareholders or any parties acting in concert with any of them; and

(iii) our engagement is on normal commercial terms and approved by the Independent Board Committee, we are independent of the Company and KIG Real Estate, their respective controlling shareholders or any parties acting in concert with any of them, and can act as the independent financial adviser to the Independent Board Committee and the Independent Shareholders in respect of the KPST Acquisition.

BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the annual report of the Company for the year ended 31 March 2023 (the "**2023 Annual Report**"); (ii) the interim report of the Company for the six months ended 30 September 2023 (the "**2023 Interim Report**"); (iii) the Equity Valuation Report and the Property Valuation Report issued by the Valuer (as defined under the paragraph headed "4.1 Consideration" below); and (iv) other information contained or referred to in the Circular.

We have also relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Group (the "**Management**"). We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management were reasonably made after due and careful enquiry and were true, accurate and complete at the time they were made and continued to be so as at the date of the EGM. The Company will notify the Independent Shareholders of any material changes to information contained or referred to in the Circular as soon as practicable in accordance with Rule 9.1 of the Takeovers Code. The Independent Shareholders will also be informed as soon as practicable when there are any material changes to the information contained or referred to herein as well as changes to our opinion, if any, after the Latest Practicable Date.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading at the time they were made or will be untrue, inaccurate or misleading at the date of the EGM, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us to be untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Company contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

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

1.1 Financial information of the Group

Set out below is a summary of financial information of the Group extracted from the 2023 Annual Report and the 2023 Interim Report.

Extract of consolidated statement of profit or loss

	For the year ended 31 March		For the six months ended 30 September	
	2022	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(unaudited)*	*(unaudited)*
Continuing operations				
Revenue	612,190	605,101	343,073	314,091
Gross profit	99,920	103,277	63,237	66,986
Other (losses)/gains, net	(4,016)	8,621	16,872	3,739
General and administrative expenses	(65,862)	(75,524)	(33,743)	(33,833)
Finance income	1,033	6,158	1,194	5,321
Profit for the year from continuing operations	13,331	22,666	—	—
Discontinued operations	(61,350)	—	—	—
(Loss)/profit for the year/period	(48,019)	22,666	32,953	29,430

Extract of consolidated statement of financial position

	As at 31 March 2023 *HK$'000* *(audited)*	**As at 30 September 2023** *HK$'000* *(unaudited)*
Non-current assets	181,867	180,701
— Plant and equipment	49,671	63,736
— Right-of-use assets	84,501	72,915
Current assets	546,865	582,828
— Time deposits with maturity over three months	196,741	194,137
— Cash and cash equivalents	96,803	116,220
Non-current liabilities	85,686	76,300
Current liabilities	129,928	146,849
Net assets	513,118	540,380

*Year ended 31 March 2023 ("**FY2023**") compared to year ended 31 March 2022 ("**FY2022**")*

The Group recorded a revenue of approximately HK$605.1 million in FY2023, representing a slight decrease of approximately 1.2% as compared to FY2022, which was mainly due to a decrease in number of orders from customers who were engaged in medical and test equipment and financial equipment industries during FY2023.

Gross profit margin increased from 16.3% in FY2022 to 17.1% in FY2023 due to the Group's change in product mix as well as a better control of production costs.

Net profits of the Group from continuing operations increased to approximately HK$22.7 million in FY2023 from approximately HK$13.3 million in FY2022. Such improvement was mainly attributable to (i) the increase in revenue derived from network and data storage industry; (ii) the increase in other gains due to depreciation of Renminbi against United States dollars in FY2023; and (iii) the increase in interest income on bank balances and deposits.

In FY2022 and FY2023, the Group made lease payment to KPST Suzhou of approximately RMB14.5 million (equivalent to approximately HK$16.0 million) and RMB17.6 million (equivalent to approximately HK$19.4 million) respectively.

*Six months ended 30 September 2022 ("**1H 2023**") compared with six months ended 30 September 2023 ("**1H 2024**")*

The Group recorded a revenue of approximately HK$314.1 million in 1H 2024, representing a decrease of approximately 8.5% as compared to 1H 2023, which was mainly due to the decrease in the revenue derived from customers engaged in the medical and test equipment industry as a result of decreased demands after the COVID-19 pandemic. The decrease in revenue was partially offset by the increase in revenue derived from the network and data storage industry, as well as the office automation industry.

Gross profit margin increased from 18.4% in 1H 2023 to 21.3% to 1H 2024 mainly due to the cost control by enhancing productive efficiency and the decrease in the number of employees.

Net profits of the Group from continuing operations decreased from approximately HK$33.0 million in 1H 2023 to approximately HK$29.4 million in 1H 2024 mainly due to the decrease of foreign exchange gains in 1H 2024.

In 1H 2023 and 1H 2024, the Group made lease payment to KPST Suzhou of approximately RMB8.8 million (equivalent to approximately HK$9.7 million) and RMB8.8 million (equivalent to approximately HK$9.7 million) respectively.

31 March 2023 compared with 30 September 2023

The Group's assets mainly include cash, deposits, inventories and receivables as at 31 March 2023 and 30 September 2023.

Current assets of the Group increased from approximately HK$546.9 million as at 31 March 2023 to approximately HK$582.8 million as at 30 September 2023 mainly due to the increase in trade receivables and cash and cash equivalents.

Current liabilities of the Group increased from approximately HK$129.9 million as at 31 March 2023 to approximately HK$146.8 million as at 30 September 2023 mainly due to the increase in bank borrowings.

Net assets of the Group as at 30 September 2023 represented an increase by approximately HK$27.3 million as compared to 31 March 2023, which was in line with the operating results of the Group during 1H 2024.

1.2 Outlook of the Group

Following the disposal of the then loss-making metal stamping business in the year ended 31 March 2020 and metal lathing business in FY2022, the Group's profit from continuing operations had been improving. The net profits for 1H 2024 exceeded the net profits for FY2023.

Looking ahead, the economic environment continues to be overshadowed with uncertainties from the persistent impact of deglobalisation, high interest rates and the escalating tensions between major powers. The Directors believe, and we concur, that if the Factories come under control of the Group, the Group will have greater flexibility in the usage, alternation and/or development of the Factories. This enhanced control could improve efficiency and enable the implementation of long-term business development plans, such as expansions, without the need to seek consent from the landlord.

2. Background information of the Target Group

The Target Company is a company incorporated in the British Virgin Islands with limited liability and is principally engaged in investment holding. As at the Latest Practicable Date, the Target Company held 100% equity interests in KPST Suzhou through its wholly-owned subsidiary, namely KPST Hong Kong. As at the Latest Practicable Date, the Target Group was principally engaged in the investment in the Factories.

The Factories comprise (i) two four-storey factory buildings with a total gross area of approximately 48,500 square metres; and (ii) one five-storey factory building with a total gross area of approximately 10,200 square metres, all of which are located in Suzhou, the PRC.

2.1 Financial information of the Target Group

Set out below is a summary of financial information of the Group extracted from the Appendix II to the Circular.

Extract of consolidated statement of profit or loss

	For the year ended 31 March		**For the six months ended 30 September**	
	2022	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(audited)	*(audited)*	*(unaudited)*	*(audited)*
Revenue	16,766	18,996	9,998	9,248
Net property income	7,193	8,529	4,542	4,066
Profit for the year/period	4,501	5,563	2,954	2,650

The Target Group was principally engaged in the investment in an industrial property in the PRC (i.e. the Factories) and the revenue was mainly derived from the rental income of the Factories.

The revenue of the Target Group for the year ended 31 March 2022 was derived from the rental income from leasing out two four-storey factory buildings ("**Phases I & II**"). An additional five-storey factory building ("**Phase III**") was constructed by end of 2021. After 1 April 2022, the rental income also included Phase III of the Factories. Thus, the revenue of the Target Group increased by approximately 13.3% during the year ended 31 March 2023. The revenue of the Target Group for the six months ended 30 September 2022 and 2023 remained stable.

Extract of consolidated statement of financial position

	As at 31 March 2023 *HK$'000* *(audited)*	**As at 30 September 2023** *HK$'000* *(audited)*
Total assets	146,147	136,450
— Investment properties	145,295	135,055
Net assets	121,827	119,086

As shown in the table above, the major assets of the Target Group were investment properties, being the Factories.

3. Reasons for the KPST Acquisition

Currently, the Factories are leased by the Group as one of its production bases. The current rental expenses under the 2021 Leasing Agreement were approximately RMB19.4 million (equivalent to approximately HK$21.3 million) per annum. As at the Latest Practicable Date, apart from the Factories, the Group did not operate any other production base in the PRC. The KPST Acquisition will allow the Group to explore making the Factories as its permanent production base without facing the risk of being required to relocate the production facilities due to expiry of tenancies, which would potentially result in disruption in the production as well as loss in experienced staff. As a reference, the Group incurred relocation costs of approximately HK$96 million in connection with the relocation of its production base from Shenzhen Xili to Huizhou in 2021. In addition, the Group would be able to save the recurring lease payment in consideration of a one-off cash outflow.

Based on the above, we concur with the Management that the KPST Acquisition provide an opportunity to complement the Group's existing business and could provide flexibility in the Group's figure business planning.

4. Principal terms of the KPST SPA

Principal terms of the KPST SPA are set out below:

Date:	1 December 2023 (after trading hours)
Parties:	(1) the Company, as the purchaser: and (2) KIG Read Estate, as the vendor.
Subject matter:	Pursuant to the KPST SPA, the Company has conditionally agreed to acquire and KIG Real Estate has conditionally agreed to sell the KPST Sale Shares, representing 70.0% of the entire issued share capital of the Target Company. Through the KPST Acquisition, the Company will indirectly control KPST Suzhou, which holds the Factories.
Conditions precedent:	KPST Completion is conditional upon the satisfaction (or, if applicable, the waiver) of the following conditions precedent: (1) the approval by the Shareholders (or, as the case may be, the independent shareholders of the Company who are allowed to vote and are not required to abstain from voting) at the EGM of the KPST SPA and the transaction contemplated therein, and all other consents and acts required under the Listing Rules or the Takeovers Code (where applicable) having been obtained and completed or, as the case may be, the relevant waiver from compliance with any of such rules having been obtained from the Stock Exchange or the SFC (where applicable); (2) the MF SPA in respect of the MF Share Sale having become unconditional (other than the condition relating to the KPST SPA having become unconditional); (3) (if required) all requisite waivers, consents and approvals from any relevant governments or regulatory authorities or other relevant third parties in connection with the transactions contemplated by the KPST SPA having been obtained and remaining in full force and effect;

(4) the Company being reasonably satisfied with the results of the due diligence exercise (whether legal, accounting, financial, operational, or other aspects that the Company considers relevant) on the Target Group, their related assets, liabilities, activities, operations, prospects and other status which the Company, its agents or professional advisers think necessary and appropriate to conduct; and

(5) the Company being satisfied that, from the date of the KPST SPA to KPST Completion, there has not been any material adverse change in respect of any member of the Target Group and as a whole.

The Company may waive any of the conditions precedent above (other than those set out in paragraphs (1), (2) and (3) above) at its sole and absolute discretion at or before 12:00 noon (Hong Kong time) on the Long Stop Date.

As of the Latest Practicable Date, (i) KIG Real Estate and the Company were not aware of (a) any consents and acts required under the Listing Rules or the Takeovers Code; (b) any waivers required from the Stock Exchange or the SFC; and (c) any waivers, consents and approvals required from any relevant governments or regulatory authorities or other relevant third parties as set out under conditions precedent in paragraphs (1) and (3) above; and (ii) none of the conditions precedent set out above has been satisfied.

As at the Latest Practicable Date, none of the conditions precedent mentioned above have been fulfilled.

If any of the conditions precedent set out above has not been fulfilled (or, if applicable, waived by the Company) on or before the Long Stop Date, the KPST SPA will terminate with immediate effect and the parties thereto shall have no further obligations or liabilities thereunder save for antecedent breach.

Consideration and payment terms:

The consideration for the KPST Acquisition is HK$168.0 million, which shall be paid by the Company on the date of KPST Completion in cash or cashier order or by transferring the amount payable to the bank account designated by KIG Real Estate or in other manners as agreed by the Company and KIG Real Estate.

The consideration of the KPST Acquisition was determined based on fair negotiation with reference to, among other things, the valuations of the Target Company and the Factories as appraised by Cushman & Wakefield Limited, being an independent valuer (the "**Valuer**") engaged by the Company. The valuation of the Target Company and the Factories is approximately HK$258.0 million and RMB252.0 million (equivalent to approximately HK$277.2 million) as at 31 October 2023, respectively. Please refer to Appendices V and VI to this circular for the full text of such valuation reports.

The consideration of the KPST Acquisition will be satisfied by way of the Group's internal resources.

Completion:

KPST Completion shall take place at or before 4:00 p.m. (Hong Kong time) on the fifth Business Day after the last conditions precedent having been fulfilled (or, if applicable, waived) or such other later date as the Company and KIG Real Estate may agree in writing.

Immediately upon KPST Completion, the Target Company will become a non wholly-owned subsidiary of the Company.

4.1 Consideration

The consideration for the KPST Acquisition is HK$168.0 million, which shall be paid by the Company, by way of the Group's internal resources, on the date of KPST Completion in cash or cashier order or by transferring the amount payable to the bank account designated by KIG Real Estate or in other manners as agreed by the Company and KIG Real Estate.

As the consideration of the KPST Acquisition was determined based on fair negotiation with reference to, among other things, the valuations of the Target Company and the Factories as appraised by the Valuer, the assessment of the fairness and reasonableness of the consideration of the KPST Acquisition shall be dependent on the market value of the equity interests of the Target Company as well as the Factories.

4.1.1 Market valuation of the Factories

A valuation report on the Factories ("**Property Valuation Report**") issued by the Valuer is set out under Appendix V to the Circular. Set out below is our analysis of the Property Valuation Report for Independent Shareholders' information.

4.1.1.1 Valuer's qualification

In reassessing the competence and experience of the Valuer, we have reviewed the qualification and experience of the Valuer and noted that the principal signing of the Property Valuation Report has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries and is a member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice). Having reviewed the scope of work of the Valuer, we are satisfied that the scope of work is sufficient and appropriate for the valuation of the Factories.

4.1.1.2 Valuation methodologies

We noted that the Valuer had considered the suitability of three valuation methodologies, which are cost approach, market approach and income approach, in appraising the value of the Factories. In selecting appropriate valuation approach, we have discussed with the Valuer and understood that the Valuer has considered the following valuation approaches and has the following views:

(i) **Cost approach**: The cost approach is based on the economic principle that a purchaser will pay no more for an asset that the cost to obtain one equal utility whether by purchase or construction. According to the Property Valuation Report, the selection principle of valuation method is reliant upon market dynamics (nature and availability of market-derived data/comparables and the circumstances relating to the market for the asset) prevailing as at the valuation date. When there is little relevant sales evidence, in particular, at an early stage of property development, other methods such as cost approach may be used.

It is noted that the Factories (consisting of only Phase I and II) were valued at HK$155.3 million using depreciated replacement costs method in 2018, details of the relevant valuation report were set out under the Company's circular dated 19 October 2018. According to the Valuer, in 2018, as Suzhou, in particular the area that the Factories was located, was considered to be a rural area with factories located thereat mainly used for self-use purpose and that there were no sufficient comparable sales transactions for conduction an appraisal using market approach. As the Suzhou industrial property market has been developing for some years and has now become relatively more mature with readily available sales transactions, the Valuer is of the view that the cost approach is no longer appropriate in assessing the value of the Factories. We have reviewed the satellite image of the area where the Factories are located in 2017 and 2023 and noted that there was significantly less development in 2017 as compared to 2023. We further noted that the regional gross domestic product of the district where the Factories locate has grown approximately 41% from 2018 to 2023, indicating the economic development of the district in general. Therefore, we have no reason to doubt the appropriate valuation methodology(ies) selected by the Valuer at the relevant time for the preparation of the then valuation report. As there is now sufficient relevant transaction evidence, we are of the view that cost approach is less appropriate than the market approach.

(ii) **Market approach**: The market approach is based on comparing the subject asset with identical or similar assets for which price information is available, such as a comparison with market transactions in the same, or close similar, type of asset within appropriate time horizon. Based on the fact that there is available pricing information reflecting the current market perception of assets similar to the Factories, we are of the same view as the Valuer that, where there is sufficient relevant evidence to show the price levels that buyers are willing to pay for similar properties in the market, market approach is the most appropriate for assessing the value of the Factories.

(iii) **Income approach**: The income approach provides an indication of value by converting future cash flows to a single current capital value. According to the HKIS Valuation Standards, the income approach should be applied under the circumstances that: (i) the income-producing ability of the asset is the critical element affecting value from a participant perspective; and/or (ii) reasonable projections of the amount and timing of future income are available for the subject asset, but there are few, if any, relevant market comparables. Having considered that (i) the Factories are occupied for manufacturing purpose; and (ii) the fact that market transactions are available for conducting the valuation by market approach, which can reflect the current market perception of assets similar to the Factories, we concur with the Valuer's view that the income approach is less appropriate for this case.

We noted that the Valuer had adopted certain assumptions. We understand from the Valuer that all assumptions adopted are commonly adopted for property valuations. Having reviewed the assumptions, we are of the view that the assumptions adopted by the Valuer are fair and reasonable.

Taking into account that (i) the Valuer has sufficient qualification and experience to undertake the valuation of the Factories; (ii) the valuation methodology adopted by the Valuer is commonly adopted for assessing the value similar properties; and (iii) the major assumptions are commonly adopted for similar valuation, we are of the view that the valuation of the Factories is determined on a fair and reasonable basis.

4.1.1.3 The appraised value of the Factories

In assessing the value of the Factories, the Valuer adopted market comparison method assuming sale of the property in its existing state by making reference to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, size and other relevant factors.

Based on our review on the details comparable transactions and our discussion with the Valuer, set out below are the selection criteria of the comparable transactions adopted by the Valuer and our assessment on each of the selection criterion:

(i) Land use — industrial use;

It is the same as the land use of the Factories.

(ii) Timing — transacted since second half of 2022;

We have discussed with the Value and understood that it is a common practice to identify transactions subject to availability and the relevance of such transactions. Given that valuation reference date is 31 October 2023, we are of the view that the time frame of selecting comparable transactions of approximately 15 months can reasonably reflect the current market condition for similar assets.

(iii) Location — comparables of similar accessibility as the property within radial distance of 50 kilometres; and

While the location of the two comparable transactions are located in different districts as the Factories, they are located within a radial distance of 50 kilometres.

(iv) Size — floor area of comparables within 30,000–70,000 square metre.

We noted that size range covers the size of the Factories which has a total GFA of approximately 58,700 square-metres.

Based on the above assessments, we are of the view that the comparable transactions are identified based on a fair and reasonable selection criteria. Set out below are details of the comparable transactions that the Valuer has applied to assess the value of the Factories:

No.	Location	Transaction Time	Floor Area *(sq m)*	Land Use	Unit Value *(RMB/sq m)*
1	Wujiang District, Suzhou	September 2022	47,331.70	Industrial	4,525
2	Gongyeyuan District, Suzhou	August 2022	60,467.52	Industrial	4,349
	The Factories:				
	High-Tech District, Suzhou	Reference date: 31 October 2023	58,694.72	Industrial	4,300

Notwithstanding that there are only two comparable transactions, taking into account (i) the abovementioned selection criteria where the comparables are selected with reference to similar characteristics and proximity as that of the Factories; and (ii) the result of similar unit value of the comparable transactions as shown in the table above, we concur with the Valuer that two comparable transactions are sufficient in assessing the value of the Factories. Set out below the major adjustments made to arrive at the Valuer's conclusion:

Adjustment	**Range**
Location	–5% to + 2%
Size	–2% to 0

In terms of location, Comparable 1 is away from the community center and main roadway, while the subject property is superior, thus upward adjustment is made to Comparable 1. Comparable 2 is located at an industrial park within proximity to the community centre, while the subject property is inferior thus downward adjustment is made to Comparable 2. In terms of size, adjustments have been made to reflect the marketability. Usually, smaller sized properties with lower total prices have a larger market, good liquidity and are relatively easier to sell, which leads to a higher unit price. Comparable 1 is smaller in size than the subject property, thus downward adjustment is made to Comparable 1.

After taking into account the above adjustments, the market value of the Factories as at 31 October 2023 was RMB252 million.

We noted the substantial difference between the valuation of the Factories of RMB252.0 million (equivalent to approximately HK$277.2 million) as at 31 October 2023 and the appraised value of the Factories of RMB135 million (equivalent to approximately HK$155.3 million) as at 31 July 2018. To assess the fairness and reasonableness of such difference, we have conducted the following work done:

(i) Reviewing the satellite images of the area where the Factories are located in 2017 and 2023. We noted that there was significantly less development in 2017 as compared to 2023. This is substantiated by the fact that the regional gross domestic product of the district where the Factories locate has grown approximately 41% from 2018 to 2023, indicating the economic development of the district in general.

(ii) Comparing the condition of the Factories in 2023 to that of 2018 and noted that (i) the Factories consisted of Phase I and II only in 2018 and an additional five-storey factory building with a permitted GFA of approximately 10,198 square metres was constructed by the end of 2021, representing an enlargement of approximately 21.0% to Phase I & II; and (ii) based on our discussion with the Management, the Phase III is mainly designated to serve customers in the data storage industry, revenue from which had recorded consecutive increases in 1H 2024, FY2023, FY2022 as compared to the respective preceding year/period.

Having considered (i) the above work done on the differences in valuation of the Factories as at 31 July 2018 and 31 October 2023 above; (ii) the fact that the market value of the Factories as at 31 October 2023 was conducted using market approach which reflects the current market condition of similar assets; and (iii) other analysis set out in this subsection headed "4.1.1 Market value of the Factories", we are of the view that the market value of the Factories is fairly and reasonably arrived at.

4.1.2 Market valuation of the Target Company

A valuation report on the 100% equity interest in the Target Company ("**Equity Valuation Report**") issued by the Valuer is set out under Appendix VIA to the Circular. Set out below is our analysis of the Equity Valuation Report for Independent Shareholders' information.

4.1.2.1 Valuer's qualification

In reassessing the competence and experience of the Valuer, we have reviewed the qualification and experience of the Valuer and noted that one of the principals signing the Equity Valuation Report has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries and is a member of the Royal Institution of Chartered Surveyors and a member of the Hong Kong

Institute of Surveyors and a Registered Professional Surveyor (General Practice). The other principal singing the Equity Valuation Report is a Senior Director in Valuation and Advisory Services team of Greater China with working experience in business valuation from an accounting firm. Having reviewed the scope of work of the Valuer, we are satisfied that the scope of work is sufficient and appropriate for the valuation of the 100% equity interest in the Target Company.

4.1.2.2 Valuation methodologies

In valuing the 100% equity interest in the Target Company, the Valuer adopted asset-based approach.

We have discussed and understood from the Valuer that they have also considered other valuation approaches such as income approach and market approach and determined that the asset-based approach is more appropriate as the major assets owned by the Target Company are real estate assets. Based on the management account of the Target Company set out under Appendix VIA to the Circular, we noted that the book value of the Factories accounted for over 98% of the total assets of the Target Company as at 31 October 2023 and the remaining assets and liabilities of the Target Company were mainly bank borrowings, accruals, provisions and other payables and cash. The Valuer adjusted the value of the Factories based on the Property Valuation Report and did not adjust the other assets and liabilities of the Target Company. Taking into account the fact that over 98% of the assets of the Target Company (i.e. the Factories) were based on a separate valuation and the value of the remaining assets and liabilities were not market sensitive, we concur with the Valuer that the asset-based method is more appropriate than income approach and market approach.

We noted that the Valuer had adopted certain assumptions. We understand from the Valuer that all assumptions adopted are commonly adopted for equity valuations. Having reviewed the assumptions, we are of the view that the assumptions adopted by the Valuer are fair and reasonable.

Taking into account that (i) the Valuer has sufficient qualification and experience to undertake the valuation of the equity interest in the Target Company; (ii) the valuation methodology adopted by the Valuer is commonly adopted for assessing equity value; and (iii) the major assumptions are commonly adopted for similar valuation, we are of the view that the valuation of the 100% equity interest in the Target Company is determined on a fair and reasonable basis.

4.1.2.3 The appraised value of the Target Company

The appraised value of the Target Group is RMB258 million as at 31 October 2023. We noted that, except for adopting the appraised value of the Factories under the Property Valuation Report, the Valuer did not make any adjustments to other assets and liabilities under the balance sheet, which were mainly bank borrowings, accruals, provisions and other payables, and cash. Taking into account the above and the fact that the book value of the Factories accounted for over 98% of the total assets of the Target Company as at 31 October 2023, we are of the view that the appraised value of the 100% equity interest in the Target Company is fairly and reasonably arrived at.

Therefore, taking into account that (i) the appraised value of the 100% equity interest in the Target Company was determined on a fair and reasonable basis; and (ii) the consideration of the KPST Acquisition of HK$168 million represented a discount of approximately 7.0% to HK$180.6 million, being 70% of the appraised value of the 100% equity interest in the Target Company, we are of the view that the consideration of the KPST Acquisition is fair and reasonable.

4.2 Conditions precedent

Independent Shareholders should note that one of the conditions precedent of the KPST SPA is the MF SPA in respect of the MF Share Sale having become unconditional (other than the condition relating to the KPST SPA having become unconditional).

4.3 Completion

KPST Completion shall take place at or before 4:00 p.m. (Hong Kong time) on the fifth Business Day after the last condition precedent having been fulfilled (or, if applicable, waived) or such other later date as the Company and KIG Real Estate may agree in writing. Immediately upon KPST Completion, the Target Company will become a non-wholly-owned subsidiary of the Company.

4.4 Section conclusion

In summary, we have considered the below factors in reaching our conclusion relating to the terms of the KPST SPA:

(i) having considered that (a) the Valuer has sufficient qualifications and experience to undertake the valuation of the Factories; (b) the methodology adopted by the Valuer is commonly adopted for assessing the value of similar properties; and the major assumptions are commonly adopted for similar valuation, we are of the view that the valuation of the Factories using market approach is determined on a fair and reasonable basis;

(ii) having considered that (a) the Valuer has sufficient qualifications and experience to undertake the valuation of the equity interest in the Target Company; (b) the methodology adopted by the Valuer is commonly adopted for assessing equity value; and (c) the major assumptions are commonly adopted for similar valuation, we are of the view that the appraised value of the 100% equity interest in the Target Company using asset-based approach is fairly and reasonably arrived at; and

(iii) the consideration of the KPST Acquisition which represented a discount of approximately 7.0% to HK$180.6 million, being 70% of the appraised value of the 100% equity interest in the Target Company, is fair and reasonable and is in the interests of the Company and the Shareholders as a whole.

In light of the above, we are of the view that (i) terms of the KPST SPA and the transaction contemplated thereunder are fair and reasonable; and (ii) the entering into of the KPST SPA, despite not being in the ordinary course of business of the Group, is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms of the KPST SPA and the transaction contemplated thereunder are fair and reasonable; (ii) the entering into of the KPST SPA, despite not being in the ordinary and usual course of business of the Group, is on normal commercial terms and in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution to be proposed at the EGM to approve the KPST SPA and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung
Responsible Officer

Leo Tam
Responsible Officer

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions.*

*Mr. Leo Tam ("**Mr. Tam**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over nine years of experience in corporate finance and advisory in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance advisory transactions. Mr. Tam is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*

1. FINANCIAL SUMMARY

Financial information of the Group for each of the three years ended 31 March 2023 and the six months ended 30 September 2023 is disclosed in the following annual reports or interim report (as the case may be) of the Company which have been published on both the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kingdom.com.hk). Quick links to such financial information are set out below:

- annual report of the Company for the year ended 31 March 2021 (pages 45 to 118)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2021/0721/2021072100438.pdf

- annual report of the Company for the year ended 31 March 2022 (pages 57 to 130)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2022/0722/2022072200460.pdf

- annual report of the Company for the year ended 31 March 2023 (pages 55 to 122)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/0721/2023072100397.pdf

- interim report of the Company for the six months ended 30 September 2023 (pages 21 to 54)
  https://www1.hkexnews.hk/listedco/listconews/sehk/2023/1221/2023122100545.pdf

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30 November 2023, being the latest practicable date for the purpose of ascertaining the indebtedness of the Group prior to the printing of this circular, the Group's borrowings were as follows:

	As at 30 November 2023 *(HK$'000)*
Short-term bank borrowings, unsecured	38,150
Lease Liabilities	78,451
Total	**116,601**

Saved as disclosed and apart from intra-group liabilities and normal trade and other payables, the Group had no outstanding indebtedness in respect of any borrowings, mortgages, charges or debentures, loan capital, bank loans and overdrafts, term loans or other loans, debt securities or other similar indebtedness, liabilities under acceptances (other than normal trade bills), acceptance credits or hire purchase commitments, finance lease commitments, guarantees or other material contingent liabilities as at 30 November 2023.

3. MATERIAL ADVERSE CHANGE

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 2023 (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, are of the opinion that following the KPST Completion, after taking into account the Enlarged Group's internal resources and cash flow from operations, the Enlarged 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

Looking forward, the world is still facing difficulty in the business environment by the China-US political tension, Russia-Ukraine conflicts and crisis on Middle East region. Global economy is also threatened by a recession possibly followed by deglobalisation causing disruption on the global supply chains, global inflation, higher level of interest rate and volatility of currency exchange rates. These adverse effects to global economy will likely subsist for a period of time. Accordingly, China is expected to experience stagnant economic growth and face problems including high operating costs and risk on China's property market. The increasing labour, material and production costs in China will remain to be the challenges to the Group. The difficulties faced by the manufacturing industries will likely linger in the foreseeable future.

As far as the deglobalisation causing disruption on the global supply chains, it is expected that a certain number of the Group's customers will continue to relocate their businesses to the Southeast Asia. In order to keep in line with the trend of customers reorganising their supply chains, the Group's overseas production base is deploying in Malaysia, so as to provide existing customers with supply solutions locating outside China, and take this advantage to actively explore more new customers.

In addition, recent China-US trade dispute is focused on high-tech industries such as chips manufacturing, artificial intelligence, etc.. It is expected that political risk to metal industry from existing US policies is lower than last year. In order to cope with the change in business environment, the Group will put more efforts in maintaining good relationships with existing customers of the Group. The Group has also been striving to explore more new customers to broaden its customer base. Last but not least, the Group will continue to look 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.

Set out below is the text of a report received from the independent reporting accountants of the Company, SHINEWING (HK) CPA Limited, which has been prepared for the purpose of incorporation in this circular.

SHINEWING (HK) CPA Limited
17/F, Chubb Tower, Windsor House,
311 Gloucester Road,
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION OF KINGDOM PRECISION SCIENCE AND TECHNOLOGY HOLDING LIMITED AND ITS SUBSIDIARIES TO THE DIRECTORS OF KFM KINGDOM HOLDINGS LIMITED

Introduction

We report on the historical financial information of Kingdom Precision Science and Technology Holding Limited (the "**Target Company**") and its subsidiaries (together, the "**Target Group**") set out on pages II-4 to II-38, which comprises the consolidated statements of financial position as at 31 March 2021, 2022 and 2023 and 30 September 2023, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the three years ended 31 March 2021, 2022 and 2023 and six months ended 30 September 2023 (the "**Relevant Periods**") and a summary of material accounting policy information and other explanatory information (together, the "**Historical Financial Information**"). The Historical Financial Information set out on pages II-4 to II-38 forms an integral part of this report, which has been prepared for inclusion in the circular of the KFM Kingdom Holdings Limited (the "**Company**") dated 15 January 2024 (the "**Circular**") in connection with the proposed acquisition of 70% of the entire issued share capital of the Target Company.

Directors' Responsibility for the Historical Financial Information

The sole director of the Target Company is responsible for the preparation of the Historical Financial Information that give a true and fair view in accordance with the basis of preparation set out in note 1 to the Historical Financial Information and for such internal control as the sole director of the Target Company determine is necessary to enable the preparation of the Historical Financial Information that is free from material misstatement, whether due to fraud or error.

The directors of the Company are responsible for the contents of the Circular in which the Historical Financial Information of the Target Group is included, and such information is prepared based on accounting policies materially consistent with those of the Company.

Reporting Accountants' Responsibility

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of the Historical Financial Information that gives a true and fair view in accordance with the basis of preparation set out in note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the sole director of the Target Company, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Target Group's financial position as at 31 March 2021, 2022 and 2023 and 30 September 2023, and of the Target Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in note 1 to the Historical Financial Information.

Review of relevant period comparative financial information

We have reviewed the relevant period comparative financial information of the Target Group which comprises the statements of consolidated profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the six months ended 30 September 2022 and other explanatory information (the "**Relevant Period Comparative Financial Information**"). The sole director of the Target Company is responsible for the preparation of the Relevant Period Comparative Financial Information in accordance with the basis of preparation set out in note 1 to the Historical Financial Information. Our responsibility is to express a conclusion on the Relevant Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion. Based on our review, nothing has come to our attention that causes us to believe that the Relevant Period Comparative Financial Information, for the purposes of the accountants' report, is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1 to the Historical Financial Information.

Report on Matters Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Companies (Winding Up and Miscellaneous Provisions) Ordinance

Adjustments

In preparing the Historical Financial Information, no adjustments to the Underlying Financial Statements as defined on page II-4 have been made.

Dividends

We refer to note 13 to the Historical Financial Information which states that no dividends have been paid or declared by the Target Company in respect of the Relevant Periods.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong
15 January 2024

A. HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

Preparation of Historical Financial Information

The consolidated financial statements of the Target Group for the Relevant Periods, on which the Historical Financial Information is based, have been prepared in accordance with the accounting policies which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") and were audited by SHINEWING (HK) CPA Limited in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") (the "**Underlying Financial Statements**").

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Year ended 31 March			Six months ended 30 September	
		2021	2022	2023	2022	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	7	15,796	16,766	18,996	9,998	9,248
Property operating expenses		(8,848)	(9,573)	(10,467)	(5,456)	(5,182)
Net property income		6,948	7,193	8,529	4,542	4,066
Other (losses) gains, net	8	(1)	—	72	77	(5)
Administrative expenses		(88)	(95)	(97)	(54)	(168)
Finance income	9	4	4	7	4	1
Finance costs	9	(1,074)	(1,092)	(1,085)	(630)	(324)
Profit before taxation		5,789	6,010	7,426	3,939	3,570
Income tax expenses	10	(1,454)	(1,509)	(1,863)	(985)	(920)
Profit for the year/period	11	4,335	4,501	5,563	2,954	2,650
Other comprehensive income (expense):						
Item that may be reclassified subsequently to profit or loss: Exchange differences on translation of a foreign operation		8,736	4,046	(10,208)	(10,357)	(5,391)
Total comprehensive income (expense) for the year/period		13,071	8,547	(4,645)	(7,403)	(2,741)
Profit for the year/period attributable to owners of the Target Company		4,335	4,501	5,563	2,954	2,650
Total comprehensive income (expense) attributable to owners of the Target Company		13,071	8,547	(4,645)	(7,403)	(2,741)

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

		As at 31 March			As at 30 September
		2021	2022	2023	2023
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets					
Investment properties	15	135,615	160,914	145,295	135,055
Prepayments	16	4,962	239	—	—
Total non-current assets		140,577	161,153	145,295	135,055
Current assets					
Prepayments, deposits and other receivables	16	1,084	2,643	173	535
Income tax recoverable		—	—	—	40
Cash and cash equivalents	17	3,105	5,751	679	820
Total current assets		4,189	8,394	852	1,395
Total assets		144,766	169,547	146,147	136,450
Equity					
Share capital	20	—	—	—	—
Share premium	20	110,987	110,987	110,987	110,987
Reserves		6,938	15,485	10,840	8,099
Total equity		117,925	126,472	121,827	119,086
LIABILITIES					
Non-current liabilities					
Other payables	18	2,910	3,006	2,764	2,643
Bank borrowings	19	17,280	26,043	14,022	7,174
Total non-current liabilities		20,190	29,049	16,786	9,817
Current liabilities					
Accruals and other payables	18	5,262	7,075	1,142	1,225
Bank borrowings	19	960	6,200	5,700	6,322
Income tax payable		429	751	692	—
Total current liabilities		6,651	14,026	7,534	7,547
Total liabilities		26,841	43,075	24,320	17,364
Total equity and liabilities		144,766	169,547	146,147	136,450
Net current liabilities		(2,462)	(5,632)	(6,682)	(6,152)
Total assets less current liabilities		138,115	155,521	138,613	128,903

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Share capital *HK$'000* (note 20)	Share premium *HK$'000*	Translation reserves *HK$'000*	Statutory reserves *HK$'000*	Retained Earnings *HK$'000*	Total *HK$'000*
At 1 April 2020	—	110,987	(12,757)	46	6,578	104,854
Profit for the year	—	—	—	—	4,335	4,335
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	8,736	—	—	8,736
Total comprehensive income for the year	—	—	8,736	—	4,335	13,071
Transfer from retained profits to statutory reserves	—	—	—	940	(940)	—
At 31 March 2021 and 1 April 2021	—	110,987	(4,021)	986	9,973	117,925
Profit for the year	—	—	—	—	4,501	4,501
Other comprehensive income for the year: Exchange differences on translation of foreign operations	—	—	4,046	—	—	4,046
Total comprehensive income for the year	—	—	4,046	—	4,501	8,547
Transfer from retained profits to statutory reserves	—	—	—	486	(486)	—
At 31 March 2022 and 1 April 2022	—	110,987	25	1,472	13,988	126,472
Profit for the year	—	—	—	—	5,563	5,563
Other comprehensive expense for the year: Exchange differences on translation of foreign operations	—	—	(10,208)	—	—	(10,208)
Total comprehensive (expense) income for the year	—	—	(10,208)	—	5,563	(4,645)
Transfer from retained profits to statutory reserves	—	—	—	604	(604)	—

	Share capital HK$'000 (note 20)	Share premium HK$'000	Translation reserves HK$'000	Statutory reserves HK$'000	Retained Earnings HK$'000	Total HK$'000
At 31 March 2023 and 1 April 2023	—	110,987	(10,183)	2,076	18,947	121,827
Profit for the period	—	—	—	—	2,650	2,650
Other comprehensive expense for the period: Exchange differences on translation of foreign operations	—	—	(5,391)	—	—	(5,391)
Total comprehensive (expense) income for the period	—	—	(5,391)	—	2,650	(2,741)
Transfer from retained profits to statutory reserves	—	—	—	228	(228)	—
At 30 September 2023	—	110,987	(15,574)	2,304	21,369	119,086
At 1 April 2022	—	110,987	25	1,472	13,988	126,472
Profit for the period	—	—	—	—	2,954	2,954
Other comprehensive expense for the period: Exchange differences on translation of foreign operations (Unaudited)	—	—	(10,357)	—	—	(10,357)
Total comprehensive (expense) income for the period (Unaudited)	—	—	(10,357)	—	2,954	(7,403)
At 30 September 2022 (Unaudited)	—	110,987	(10,332)	1,472	16,942	119,069

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year ended 31 March			Six months ended 30 September	
	2021	2022	2023	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
OPERATING ACTIVITIES					
Profit before taxation	5,789	6,010	7,426	3,939	3,570
Adjustments for:					
Depreciation of investment properties	6,612	7,272	7,915	4,112	3,939
Finance income	(4)	(4)	(7)	(4)	(1)
Finance costs	1,074	1,092	1,085	630	324
Government subsidies	—	—	(71)	(71)	—
Operating cash flows before movements in working capital	13,471	14,370	16,348	8,606	7,832
(Increase) decrease in prepayments, deposits and other receivables	(74)	(1,439)	2,238	1,634	(376)
Increase (decrease) in accruals and other payables	112	1,480	(5,377)	(5,185)	76
NET CASH FROM OPERATING ACTIVITIES	13,509	14,411	13,209	5,055	7,532
Income tax paid	(1,056)	(1,209)	(1,861)	—	(1,652)
NET CASH FROM OPERATING ACTIVITIES	12,453	13,202	11,348	5,055	5,880
INVESTING ACTIVITIES					
Additions of investment properties	(1,699)	(22,585)	(5,034)	(3,132)	—
Prepayment of additions of investment properties	(4,962)	(239)	—	—	—
Bank interest received	4	4	7	4	1
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(6,657)	(22,820)	(5,027)	(3,128)	1
FINANCING ACTIVITY					
Receipts from government subsidies	—	—	71	71	—
Advance from a related company	7	123	—	—	50
New bank borrowings raised	17,328	32,800	—	—	16,740
Repayment of bank borrowings	(19,836)	(19,729)	(9,921)	(4,800)	(22,200)
Interest paid	(1,074)	(1,092)	(1,085)	(630)	(324)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(3,575)	12,102	(10,935)	(5,359)	(5,734)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,221	2,484	(4,614)	(3,432)	147
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR/PERIOD	720	3,105	5,751	5,751	679
Currency translation difference	164	162	(458)	(294)	(6)
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR/PERIOD represented by bank balances	3,105	5,751	679	2,025	820

B. NOTES TO THE HISTORICAL FINANCIAL INFORMATION OF THE TARGET GROUP

1. GENERAL INFORMATION, AND BASIS OF PREPARATION OF HISTORICAL FINANCIAL INFORMATION

Kingdom Precision Science and Technology Holding Limited (the "**Target Company**") was established in the British Virgin Islands (the "**BVI**") on 2 November 2016 as a company with limited liability under the BVI Business Companies Act. The registered office of the Target Company is at Vistra Corporate Services Centre, Wicklams Cay II Road Town, Tortola, VG1110, British Virgin Islands.

The Target Company is an investment holding company while the Target Group is mainly engaged in property investment in the People's Republic of China (the "**PRC**").

The ultimate holding company of the Target Company is KIG Real Estate Holdings Limited.

No statutory consolidated financial statements of the Target Group was available for the years ended 31 March 2021, 2022 and 2023 and six months ended 30 September 2023 as there is no statutory requirement for audited consolidated financial statements under the rules and regulations in the BVI.

The Historical Financial Information has been prepared in accordance with the accounting policies set out in note 3 below which conform with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). In addition, the Historical Financial Information includes the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

The Historical Financial Information is presented in Hong Kong dollars ("**HK$**"), which is also the function currency of the Target Company.

Going concern

In preparation of the Historical Financial Information, the sole director of the Target Company has given due and careful consideration to the future liquidity of the Target Group in light of the Target Group's net current liabilities of approximately HK$6,152,000 as at 30 September 2023. In the opinion of the sole director of the Target Company, the Historical Financial Information has been prepared on a going concern basis as the Target Group will generate positive cash flows from its operations according to the future cash flow forecast.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRS(S)")

For the purpose of preparing the Historical Financial Information for the Relevant Periods, the Target Group has adopted all applicable new and amendments to HKFRSs that are effective for accounting periods commencing on 1 April 2023 to the Relevant Periods.

New and amendments to HKFRSs issued but not yet effective

The Target Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and the related amendments to Hong Kong Interpretation 5 (2020) Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause[1]
Amendments to HKAS 1	Non-current Liabilities with Covenants[1]
Amendments to HKAS 7 and HKFRS 7	Supplier Finance Arrangements[1]
Amendments to HKAS 21	Lack of Exchangeability[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKFRS 16	Lease Liability in a Sale and Leaseback[1]

1 Effective for annual periods beginning on or after 1 January 2024.
2 Effective for annual periods beginning on or after 1 January 2025.
3 Effective for annual periods beginning on or after a date to be determined.

The sole director of the Target Company anticipates that the application of new and amendments to HKFRSs will have no material impact on the results and the financial position of the Target Group.

3. MATERIAL ACCOUNTING POLICY INFORMATION

The Historical Financial Information has been prepared on the historical cost basis.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date regardless of whether that price is directly observable or estimated using another valuation technique. Details of fair value measurement are explained in the accounting policies set out below.

The material accounting policy information are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Target Company and entities controlled by the Target Company (i.e. its subsidiaries). If a subsidiary prepares its financial statements using accounting policies other than those adopted in the consolidated financial statements for like transactions and events in similar circumstances, appropriate adjustments are made to that subsidiary's financial statements in preparing the consolidated financial statements to ensure conformity with the Target Group's accounting policies.

Control is achieved where the Target Group has: (i) the power over the investee; (ii) exposure, or rights, to variable returns from its involvement with the investee; and (iii) the ability to use its power over the investee to affect the amount of the Group's returns.

The Target Company reassesses whether it controls an investee if facts and circumstances indicate that there are changes to one or more of these elements of control stated above.

Consolidation of a subsidiary begins when the Target Group obtains control over the subsidiary and cease when the Target Group loses control of the subsidiary.

Income and expenses of subsidiaries are included in the consolidated statement of profit or loss and other comprehensive income from the date the Target Group gains control until the date when the Target Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income of subsidiaries are attributed to owners of the Target Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities of the Target Group are eliminated in full on consolidation.

Revenue from contracts with customers

Revenue is measured at the fair value of the consideration received or receivable in the normal course of business.

The Target Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Definition of a lease

A contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Target Group as lessor

The Target Group enters into lease agreements as a lessor with respect to all of its investment properties. Leases for which the Target Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised on a straight line basis over the term of the relevant lease.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing at the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Target Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Target Group's foreign operations are translated into the presentation currency of the Target Group (i.e. HK$) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Target Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Target Company are reclassified to profit or loss. In addition, in relation to a partial disposal of a subsidiary that does not result in the Target Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are reattributed to non-controlling interests and are not recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Any specific borrowing remains outstanding after the related asset is ready for its intended use or sale is included in the general pool for calculation capitalisation rate on general borrowings.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Target Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Target Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Target Group should purchase, construct or otherwise acquire non-current assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants related to income that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Target Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year/period. Taxable profit differs from "profit before taxation" as reported in the consolidated statements of profit or loss and other comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Target Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the Historical Financial Information and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Current and deferred tax are recognised in profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties include land held for undetermined future use, which is regarded as held for capital appreciation purpose.

Owned investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is recognised so as to write off the cost of investment properties over their estimated useful lives and after taking into account of their estimated residual value, using the straight-line method.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Cash and cash equivalents

In the consolidated statements of financial position, bank balances comprise cash (i.e. demand deposits) and cash equivalents. Cash equivalents are short-term (generally with original maturity of three months or less), highly liquid investments that are readily convertible to a known amount of cash and which are subject to an insignificant risk of changes in value. Cash equivalents are held for the purpose of meeting short-term cash commitments rather for investment or other purposes.

For the purpose of the consolidated statements of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

The Target Group's financial assets are classified, at initial recognition, as subsequently measured at amortised cost.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Target Group's business model for managing them.

Financial assets at amortised cost (debt instruments)

The Target Group measures financial assets subsequently at amortised cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment.

Amortised cost and effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period.

Interest income is recognised in profit or loss and it included in the "Finance income" line item (note 9).

Impairment of financial assets

The Target Group recognises a loss allowance for expected credit losses ("**ECL**") on financial assets which are subject to impairment under HKFRS 9, including deposits and cash and cash equivalents. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

The Target Group measures the loss allowance equal to 12-month ECL, unless when there has a significant increase in credit risk since initial recognition, the Target Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increase in the likelihood or risk of a default occurring since initial recognition.

Significant increase in credit risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Target Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Target Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- significant increases in credit risk on other financial instruments of the same debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Target Group presumes that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Target Group has reasonable and supportable information that demonstrates otherwise.

Despite the foregoing, the Target Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A financial instrument is determined to have low credit risk if (i) the financial instrument has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term, and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations. The Target Group considers a debt instrument to have low credit risk when the asset has an internal rating of "performing".

The Target Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Definition of default

The Target Group considers the following as constituting an event of default for internal credit risk management purposes as historical experience indicates that receivables that meet either of the following criteria are generally not recoverable:

- when there is a breach of financial covenants by the debtor; or
- information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Target Group, in full (without taking into account any collaterals held by the Target Group).

Irrespective of the above analysis, the Target Group considers that default has occurred when a financial asset is more than 90 days past due unless the Target Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

Write-off policy

The Target Group writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Target Group recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information as described above. As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date.

For financial assets, the ECL is estimated as the difference between all contractual cash flows that are due to the Target Group in accordance with the contract and all the cash flows that the Target Group expects to receive, discounted at the original effective interest rate.

If the Target Group has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period, but determines at the current reporting date that the conditions for lifetime ECL are no longer met, the Target Group measures the loss allowance at an amount equal to 12-month ECL at the current reporting date.

The Target Group recognises an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets

The Target Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by a group entity are recognised at the proceeds received, net of direct issue costs.

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

Financial liabilities subsequently measured at amortised cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination; (ii) held-for-trading; or (iii) designated as at fair value through profit or loss, are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Derecognition of financial liabilities

The Target Group derecognises financial liabilities when, and only when, the Target Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss.

Impairment losses on investment properties

At the end of the reporting period, the Target Group reviews the carrying amounts of its investment properties to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Target Group estimates the recoverable amount of the cash-generating unit ("**CGU**") to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or a CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a CGU) in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Target Group's accounting policies, which are described in note 3, the sole director of the Target Company is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgement in applying the accounting policies

The following is the critical judgement, apart from those involving estimations (see below), that the sole director of the Target Company has made in the process of applying the Target Company's accounting policies and that have the most significant effect on the amounts recognised and disclosures made in the consolidated financial statements.

Going concern consideration

The assessment of the going concern assumption involves making a judgement by the sole director of the Target Company, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The sole director of the Target Company considers that the Target Company has the ability to continue as a going concern and the major events or conditions, which may give rise to liquidity risk are set out in note 1.

Key sources of estimation uncertainty

The followings are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Estimated useful lives of investment properties

Investment properties are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual values. The determination of the useful lives and residual values involves management's estimation. The Target Group assesses annually the residual value and the useful lives of the investment properties and if the expectation differs from the original estimate, such a difference may impact the depreciation in the year and the estimate will be changed in the future period. As at 31 March 2021, 2022 and 2023 and 30 September 2023, the carrying amounts of investment properties were approximately HK$135,615,000, HK$160,914,000, HK$145,295,000 and HK$135,055,000 respectively.

Estimated impairment of investment properties

The Target Group determines whether the investment properties is impaired whenever there is indication of impairment presented. The impairment loss for investment properties is recognised for the amounts by which the carrying amounts exceed their recoverable amounts in accordance with the Target Group's accounting policy. The recoverable amounts of investment properties have been determined based on higher of the fair value less costs of disposal and value-in-use calculations. These calculations require the use of judgements and estimations. As at 31 March 2021, 2022 and 2023 and 30 September 2023, the carrying amounts of investment properties of the Target Group were approximately HK$135,615,000, HK$160,914,000, HK$145,295,000 and HK$135,055,000, respectively. No impairment loss has been recognised during the Relevant Periods and six months 30 September 2022.

5. CAPITAL RISK MANAGEMENT

The Target Group manages its capital to ensure that entities within the Target Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Target Group's overall strategy remains unchanged during the Relevant Periods.

The capital structure of the Target Group consists of net debt, which includes the accruals and other payables and bank borrowings, net of deposits and other receivables, and cash and cash equivalents and equity attributable to the owners of the Target Company, comprising issued share capital and reserves.

The sole director of the Target Company reviews the capital structure regularly. As part of this review, the directors of the Target Company considers the cost of capital and the risks associated with each class of capital. The Target Group will balance its overall capital structure through the injection of share capital as well as the issue of new debts.

6. FINANCIAL INSTRUMENTS

Categories of financial instruments

		At 31 March		At 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Financial assets at amortised cost	3,162	5,878	796	932
Financial liabilities				
Financial liabilities at amortised cost	21,756	36,643	23,058	16,819

The Target Group's major financial instruments include deposits, cash and cash equivalents, accruals and other payables and bank borrowings. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Financial risk factors

The Target Group's activities expose it to a variety of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. The Target Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Target Group's financial performance. Risk management is carried out by the senior management of the Target Group.

(i) Interest rate risk

The Target Group is exposed to cash flow interest rates in relation to variable rate bank borrowings and bank balances. It is the Target Group's policy to keep its borrowings at floating rate so as to minimise the fair value interest rate risk. The Target Group's variable interest rate bank borrowings and bank balances as at 31 March 2021, 2022 and 2023 and 30 September 2023, are as follows:

		At 31 March		At 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank balances	2,960	5,666	612	740
Variable interest rate borrowings	(18,240)	(32,243)	(19,722)	(13,496)
	(15,280)	(26,577)	(19,110)	(12,756)

The Target Group's exposure to cash flow interest rate risk associated with the effects of fluctuations in the prevailing levels of the market interest rates on its cash flows is not deemed to be substantial in the view of management based on the nature of the assets and liabilities.

As at 31 March 2021, 2022, 2023 and 30 September 2023, if the interest rates had been 50 basis points higher/lower, with all other variables held constant, the net effect on the profit after tax for the year/period would have been HK$57,000, HK$100,000, HK$72,000 and HK$48,000 lower/higher respectively.

(ii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from deposits and cash and cash equivalents. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk is monitored on an ongoing basis with reference to the financial position of the debtors, past experience and other factors.

For deposits, the Group has assessed whether there has been a significant increase in credit risk since initial recognition. If there has been a significant increase in credit risk, the Group will measure the loss allowance based on lifetime rather than 12-month ECL.

The credit risk on liquid funds is limited because the counterparties are banks in Hong Kong with high credit ratings assigned by international credit-rating agencies or authorised banks in the PRC with high credit ratings.

The Target Group's exposure to credit risk

In order to minimise credit risk, the Target Group has tasked its management to develop and maintain the Target Group's credit risk grading to categorise exposures according to their degree of risk of default. The credit rating information is supplied by the management uses the Target Group's own days past due to rate other debtors. The Target Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties.

The Target Group's current credit risk grading framework comprises the following categories:

Category	**Description**	**Basis for recognising ECL** Other financial assets
Performing	For financial assets where there has low risk of default or has not been a significant increase in credit risk since initial recognition and that are not credit impaired (refer to as Stage 1)	12-month ECL
Doubtful	For financial assets where there has been a significant increase in credit risk since initial recognition but that are not credit impaired (refer to as Stage 2)	Lifetime ECL — not credit impaired
Default	Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred (refer to as Stage 3)	Lifetime ECL — credit impaired
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Target Group has no realistic prospect of recovery	Amount is written off

The tables below detail the credit quality of the Target Group's financial assets, as well as the Target Group's maximum exposure to credit risk by credit risk rating grades.

			As at 31 March 2021			**As at 31 March 2022**			**As at 31 March 2023**			**As at 30 September 2023**		
	Internal credit rating	**12-month or lifetime ECL**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**	**Gross carrying amount**	**Loss allowance**	**Net carrying amount**
			HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Deposits	Performing (note)	12-month ECL	57	—	57	127	—	127	117	—	117	112	—	112
Bank balances	Performing (note)	12-month ECL	3,105	—	3,105	5,751	—	5,751	679	—	679	820	—	820
			3,162	—	3,162	5,878	—	5,878	796	—	796	932	—	932

Note: As at 31 March 2021, 2022 and 2023 and 30 September 2023, the credit rating of deposits is performing and the expected loss rate is assessed to be close to zero and the credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Thus, no loss allowance has been made.

None of the Target Group's financial assets are secured by collateral or other credit enhancements.

(iii) Liquidity risk

In the management of the liquidity risk, the Target Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Target Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Target Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Target Group can be required to pay. The maturity dates for non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	On demand or less than 1 year	1 to 2 years	2 to 5 years	More than 5 years	Total undiscounted cash flows	Carrying Amount
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 30 September 2023						
Accruals and other payables	3,323	—	—	—	3,323	3,323
Bank borrowings	6,531	6,739	936	—	14,206	13,496
	9,854	6,739	936	—	17,529	16,819
At 31 March 2023						
Accruals and other payables	3,336	—	—	—	3,336	3,336
Bank borrowings	5,937	6,173	9,531	—	21,641	19,722
	9,273	6,173	9,531	—	24,977	23,058
At 31 March 2022						
Accruals and other payables	4,400	—	—	—	4,400	4,400
Bank borrowings	6,457	6,715	21,688	1,501	36,361	32,243
	10,857	6,715	21,688	1,501	40,761	36,643
At 31 March 2021						
Accruals and other payables	3,516	—	—	—	3,516	3,516
Bank borrowings	1,010	1,060	18,861	—	20,931	18,240
	4,526	1,060	18,861	—	24,447	21,756

(b) Fair values of financial assets and financial liabilities

The sole director of the Target Company considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the statements of financial position approximate their fair values due to their immediate or short-term maturities.

7. REVENUE AND SEGMENT INFORMATION

Revenue represents rental income received from a sole tenant, Kingdom Precision Product (Suzhou) Limited ("**KFM Suzhou**")* (金德精密配件(蘇州)有限公司), a related company of the Target Group, from the investment properties of the Target Group.

The chief operating decision-makers ("**CODM**") are identified as the directors of the Target Group. The CODM have assessed the nature of the Target Group's businesses and determined the Target Group's operating and reporting segments based on its properties leasing process.

The Target Group's operating activities are attributable to a single operating segment focusing on the properties leasing. As such, no segmental analysis has been presented. The Target Group conducts its principal operation in the PRC. Management monitors the operating results of its business unit for the purpose of making decisions about resources allocation and performance assessment. No operating segments identified by the CODM have been aggregated in arriving at the reportable segment of the Target Group.

The gross rental income from the investment properties and its property operating expenses are presented as follows:

	Year ended 31 March			Six months ended 30 September	
	2021	**2022**	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Gross rental income from investment properties	15,796	16,766	18,996	9,998	9,248
Less: Property operating expenses	(8,848)	(9,573)	(10,467)	(5,456)	(5,182)
Net property income	6,948	7,193	8,529	4,542	4,066

Information about major customer

All the Target Group's total revenue was contributed from a sole tenant during the Relevant Periods.

Geographic information

As all the Target Group's revenue from external customers are derived from the PRC and all of the Target Group's non-current assets are located in the PRC, hence no information of the Target Group's revenue and non-current assets by geographical location is presented.

* *The English name is for identification purpose only*

8. OTHER (LOSSES) GAINS, NET

	Year ended 31 March			Six months ended 30 September	
	2021	2022	2023	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Exchange (losses) gains, net	(1)	—	1	6	(5)
Government subsidies (note)	—	—	71	71	—
	(1)	—	72	77	(5)

Note: The amount represented the government subsidies with no unfulfilled conditions or contingencies and recognised as other gains upon receipts during the Relevant Periods and the six months ended 30 September 2022.

9. FINANCE COSTS AND FINANCE INCOME

	Year ended 31 March			Six months ended 30 September	
	2021	2022	2023	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Finance income					
Interest income on bank balances	4	4	7	4	1
Finance costs					
Interest expense on bank borrowings	1,074	1,092	1,085	630	324

10. INCOME TAX EXPENSES

	Year ended 31 March			Six months ended 30 September	
	2021	2022	2023	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Current income tax					
— The PRC	1,454	1,509	1,863	985	899
— Dividend withholding tax	—	—	—	—	21
Income tax expenses for the year/period	1,454	1,509	1,863	985	920

Income tax of the Target Group's entities has been calculated on the estimated assessable profits for the year at the rates of taxation prevailing in the countries in which the entities operate.

Below are the major tax jurisdictions that the Target Group operates in during the Relevant Periods and the six months ended 30 September 2022.

(a) Hong Kong profits tax

No provision for Hong Kong Profits Tax was made during the Relevant Periods and the six months ended 30 September 2022 as there were no assessable profits generated during the during the Relevant Periods and the six months ended 30 September 2022.

(b) The PRC enterprise income tax (the "PRC EIT")

The PRC EIT is provided on the assessable income of the Company's PRC subsidiary, adjusted for items which are not taxable or deductible for the PRC EIT purpose. The statutory PRC EIT tax rate during the Relevant Periods and the six months ended 30 September 2022 is provided at the rate of 25%.

(c) PRC dividend withholding tax

According to the Law of the PRC EIT, starting from 1 January 2008, a PRC dividend withholding tax of 10% will be levied on the immediate holding company outside the PRC when the PRC subsidiary declare dividend out of profits earned after 1 January 2008. During the Relevant Periods and the six months ended 30 September 2022, a lower 5% PRC dividend withholding tax rate was adopted since the immediate holding company of the PRC subsidiary is incorporated in Hong Kong and fulfil certain requirements under the tax treaty arrangements between the PRC and Hong Kong.

The income tax expenses for the year/period can be reconciled to the profit before taxation per the consolidated statements of profit or loss and other comprehensive income as follows:

	Year ended 31 March			Six months ended 30 September	
	2021	**2022**	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Profit before taxation	5,789	6,010	7,426	3,939	3,570
Tax calculated at the domestic income tax rate of the respective entities	1,449	1,504	1,859	985	895
Tax effect of expenses not deductible for tax purpose	5	5	4	—	4
PRC withholding tax	—	—	—	—	21
Income tax expenses for the year/period	1,454	1,509	1,863	985	920

Under the EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of a PRC subsidiary amounting to approximately HK$21,140,000 as at 30 September 2023 as the Target Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

11. PROFIT FOR THE YEAR/PERIOD

	Year ended 31 March			Six months ended 30 September	
	2021	**2022**	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				(Unaudited)	
Profit for the year/period has been arrived at after charging:					
Depreciation of investment properties (included in property operating expenses)	6,612	7,272	7,915	4,112	3,939

12. DIRECTOR'S EMOLUMENTS

No emoluments have been paid or receivable by the Target Group to the sole director of the Target Company in respect of accepting office as directors during the Relevant Periods and the six months ended 30 September 2022.

No emoluments have been paid by the Target Group to the sole director of the Target Company as an inducement to join the Target Group or as compensation for loss of office during the Relevant Periods and the six months ended 30 September 2022.

No chief executive was appointed during the Relevant Periods and the six months ended 30 September 2022.

The sole director of the Target Company had not waived or agreed to waive any emoluments during the Relevant Periods and the six months ended 30 September 2022.

13. DIVIDENDS

No dividend was paid or proposed during the Relevant Periods and the six months ended 30 September 2022, nor has any dividend been proposed since the end of the reporting period.

14. EARNINGS PER SHARE

No earnings per share information is prepared as its inclusion, for the purpose of the Historical Financial information, is not meaningful.

15. INVESTMENT PROPERTIES

	HK$'000
Year ended 31 March 2021	
Opening net book amount	130,228
Additions	1,699
Depreciation	(6,612)
Exchange differences	10,300
Closing net book amount	135,615
At 31 March 2021	
Cost	173,298
Accumulated depreciation	(37,683)
Net book amount	135,615
Year ended 31 March 2022	
Opening net book amount	135,615
Additions	27,547
Depreciation	(7,272)
Exchange differences	5,024
Closing net book amount	160,914
At 31 March 2022	
Cost	207,305
Accumulated depreciation	(46,391)
Net book amount	160,914
Year ended 31 March 2023	
Opening net book amount	160,914
Additions	5,273
Depreciation	(7,915)
Exchange differences	(12,977)
Closing net book amount	145,295
At 31 March 2023	
Cost	195,861
Accumulated depreciation	(50,566)
Net book amount	145,295

	HK$'000
Period ended 30 September 2023	
Opening net book amount	145,295
Depreciation	(3,939)
Exchange differences	(6,301)
Closing net book amount	135,055
At 30 September 2023	
Cost	187,269
Accumulated depreciation	(52,214)
Net book amount	135,055

The fair value of the Group's investment properties as at 31 March 2021, 2022 and 2023 and 30 September 2023 was approximately HK$247,440,000, HK$300,080,000, HK$287,280,000 and HK$274,680,000 respectively. The fair values have been arrived at with reference to a valuation carried out by Cushman & Wakefield Limited, an independent qualified professional valuer, not connected to the Target Group. The valuation was determined by reference to recent markets prices for similar properties in the similar locations and conditions.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

The above investment properties are depreciated on a straight-line basis at the following rates per annum:

Leasehold land	Over the term of the lease
Buildings	20 years

All of the Target Group's investment properties have been pledged to secure banking facilities granted to the Target Group.

The fair value hierarchy as at 31 March 2021, 2022 and 2023 and 30 September 2023 of the investment properties of the Target Group were at Level 3. There were no transfers between levels of fair value hierarchy during the period.

The following table gives information about how the fair values of the investment properties as at 31 March 2021, 2022 and 2023 and 30 September 2023 were determined (in particular, the valuation techniques and inputs used):

	Fair value hierarchy	**Fair value as at 30 September 2023** *HK$'000*	**Valuation techniques and key inputs**	**Significant unobservable inputs**	**Range**
Investment properties	Level 3	274,680	Market Comparison approach – by reference to recent sales price of comparable properties on a price per square metre basis using market data	Estimated market price per sq metre	HK$4,740 to HK$4,932

	Fair value hierarchy	**Fair value as at 31 March 2023** *HK$'000*	**Valuation techniques and key inputs**	**Significant unobservable inputs**	**Range**
Investment properties	Level 3	287,280	Market Comparison approach – by reference to recent sales price of comparable properties on a price per square metre basis using market data	Estimated market price per sq metre	HK$4,902 to HK$5,244

	Fair value hierarchy	Fair value as at 31 March 2022 *HK$'000*	Valuation techniques and key inputs	Significant unobservable inputs	Range
Investment properties	Level 3	300,080	Market Comparison approach – by reference to recent sales price of comparable properties on a price per square metre basis using market data	Estimated market price per sq metre	HK$5,332 to HK$5,704

	Fair value hierarchy	Fair value as at 31 March 2021 *HK$'000*	Valuation techniques and key inputs	Significant unobservable inputs	Range
Investment properties	Level 3	247,440	Market Comparison approach – by reference to recent sales price of comparable properties on a price per square metre basis using market data	Estimated market price per sq metre	HK$3,840 to HK$4,320

A decrease in the comparable market price would result in a decrease in the fair value of the investment properties, vice versa.

16. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	As at 31 March			As at 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current asset				
Prepayments (note)	4,962	239	—	—
Current assets				
Deposits	57	127	117	112
Prepayments	723	50	8	320
Other tax receivables	304	2,466	48	103
	1,084	2,643	173	535
	6,046	2,882	173	535

Note: Prepayments are the deposit paid for the construction of certain investment properties.

The Target Group has individually assessed the deposits at 12-month ECL by applying probability of default approach as it has low risk of default or has not been significantly increase in credit risk since initial recognition. During the Relevant Periods, no impairment loss is recognised.

17. CASH AND CASH EQUIVALENTS

	As at 31 March			As at 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Bank balances	3,105	5,751	679	820

At 31 March 2021, 2022 and 2023 and 30 September 2023, bank balances carried interest at prevailing market rates which ranged from 0.01% to 0.25%, 0.01% to 0.25%, 0.05% to 0.25% and at 0.2% per annum respectively.

18. ACCRUALS AND OTHER PAYABLES

	As at 31 March			As at 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Non-current liability				
Deposits received	2,910	3,006	2,764	2,643
Current liabilities				
Accruals	332	1,001	377	435
Other tax payables	499	515	570	545
Receipts in advance	4,157	5,166	—	—
Amount due to a related company (note)	27	150	150	200
Others	247	243	45	45
	5,262	7,075	1,142	1,225
	8,172	10,081	3,906	3,868

Note: The amount was unsecured, interest-free and repayable on demand.

19. BANK BORROWINGS

	As at 31 March			As at 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Secured bank borrowings				
Non-current portion	17,280	26,043	14,022	7,174
Current portion	960	6,200	5,700	6,322
	18,240	32,243	19,722	13,496

Carrying amount repayable (based on scheduled repayment dates set out in the loan agreements):

	As at 31 March			As at 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	960	6,200	5,700	6,322
After one year but within two years	960	6,200	5,700	6,322
After two years but within five years	16,320	18,600	8,322	852
Over 5 years	—	1,243	—	—
	18,240	32,243	19,722	13,496

The Group has variable-rate borrowings denominated in RMB at floating rates calculated based on the Loan Prime Rate.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 31 March			As at 30 September
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Effective interest rate:				
Variable-rate borrowings	18,240	32,243	19,722	13,496

All the bank borrowings are secured by all investment properties of the Target Group.

20. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	**Share capital**	**Share premium**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
Ordinary share of US$1 each				
Authorised				
At 1 April 2020, 31 March 2021, 31 March 2022, 31 March 2023 and 30 September 2023	50,000	389		
Issued and fully paid				
At 1 April 2020, 31 March 2021, 31 March 2022, 31 March 2023 and 30 September 2023	2	—*	110,987	110,987

* *Less than HK$1,000*

21. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Apart from as disclosed elsewhere in the consolidated financial statements, the Target Group had the following related parties and related party transactions.

(a) Name and relationship with related parties

Name	**Relationship**
Mr. Sun Kwok Wah Peter ("**Mr. Sun**")	A controlling party of the Target Group
KFM Kingdom Holdings Limited (the "**Company**")	A related company in which Mr. Sun acts as an executive director and the chief executive
KFM Suzhou	A subsidiary of the Company
Golden Express Capital Investment Limited ("**Golden Express**")	A fellow subsidiary of the Target Company

(b) Balances with related parties

The following balances were outstanding at the end of the Relevant Periods:

		As at 31 March		**As at 30 September**
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Trade nature				
Rental income received in advance				
KFM Suzhou	4,157	5,166	—	—
Non-trade nature				
Amount due to a related company				
Golden Express	27	150	150	200

(c) Material related party transactions

The Target Group had the following material transaction with its related party during the Relevant Periods and the six months ended 30 September 2022:

	Year ended 31 March			Six months ended 30 September	
	2021	**2022**	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Nature of transaction					
Rental income					
KFM Suzhou (note)	15,796	16,766	18,996	9,998	9,248

Note: The sole director of the Target Company is of the opinion that the above transaction was conducted on normal commercial terms in the ordinary course of business.

22. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Target Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the statements of cash flows as cash flows from financing activities.

	Amount due to a related company (included in accruals and other payables)	**Interest payable**	**Bank borrowings**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 1 April 2020	20	—	19,314	19,334
Financing cash flows	7	(1,074)	(2,508)	(3,575)
Non-cash changes				
— interest cost incurred	—	1,074	—	1,074
— exchange differences	—	—	1,434	1,434
As at 31 March 2021	27	—	18,240	18,267
Financing cash flows	123	(1,092)	13,071	12,102
Non-cash changes				
— interest cost incurred	—	1,092	—	1,092
— exchange differences	—	—	932	932
As at 31 March 2022	150	—	32,243	32,393
Financing cash flows	—	(1,085)	(9,921)	(11,006)
Non-cash changes				
— interest cost incurred	—	1,085	—	1,085
— exchange differences	—	—	(2,600)	(2,600)
As at 31 March 2023	150	—	19,722	19,872
Financing cash flows	50	(324)	(5,460)	(5,734)
Non-cash changes				
— interest cost incurred	—	324	—	324
— exchange differences	—	—	(766)	(766)
As at 30 September 2023	200	—	13,496	13,696

23. OPERATING LEASE ARRANGEMENT

The Target Group as lessor

The Target Group leases out investment properties under operating leases. The leases typically run for an initial period ranged from 3 to 6 years. Lease payments are usually increased every two years to reflect market rentals. None of the leases includes variable lease payments.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Target Group in future periods as follows:

		As at 31 March		**As at 30 September**
	2021	**2022**	**2023**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Within one year	10,184	21,834	20,910	20,953
After one year but within two years	—	22,744	22,081	21,112
After two years but within five years	—	75,456	61,549	48,207
Over five years	—	15,411	—	—
	10,184	135,445	104,540	90,272

24. SUBSIDIARIES OF THE TARGET GROUP

Company name	Place of incorporation/ establishment/operation and kind of legal entity	Issued and fully paid up capital/ registered capital	Percentage of equity interest attributable to the Target Company								Principal activities
			31 March 2021		31 March 2023		31 March 2022		30 September 2023		
			Direct	Indirect	Direct	Indirect	Direct	Indirect	Direct	Indirect	
Kingdom Precision Science and Technology Limited ("**KPST Hong Kong**") (note (i))	Hong Kong, limited liability company	HK$1	100%	—	100%	—	100%	—	100%	—	Investment holding
Kingdom Precision Science and Technology (Suzhou) Company Limited ("**KPST Suzhou**")* (金德精密科技(蘇州)有限公司) (note (ii))	Suzhou, the PRC, wholly foreign-owned enterprise	US$7,554,868	—	100%	—	100%	—	100%	—	100%	Property investment

Notes:

(i) Audited financial statements have been prepared for KPST Hong Kong for the years ended 31 March 2021, 2022 and 2023 by Wu Wai Yee Certified Public Accountant (Practising).

(ii) Audited financial statements have been prepared for KPST Suzhou for the years ended 31 December 2020, 2021 and 2022 by 蘇州東信會計師事務所有限公司.

* *The English name is for identification purpose only*

C. EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in this report, there have been no material events subsequent to the reporting period, which require adjustment or disclosure in accordance with HKFRSs.

D. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Target Group in respect of any period subsequent to 30 September 2023.

MANAGEMENT DISCUSSION AND ANALYSIS OF THE TARGET GROUP

*Set out below is the management discussion and analysis on the Target Group for each of the three years ended 31 March 2023 and the six months ended 30 September 2023 (the "**Reporting Period**"). The following financial information is based on the accountants' report on the Target Group set out in Appendix II to this circular.*

A. BUSINESS OVERVIEW

Please refer to the section headed "III. Information on the parties involved — The Target Group" of the Letter from the Board in this circular for details.

B. FINANCIAL OVERVIEW

Segmental information

The Target Group operated in one single segment which is property investment in the PRC. In this regard, no segmental information is presented.

The selected financial information for the Reporting Period set forth below are derived from the accountants' report on the Target Group included in Appendix II to this circular:

Revenue

	Year ended 31 March			Six months ended 30 September	
	2021	2022	2023	2022	2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000* (Unaudited)	*HK$'000*
Revenue	15,796	16,766	18,996	9,998	9,248

The Target Group was principally engaged in the investment in an industrial property in the PRC (i.e. the Factories) and the revenue was mainly derived from the rental income of the Factories. During the three years ended 31 March 2023, the Target Group recorded revenue of approximately HK$15.8 million, HK$16.8 million and HK$19.0 million, respectively. In respect of the six months ended 30 September 2022 and 2023, the Target Group recorded revenue of approximately HK$10.0 million and HK$9.2 million, respectively. The revenue of the Target Group remained relatively stable for the years ended 31 March 2021 and 2022 as the Target Group only leased out two four-storey factory buildings ("**Phases I & II**") during the same period. An additional five-storey factory building ("**Phase III**") was constructed by end of 2021. After 1 April 2022, the rental income also included Phase III of the Factories. Thus, the revenue of the Target Group increased by approximately 13.3% during the year ended 31 March 2023. The revenue of the Target Group for the six months ended 30 September 2022 and 2023 remained stable.

Property operating expenses

	Year ended 31 March			Six months ended 30 September	
	2021	**2022**	**2023**	**2022**	**2023**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Depreciation of investment properties	6,611	7,272	7,915	4,112	3,938
Property tax and other tax	2,237	2,301	2,552	1,344	1,244
Property operating expenses	8,848	9,573	10,467	5,456	5,182

Property operating expenses mainly comprised deprecation of investment properties and the PRC property tax during the Reporting Period.

Administrative expenses

Administrative expenses primarily comprised audit fees, bank charges and other legal and professional fees associated with the operation of the leasing business.

Other gains or (losses), net

Other gains or (losses), net mainly represented the government subsidies and foreign exchange gain and (losses) during the Reporting Period.

Finance income

Finance income mainly represented interest income from bank saving accounts.

Finance costs

The Target Group's finance costs represented interest expenses on bank borrowings.

The increase/decrease in finance costs was mainly due to an increase/decrease in average balances of bank borrowings during the Reporting Period.

Income tax expenses

Income tax expenses represented the PRC Enterprise Income Tax (the "**PRC EIT**") which is provided on the assessable profits of the Target Company's PRC subsidiary, namely KPST Suzhou, adjusted for items which are not taxable or deductible for the PRC EIT purpose. The statutory PRC EIT tax rate during the Reporting Period were provided at the rate of 25%.

Profit for the year/period

For the Reporting Period, profit attributable to owners of the Target Company remaining stable with long term leasing agreement with tenant. The increase in net profit for the year ended 31 March 2023 was mainly due to completion of Phase III of the Factories which enabled the Target Group to earn additional rental income from 1 April 2022 onwards.

Liquidity, financial resources and capital structure

The Target Group's current assets mainly comprised cash and cash equivalents, prepayments, deposits and other receivables and income tax recoverable. As at 31 March 2021, 2022, 2023 and 30 September 2023, the Target Group's total current assets amounted to approximately HK$4.2 million, HK$8.4 million, HK$0.9 million and HK$1.4 million, respectively, which represented approximately 2.9%, 5.0%, 0.6% and 1.0% of the Target Group's total assets as at 31 March 2021, 2022, 2023 and 30 September 2023, respectively.

Capital structure

The Target Group's capital structure is summarised as follows:

	31 March 2021 *HK$'000*	**31 March 2022** *HK$'000*	**31 March 2023** *HK$'000*	**30 September 2023** *HK$'000*
Bank borrowings	18,240	32,243	19,722	13,496
Total debts	18,240	32,243	19,722	13,496
Shareholders' equity	117,925	126,472	121,827	119,086
Gearing ratio — Total debts to Shareholders' equity ratio#	15.5%	25.5%	16.2%	11.3%

\# Total debts to shareholders' equity ratio is calculated based on total debts divided by shareholders' equity at the end of the respective periods.

For the Reporting Period, the Target Group generally financed its operations primarily with internal generated cash flows and bank borrowings.

For the Reporting Period, the Target Group's bank borrowings were denominated in Renminbi, with variable interest rates. The capital structure of the Target Group consisted of equity attributable to the equity holder of the Target Group (comprising issued share capital and reserves) and bank borrowings.

Charge on assets

All bank borrowings of the Target Group during the Reporting Period were secured by investment properties of the Target Group.

Contingent liabilities

As at 30 September 2023, the Target Group had no material contingent liabilities.

Foreign exchange exposure

Each individual entity of the Target Group has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Target Group operates mainly in Hong Kong and the PRC. The Target Group's Hong Kong entity, namely KPST Hong Kong, is exposed to foreign exchange risk arising from Renminbi.

The Target Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates.

Material investment, acquisition and disposals

Save for the Factories, the Target Group did not have any significant investments, acquisitions or disposals of its subsidiaries and associated companies during the Reporting Period.

Employees and remuneration policies

As at 30 September 2023, the Target Group had one employee (as at 31 March 2023: one employee). The Target Group determined the remuneration packages of the employee based on several factors including individual qualifications, contribution to the Target Group, performance and years of experience of the respective staff.

The Target Group maintains a good relationship with the Target Group's employee. The Target Group did not have any labour strikes or other labour disturbances that would have interfered with the Target Group's operations during the Reporting Period.

As required by the PRC regulations, the Target Group participates in the social insurance schemes operated by the relevant local government authorities.

Prospects

In the year 2023, the Chinese Government reiterated the pillar status of the real estate industry and stressed the importance of preventing and resolving risks in key sectors to promote the steady and healthy development of the real estate market. It is anticipated that the recovery of the property market may proceed at a slower pace.

Going forward, it is anticipated that the property market in the PRC would not be significantly or adversely affected in the foreseeable future. Given the Target Group still engages in the investment in the Factories in the PRC, with a long term leasing agreement effective since November 2021, which has been generating a stable rental income to the Target Group, it is expected that the prospect of the Target Group remain stable in the foreseeable future.

Future plan for material investment or capital assets

As at the Latest Practicable Date, the Target Group did not have other concrete future plan for material investments or capital assets.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The following is an illustrative unaudited pro forma financial information (the "**Unaudited Pro Forma Financial Information**") of KFM Kingdom Holdings Limited (the "**Company**") and its subsidiaries (the "**Group**") including Kingdom Precision Science and Technology Holding Limited (the "**Target Company**") and its subsidiaries (the "**Target Group**", together with the Group, the "**Enlarged Group**") upon the completion of the acquisition of 70% of the entire issued share capital of the Target Company (the "**Acquisition**"), comprising the unaudited pro forma statement of assets and liabilities as at 30 September 2023. The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company (the "**Directors**") in accordance with paragraph 4.29 of the Listing Rules to illustrate the effect of the Acquisition on the Group's assets and liabilities as at 30 September 2023 as if the Acquisition had taken place as at 30 September 2023.

The Unaudited Pro Forma Financial Information was prepared based on (i) the unaudited consolidated statement of financial position of the Group as at 30 September 2023 as extracted from the interim report of the Company for the six months ended 30 September 2023; and (ii) the audited consolidated statement of financial position of the Target Group as at 30 September 2023 as extracted from the financial information of the Target Group set out in Appendix II to this circular.

The Unaudited Pro Forma Financial Information was prepared based on the aforesaid historical data after giving effect to the pro forma adjustments described in the accompanying notes which are directly attributable for the Acquisition and factually supportable as if the Acquisition has been undertaken as at 30 September 2023.

The Unaudited Pro Forma Financial Information was also prepared by the Directors based on certain assumptions, estimates and uncertainties for illustrative purposes only. Due to its hypothetical nature, the Unaudited Pro Forma Financial Information may not purport to predict what the assets and liabilities of the Group would have been if the Acquisition had been undertaken at 30 September 2023 nor in any future period or on any future dates. The Unaudited Pro Forma Financial Information should be read in conjunction with, among others, the financial information of the Group as set out in Appendix I to the circular and the Accountants' Report on the Target Group as set out in Appendix II to the circular and other financial information included elsewhere in the circular.

UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES OF THE ENLARGED GROUP

	The Group as at 30 September 2023	The Target Group as at 30 September 2023		Pro Forma Adjustments				The Enlarged Group as 30 September 2023
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*		*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
ASSETS								
Non-current assets								
Investment properties	—	135,055	(i)	(135,055)				—
Property, plant and equipment	63,736	—	(ii)	177,858		8,338		249,932
Right-of-use assets	72,915	—	(ii)	78,111	(68,970)	3,662		85,718
Prepayments, deposits and other receivables	44,050	—					(2,643)	41,407
Total non-current assets	180,701	135,055						377,057
Current assets								
Inventories	114,907	—						114,907
Trade receivables	139,802	—						139,802
Prepayments, deposits and other receivables	17,762	535						18,297
Income tax recoverable	—	40						40
Time deposits with maturity over three months	194,137	—						194,137
Cash and cash equivalents	116,220	820		(168,000)		(12,000)		(62,960)
Total current assets	582,828	1,395						404,223
TOTAL ASSETS	763,529	136,450						781,280

	The Group as at 30 September 2023	The Target Group as at 30 September 2023	Pro Forma Adjustments				The Enlarged Group as 30 September 2023
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
	(Note 1)	*(Note 2)*	*(Note 3)*	*(Note 4)*	*(Note 5)*	*(Note 6)*	
LIABILITIES							
Non-current liabilities							
Other payables	—	(2,643)				2,643	—
Lease liabilities	(63,400)	—		62,006			(1,394)
Bank borrowings	(10,900)	(7,174)					(18,074)
Deferred income tax liabilities	(2,000)	—					(2,000)
Total non-current liabilities	(76,300)	(9,817)					(21,468)
Current liabilities							
Trade and other payables	(98,849)	(1,225)					(100,074)
Bank borrowings	(27,250)	(6,322)					(33,572)
Lease liabilities	(16,519)	—		14,285			(2,234)
Current income tax liabilities	(4,231)	—					(4,231)
Total current liabilities	(146,849)	(7,547)					(140,111)
TOTAL LIABILITIES	(223,149)	(17,364)					(161,579)
NET ASSETS	540,380	119,086					619,701

Notes:

1. The amounts of assets and liabilities of the Group are extracted from the unaudited consolidated statement of financial position of the Group as at 30 September 2023 as set out in the interim report of the Company for the period ended 30 September 2023.

2. The amounts of assets and liabilities of the Target Group are extracted from the accountants' report of the Target Group set out in Appendix II to the circular.

3. On 1 December 2023, the Company entered into the sale and purchase agreement (the "**Agreement**") with KIG Real Estate Holdings Limited (the "**Vendor**") in relation to the acquisition of 70% of the entire issued share capital of the Target Company, at a fixed consideration of HK$168,000,000 in cash. The Group shall release certain time deposits with maturity over three months to satisfy the consideration for completion of the Acquisition.

   The purpose of the Acquisition is to acquire mainly factory buildings currently owned by the Target Group (the "**Factories**"). The Directors consider that under Hong Kong Financial Reporting Standard 3 (Revised) Business Combinations issued by the Hong Kong Institute of Certified Public Accountants, the Acquisition meets the concentration test as substantially all of the fair value of the gross assets of the Target Group acquired is concentrated in a group of similar identifiable assets, which are the Factories. Therefore, the Acquisition is determined by the Directors as an asset acquisition instead of business combination.

   (i) Upon completion of the Acquisition, the investment properties owned by the Target Group will become owner-occupied properties of the Group and thus the investment properties originally recorded by the Target Group of approximately HK$135,055,000 will be derecognised, and the property, plant and equipment and right-of-use assets will be recognised by the Group.

   (ii) The carrying amount of the property, plant and equipment and right-of-use assets to be recorded by the Group upon the completion of the Acquisition is analysed as follows:

	HK$'000
Net asset value of the Target Group as at 30 September 2023	119,086
Adjustment to the carrying amount of the Factories (note (a))	120,914
Adjusted net assets value of the Target Group on completion of the Acquisition (note (a))	240,000
Carrying amount of investment properties of the Target Group as at 30 September 2023	135,055
Add: Adjustment to the carrying amount of the Factories (note (a))	120,914
Carrying amount of the Factories to be recorded by the Group upon completion of the Acquisition	255,969
Allocation as follows:	
Property, plant and equipment (note (b))	177,858
Right-of-use assets (note (b))	78,111
	255,969

Notes:

(a) The consideration for 70% equity interests in the Target Group is HK$168,000,000. Accordingly, the 100% equity interests in the Target Group is HK$240,000,000 and such amount shall represent the net asset value of the Target Group upon completion of the Acquisition.

Under Asset Acquisition, the difference of approximately HK$120,914,000 between the deemed consideration of HK$240,000,000 for 100% equity interests in the Target Group and the carrying amount of the net asset value of the Target Group of approximately HK$119,086,000 shall be adjusted to the assets of the Target Group based on their respective fair values. As majority of the assets of the Target Group are the Factories, the adjustment is made solely to the carrying amount of the Factories.

(b) The allocation between property, plant and equipment and right-of-use assets is made by the Directors based on the respective appraised value as at 31 October 2023 assessed by an independent external valuer, Cushman & Wakefield Limited. The stand-alone appraised value of right-of-use assets represented the residual value of appraised value of the Factories using the market approach less the stand-alone appraised value of property, plant and equipment determined using the replacement cost approach.

The respective fair value of the property, plant and equipment and right-of-use assets at the actual completion date may be different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group. As such, the final amounts of the property, plant and equipment and right-of-use assets may be different from the amounts presented here.

4. Upon completion of the Acquisition, the Factories, which are currently leased by the Target Group to the Group, will become owner-occupied properties of the Enlarged Group. The adjustment represents the derecognition of the corresponding right-of-use assets of approximately HK$68,970,000 and lease liabilities of approximately HK$76,291,000 in aggregate in relation to the Factories owned by the Target Group prior to the Acquisition and the difference between the carrying amounts of right-of-use assets and lease liabilities of approximately HK$7,321,000 is recognised as other gain in the consolidated profit or loss by the Enlarged Group.

5. The capital gains tax represents the 10% withholding income tax on the capital gains derived from indirect transfer of equity interest in a company in the People's Republic of China shall be borne by the Group as prescribed in the Agreement. The estimated total transaction costs, including professional fees and estimated capital gains tax, amounted to HK$12,000,000 in aggregate are to be settling in cash, and shall be capitalised and included in property, plant and equipment and right-of-use assets upon completion of the Acquisition.

   The allocation between property, plant and equipment and right-of-use assets is made by the Directors based on the respective appraised value as at 31 October 2023 assessed by an independent external valuer, Cushman & Wakefield Limited as described in note (3)(ii)(b) as follows:

	HK$'000
Property, plant and equipment	8,338
Right-of-use assets	3,662
	12,000

   The respective fair value of the property, plant and equipment and right-of-use assets at the actual completion date may be different from the fair values used in the preparation of this Unaudited Pro Forma Financial Information of the Enlarged Group. As such, the final amounts of the property, plant and equipment and right-of-use assets may be different from the amounts presented here.

6. The adjustment represents the elimination of the rental deposits originally paid by the Group to the Target Group in relation to the Factories.

7. The recoverable amounts of the investment properties of the Target Group are assessed by an independent external valuer, Cushman & Wakefield Limited, based on their fair values less cost of disposal. As the recoverable amounts of the investment properties are higher than the carrying amount, accordingly, the Directors considered that there is no impairment on the Factories.

The following is the text of a report of SHINEWING (HK) CPA Limited, the independent reporting accountant, in respect of the unaudited pro forma financial information of the Enlarged Group as set out in this Appendix and prepared for the sole purpose of inclusion in this circular.

SHINEWING (HK) CPA Limited
17/F, Chubb Tower, Windsor House,
311 Gloucester Road,
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣告士打道311號
皇室大廈安達人壽大樓17樓

INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

Dear Sirs,

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of KFM Kingdom Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") and Kingdom Precision Science and Technology Holding Limited (the "**Target Company**") and its subsidiaries (collectively referred as the "**Target Group**") (the Group and the Target Group are hereafter collectively referred to as the "**Enlarged Group**") by the directors of the Company for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of assets and liabilities of the Enlarged Group as at 30 September 2023 and related notes. The applicable criteria on the basis of which the directors of the Company have compiled the unaudited pro forma financial information are described in Appendix IV to the circular of the Company dated 15 January 2024 (the "**Circular**").

The unaudited pro forma financial information has been compiled by the directors of the Company to illustrate the impact of the proposed acquisition of 70% of the entire issued share capital of the Target Company (the "**Acquisition**") on the Group's financial position as at 30 September 2023 as if the Acquisition had taken place at 30 September 2023. As part of this process, information about the Group's and the Target Group's financial position has been extracted by the directors of the Company from the Group's condensed consolidated financial statements for the six months ended 30 September 2023, on which an interim report has been published, and the accountants' report on the Target Group included in Appendix II to this Circular, respectively.

Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors of the Company are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("**AG7**") issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**").

Our Independence and Quality Management

We have complied with the independence and other ethical requirement of the Code of Ethics for Professional Accountants issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

The firm applies Hong Kong Standard on Quality Management ("**HKSQM**") 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements, which requires the firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Reporting Accountants' Responsibilities

Our responsibility is to express an opinion, as required by paragraph 29(7) of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus" issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the directors of the Company have compiled the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Listing Rules and with reference to AG7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in the Circular is solely to illustrate how the Acquisition might have affected the financial information of the Group had the Acquisition been undertaken at the beginning of the period concerned or at the date stated. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, we do not provide any assurance that the actual outcome of the Acquisition would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related unaudited pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Lau Kai Wong
Practising Certificate Number: P06623

Hong Kong
15 January 2024

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 value of the property interest to be acquired by the Company as at 31 October 2023.

CUSHMAN & WAKEFIELD
戴德梁行

27th Floor
One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

15 January 2024

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

Dear Sirs,

INSTRUCTIONS, PURPOSE & VALUATION DATE

In accordance with the instructions from KFM Kingdom Holdings Limited (the "**Company**") for us to value the target property to be acquired by the Company or its subsidiaries (hereinafter together referred to as the "**Group**") in the People's Republic of China (the "**PRC**"), 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 you with our opinion of the market value of such property as at 31 October 2023 (the "**Valuation Date**").

BASIS OF VALUATION

Our valuation of the property represents its market value which in accordance with the HKIS Valuation Standards 2020 published by the Hong Kong Institute of Surveyors (the "**HKIS**") is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller 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 HKIS Valuation Standards 2020 Edition published by the Hong Kong Institute of Surveyors.

Our valuation of the property is on an entirely interest basis.

In valuing the property, we have complied with the requirements set out in Chapter 5 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"); Practice Note 12 of the Listing Rules and Rule 11 of The Code on Takeovers and Mergers and Share Buybacks published by the Securities and Futures Commission.

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 sale, or any element of value available only to a specific owner or purchaser.

In the course of our valuation, we have obtained and relied on the information and advice and the legal opinion given by the Company's PRC legal adviser, Allbright Law Offices (上海市錦天城(蘇州)律師事務所), regarding the titles to the property and the interests of the Company to be held in the property in the PRC. Unless otherwise stated in the legal opinion, 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 or assign the property for the whole of the respective unexpired land use term as granted and that any premium payable has already been fully paid.

In respect of the property situated in the PRC, the status of titles and grant of major certificates, approvals and licences, in accordance with the information provided by the Company are set out in the notes of the valuation report. We have assumed that all consents, approvals and licences from relevant government authorities for the developments 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.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoing of an onerous nature which could affect its value.

METHOD OF VALUATION

The selection principle of valuation method is reliant upon market dynamics (nature and availability of market-derived data/comparables and the circumstances relating to the market for the asset) prevailing as at the Valuation Date. As market conditions change, it may become necessary to change to a more suitable model(s) or to modify the previous model.

Market Comparison Method is the best valuation method when there is sufficient relevant evidence to show the price levels that buyers are willing to pay for similar properties in the market.

However, when there is little relevant sales evidence, in particular at an early stage of property development, other methods such as cost approach may be used.

The Suzhou industrial property market has been developing for some years and has now become relatively more mature with readily available sales transactions to justify the use of Market Comparison Method this time.

Market Comparison Method involves more market-driven inputs to fairly and reasonably reflect the market value of a property whilst cost approach is less market-driven and thus not used.

Market Comparison Method is appropriate to reflect a fair and reasonable value of the property in this valuation, and such method is in line with industry practice.

In valuing the property, we have used Market Comparison Method assuming sale of the property in its existing state by making reference to comparable sales evidence as available in the relevant market subject to appropriate adjustments including but not limited to location, size and other relevant factors. This method is in line with the market practice.

Key assumptions adopted in Market Comparison Method for the property:

Use	**Unit Market Value** *RMB/sq m*
Industrial	RMB4,300

We have examined current industrial transactions and our search was based on similar type of industrial properties traded recently in the vicinity of the subject property.

In the course of our valuation, we have considered the differences between the subject property and the comparable properties in terms of various factors and accordingly made due adjustments, including but not limited to the transaction status, location and environment, size, etc. If the comparable is similar to the subject property, no adjustment is necessary. However, if the subject property is inferior to the comparable property, downward adjustment would be made in order to derive the lower unit rate of the subject property. Likewise, if the subject property is superior to the comparable property, upward adjustment would be made.

SOURCE OF INFORMATION

We have relied to a very considerable extent on the information given by the Company and have accepted advice given to us on such matters as planning approvals, statutory notices, orders, easements, tenure, lettings, licences, particulars of occupancy, identification of land and building, site and floor plans, site and floor areas, number of parking spaces and all other relevant matters.

Dimensions, measurements and areas included in the valuation report are based on the copies of documents or other information provided to us by the Company 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 Company which is material to the valuation. We were also advised by the Company that no material facts have been omitted from the information provided.

TITLE INVESTIGATION

We have been provided with extracts of documents relating to the property in the PRC. However, we 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 and we have therefore relied on the advice given by the Company and the advice in the legal opinion given by the Company's legal adviser, Allbright Law Offices, regarding the interests of the Company to be held in the property in the PRC.

SITE INSPECTION

Ms. Liz Xu (Chongqing University Master Degree in Finance), Valuer of our Suzhou Office, inspected the exterior and, wherever possible, the interior of the property on 19 September 2023. She has about 3 years' experience in property valuation in the PRC. No structural survey 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.

Unless otherwise stated, we have not carried out on-site measurements 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.

POTENTIAL TAX LIABILITIES

As advised by the Company, the potential tax liabilities which would arise on the direct disposal of the property held by the Group at the amounts valued by us mainly comprise the following:

- Enterprise income tax at 25% on the gain.
- Land appreciation tax at progressive rates from 30% to 60% on the appreciation of property value.

We would point out that the above-said potential tax liabilities only represent our general understanding for your reference. We would therefore advise you to consult tax adviser regarding the precise execution of the tax matters.

As confirmed by the Group, the property is intended to be held either for investment or owner-occupation. Therefore, the likelihood of the relevant tax liabilities being crystallised is remote as the Group has no plan for disposal of the property yet.

According to our established practice, in the course of our valuations, we have neither verified nor taken into account such tax liabilities. The precise tax implication will be subject to prevailing rules and regulations at the time of disposal.

CURRENCY

Unless otherwise stated, all monetary amounts stated in this valuation report are in Renminbi ("**RMB**"), the official currency of the PRC.

OTHER DISCLOSURE

We hereby confirm that Cushman & Wakefield Limited and the undersigned 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 Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

We enclose herewith our valuation report for your attention.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited
Grace Lam
MRICS, MHKIS, RPS (GP)
Senior Director
Valuation & Advisory Services Greater China

Note: Ms. Grace Lam is a Member of the Royal Institution of Chartered Surveyors, a Member of the Hong Kong Institute of Surveyors and a Registered Professional Surveyor (General Practice). Ms. Lam has over 30 years of experience in the professional property valuation and advisory services in the Greater China region and various overseas countries. 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 acquired by the Group for owner occupation in the PRC

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 October 2023
Factory Phases I, II and III at No. 881 Jinshan South Road, High-Tech District, Suzhou City, Jiangsu Province, the PRC (中華人民共和國，江蘇省，蘇州市，高新區金山南路881號廠房一、二及三期)	The property comprises factories with phases I and II completed in about 2015 (with approximate age of eight years) and phase III completed in about 2022 (with approximate age of one year), which were all erected upon a parcel of industrial land with a total site area of 52,000 square-metres ("**sq m**"). The property is located at Jinshan Road South and Xiangjiang Road West, within High-Tech District in Suzhou City. The total gross floor area ("**GFA**") of the property is 58,694.72 sq m. The details are as follows: **Phase** — **Permitted GFA** *(sq m)* I and II — 48,496.64 III — 10,198.08 **Total** — **58,694.72** The land use rights of the property have been granted for a term due to expire on 2 May 2063 for industrial use.	As at the Valuation Date, the entire property was subject to a single tenancy for a term of 6 years from 1 November 2021 to 31 October 2027 at total monthly rent of approximately RMB1,389,000, exclusive of building management fee and value-added tax.	RMB252,000,000 (equivalent to approximately HK$274,680,000) (RENMINBI TWO HUNDRED FIFTY TWO MILLION) (EQUIVALENT TO APPROXIMATELY HONG KONG DOLLARS TWO HUNDRED SEVENTY FOUR MILLION SIX HUNDRED EIGHTY THOUSAND) (Exchange rate of 1RMB = 1.09HK$ between RMB and HK$ as of the Valuation Date is based on The People's Bank of China provided by the Company)

Notes:

(1) According to Certificate of State-owned Land Use Rights No. (2013) 006838 issued by the Suzhou Municipal Government (蘇州市人民政府) on 20 June 2013, the land use rights of the property comprising an attributable site area of 52,000 sq m have been vested in Kingdom Precision Science and Technology (Suzhou) Company Limited, i.e. a subsidiary of Kingdom Precision Science and Technology Holding Limited (the Target Company), for a term due to expire on 2 May 2063 for industrial use.

(2) According to Certificate of Real Estate Ownership No. (2017) 5070645 issued by the Suzhou Land and Resources Bureau (蘇州市國土資源局) on 20 September 2017, the real estate ownership of portions of the property comprising a parcel of land with total site area of 52,000 sq m and a total gross floor area of 48,496.64 sq m has been vested in Kingdom Precision Science and Technology (Suzhou) Company Limited for a term due to expire on 2 May 2063 for industrial use.

(3) According to Construction Permit for Construction Works No. (320505202104150401) issued to Kingdom Precision Science and Technology (Suzhou) Company Limited on 15 April 2021, the construction works of the factory phase III with a total gross floor area of 10,198.08 sq m was permitted for construction.

(4) According to the Construction Works Completion Examination Form dated 18 August 2022, the construction works of the factory phase III with a total gross floor area of 10,198.08 sq m was completed.

(5) According to Business Licence No. 1613801 (320512400000798) dated 20 December 2013, Kingdom Precision Science and Technology (Suzhou) Company Limited was established as a limited company on 14 January 2013 with a registered capital of USD20 million for a valid operating period from 14 January 2013 to 13 January 2033.

(6) We have been provided with a legal opinion on the title of the property issued by the Company's PRC legal adviser, Allbright Law Offices, which contains, inter-alia, the following information:

(a) Kingdom Precision Science and Technology (Suzhou) Company Limited has obtained the real estate ownership as recorded in Real Estate Ownership No. (2017) 5070645 issued by the Suzhou Land and Resources Bureau;

(b) According to Contract Suzhongxin Mortgage No. (2023) 349 (2023蘇中新貸字第349號), the land use rights together with the building ownership are subject to a mortgage by Kingdom Precision Science and Technology (Suzhou) Company Limited in favour of Bank of China Limited, Suzhou High-tech Industrial Development Zone Branch (中國銀行股份有限公司蘇州高新技術產業開發區支行);

(c) Apart from the mortgages disclosed in this legal opinion, there are no ownership disputes or uncertainties regarding ownership for Kingdom Precision Science and Technology (Suzhou) Company Limited in the exercise of the aforementioned property rights; and

(d) Phase III factory construction project has been granted the necessary approvals or permits from the relevant authorities and the final acceptance inspection has been completed. The establishment of property rights for the phase III factory is pending registration in accordance with legal requirements, and its effectiveness will occur upon registration in the real estate register.

(7) The status of title and grant of major approvals and licences in accordance with the information provided by the Company are as follows:

Certificate of State-owned Land Use Rights	Yes
Certificate of Real Estate Ownership	Yes (Phases I and II)
Construction Permit for Construction Works	Yes (Phase III)
Construction Works Completion Examination Form	Yes (Phase III)
Business Licence	Yes

(8) In valuing the market value of the property, Market Comparison Method is adopted. We have made reference to relevant sales comparables which are selected based on the following criteria:

(a) land use — comparables of industrial use;

(b) time — comparables transacted since second half of 2022;

(c) location — comparables of similar accessibility as the property within radial distance of 50 kilometres; and

(d) size — floor area of comparables within 30,000–70,000 sq m.

We have identified two relevant transaction comparables. The unit values of the identified comparables range from about RMB4,349/sq m to RMB4,525/sq m. We have also made reference to recent asking comparable cases in the vicinity and identified one relevant asking comparable. The asking unit value of the identified comparable, located at Longziwan Road with a floor area of 35,000 sq m, is RMB4,570/sq m. Details of the transaction comparables considered are listed below:

No.	Location	Transaction Time	Floor Area *(sq m)*	Land Use	Unit Value *(RMB/sq m)*
1	Wujiang District	September 2022	47,331.70	Industrial	4,525
2	Gongyeyuan District	August 2022	60,467.52	Industrial	4,349

Our concluded unit value of the property is about RMB4,300/sq m.

The major adjustments made to arrive at our valuation, include but not limited to, are summarised below:

Adjustment	Range
Location	–5% to +2%
Size	–2% to 0

The general basis of adjustment is that if the property is better than the comparable, an upward adjustment is made. Alternatively, if the property is inferior to or less desirable than the comparable, a downward adjustment is made.

The identified comparables represent an exhaustive list based on the above-mentioned selection criteria. Adjustment details are illustrated below:

In terms of location, Comparable 1 is away from the community centre and main roadway, while the subject property is superior, thus upward adjustment is made to comparable 1. Comparable 2 is located at an industrial park within proximity to the community centre, while the subject property is inferior thus downward adjustment is made to Comparable 2.

In terms of size, adjustments have been made to reflect the marketability. Usually, smaller sized properties with lower total prices have a larger market, good liquidity and are relatively easier to sell, which leads to a higher unit price. Comparable 1 is smaller in size than the subject property, thus downward adjustment is made to Comparable 1.

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 valuer, in connection with its opinion of value of the 100% equity interests in Kingdom Precision Science and Technology Holding Limited as at October 31, 2023.

CUSHMAN & WAKEFIELD
戴德梁行

27th Floor
One Island East
Taikoo Place
18 Westlands Road
Quarry Bay
Hong Kong

January 15, 2024

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

Dear Sirs,

Re: Valuation of the 100% equity interest in Kingdom Precision Science and Technology Holding Limited

In accordance with the instructions from KFM Kingdom Holdings Limited (referred to as the "**Company**") to us to conduct a valuation of the 100% equity interest in Kingdom Precision Science and Technology Holding Limited (referred to as the "**Target Company**"), we are pleased to report that we have made relevant enquiries and obtained necessary information for the purpose of providing our valuation as at October 31, 2023 (referred to as the "**Valuation Date**").

This report states the purpose and basis of valuation, scope of work, source of information, background of the Target Company, major assumptions, valuation methodology, limiting conditions, and presents our opinion of value.

1. PURPOSE OF VALUATION

The purpose of this valuation is to value the 100% equity interest in the Target Company for your acquisition reference purpose only.

We assume no responsibility whatsoever to any person other than the Company in respect of, or arising out of, the contents of this report. If any party chooses to rely in any way on the contents of this report, they do so entirely at their own risk.

2. BASIS OF VALUATION

We have carried out the valuation on the basis of market value in accordance with the International Valuation Standards. Market value is defined as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

3. SCOPE OF WORK

Our valuation conclusion is based on the assumptions stated herein and on information provided by the management of the Company, and/or its representatives (together referred to as the "**Management**").

In the course of our valuation work, the following processes had been conducted to evaluate the reasonableness of the adopted basis and assumptions provided by the Management:

- Discussed with the Management and obtained relevant financial information in respect of the Target Company;
- Examined the relevant bases and assumptions of the financial information in respect of the Target Company;
- Conducted appropriate research to obtain sufficient market data and statistical figures and prepared the valuation based on generally accepted valuation procedures and practices; and
- Presented the purpose and basis of valuation, scope of work, source of information, background of the Target Company, major assumptions, valuation methodology and our opinion of value in this report.

4. SOURCE OF INFORMATION

In arriving at our assessment of the value of the 100% equity interest in the Target Company, we have relied on the following information that was provided to us by the Management, as well as other publicly available information that we have gathered through our own research, including, but not limited to, the following:

- Copies of business licenses and other relevant documents of the Target Company;
- Unaudited financial statements of the Target Company as at the Valuation Date provided by the Management; and
- Other public information relating to the valuation.

5. BACKGROUND OF THE TARGET COMPANY

The Target Company is an investment holding company incorporated in BVI with limited liability. The subsidiary of the Target Company holds a factory building in Suzhou which is currently rented to a subsidiary of the Company.

The consolidated balance sheet of the Target Company as at the Valuation Date provided by the Management was as follows:

	As at October 31, 2023 Book Value *(HK$)*
Non-current assets	
Investment properties	136,038,595
	136,038,595
Current assets	
Prepayments, deposits and other receivables	165,101
Income tax recoverable	400,340
Cash and cash equivalents	1,170,770
	1,736,211
Total assets	**137,774,806**
Current liabilities	
Accruals, provisions and other payables	7,435,868
Amount due to related company	200,001
Bank borrowings	10,573,000
	18,208,869
Total liabilities	**18,208,869**

6. MAJOR ASSUMPTIONS

We have adopted certain specific assumptions in our valuation and the major ones are as follows:

- The information provided has been prepared on a reasonable basis after due and careful consideration by the Management;

- We have relied on the advice given by the Company's PRC legal adviser regarding the relevant legal approvals and business certificates or licenses to operate the business in the localities in which the Target Company operates and the Company's PRC legal adviser did not identify any legal impediment in the Target Company's operation;

- The Target Company will obtain and renew the relevant legal approvals and business certificates or licenses upon expiry;

- There will be no major changes in the current taxation laws in the localities in which the Target Company operates or intends to operate and that the rates of tax payable shall remain unchanged and that all applicable laws and regulations will be complied with;

- There will be no major changes in the political, legal, economic or financial conditions in the localities in which the Target Company operates or intends to operate, which would adversely affect the continuity of the Target Company's operation;

- Interest rates and exchange rates in the localities for the operation of the Target Company will not differ materially from those presently prevailing;

- The core business operation of the Target Company will not differ materially from those of present or expected;

- The Target Company will continue to hold the real estate assets and no costs related to disposal of assets is assumed when valuing the equity interest; and

- The information regarding the Target Company provided by the Management is true and accurate.

7. VALUATION METHODOLOGY

There are generally three accepted approaches to obtain the market value of the 100% equity interest in the Target Company, namely the market approach, the income approach and the asset-based approach. Each of these approaches is appropriate in one or more circumstances, and sometimes, two or more approaches may be used together. Whether to adopt a particular approach will be determined by the most commonly adopted practice in valuing business entities that are similar in nature.

Market Approach

The market approach values a business entity by comparing prices at which other business entities of a similar nature changed hands in arm's length transactions. The underlying theory of this approach is that one would not pay more than one would have to for an equally desirable alternative. The market approach comprises two methods namely guideline (or comparable) company method and similar transaction method.

The guideline company method focuses on analyzing the data and valuation multiples of companies that can be considered comparable to those being valued. Adjustments are made to the comparable companies to compensate for differences between those companies and the company being valued. Finally, appropriate valuation multiples are applied to the subject company's normalized financial data to arrive at an indication of the value of the subject company.

The similar transaction method measures value based on what other purchasers in the market have paid for companies that can be considered reasonably similar to those being valued. When the similar transaction method is utilized, data are collected on the prices paid for reasonably comparable companies. Adjustments are made to the comparable companies to compensate for differences between those companies and the company being valued. The application of the similar transaction method results in an estimate of the price reasonably expected to be realized from the sale of the company.

Income Approach

The income approach focuses on the economic benefits due to the income producing capability of the business entity. The underlying theory of this approach is that the value of the business entity can be measured by the present worth of the economic benefits to be received over the useful life of the business entity. Based on this valuation principle, the income approach estimates the future economic benefits and discounts them to their present values using a discount rate appropriate for the risks associated with realizing those benefits.

Alternatively, this present value can be calculated by capitalizing the economic benefits to be received in the next period at an appropriate capitalization rate. This is subject to the assumption that the business entity will continue to maintain stable economic benefits and growth rate.

Asset-Based Approach

The asset-based approach is based on the general concept that the earning power of a business entity is derived primarily from its existing assets. The assumption of this approach is that when each of the elements of working capital, tangible and intangible assets is individually valued, their sum represents the value of a business entity and equals to the value of its invested capital. In other words, the value of the business entity is represented by the money that has been made available to purchase the business assets needed.

This money comes from investors who buy stocks of the business entity and investors who lend money to the business entity. After collecting the total amounts of money from equity and debt, and converted into various types of assets of the business entity for its operation, their sum equals the value of the business entity.

Selection of Valuation Methodology

The selection of a valuation approach is based on, among others, the quantity and quality of information provided, access to available data, availability of relevant market transactions, type and nature of subject assets, purpose and objective of the valuation and professional judgment and technical expertise. Among the three approaches, we consider that asset-based approach is more appropriate for valuing the entire equity interest in the Target Company as the major assets owned by the Target Company are real estate assets.

Valuation Summary

The adopted values and valuation methodologies for each of the balance sheet items of the Target Company are listed below:

	As at October 31, 2023 Market Value *(HK$)*	**Remark**
Non-current assets		
Investment properties	274,680,000	1
	274,680,000	
Current assets		
Prepayments, deposits and other receivables	165,101	2
Income tax recoverable	400,340	2
Cash and cash equivalents	1,170,770	2
	1,736,211	
Total assets	**276,416,211**	
Current liabilities		
Accruals, provisions and other payables	7,435,868	2
Amount due to related company	200,001	2
Bank borrowings	10,573,000	2
	18,208,869	
Total liabilities	**18,208,869**	
Net assets (rounded)	**258,000,000**	

Remarks:

1. For Investment properties, please refer to the property valuation report separately prepared by Cushman & Wakefield Limited.

2. Book values shown on the management accounts of the Target Company as at the Valuation Date provided by the Management were adopted. We have not performed a valuation exercise.

3. Land appreciation tax and discount for lack of marketability were not considered in this valuation.

8. LIMITING CONDITIONS

The valuation reflects facts and conditions existing at the Valuation Date. Subsequent events have not been considered and we are not required to update our report for such events and conditions.

To the best of our knowledge, all data set forth in this report are reasonable and accurately determined. The data, opinions, or estimates identified as being furnished by others that have been used in formulating this analysis are gathered from reliable sources; yet, no guarantee is made nor liability assumed for their accuracy.

We have relied to a considerable extent on information provided by the Management, including written information and oral representation, in arriving at our opinion of value. We are not in the position to verify the accuracy of all information provided to us. However, we have had no reason to doubt the truth and accuracy of the information provided to us and to doubt that any material facts have been omitted from the information provided. No responsibilities for the operation and financial information that have not been provided to us are accepted.

Our conclusion of the market value was derived from generally accepted valuation procedures and practices that rely substantially on the use of various assumptions and the consideration of many uncertainties, not all of which can be easily quantified or ascertained.

9. REMARKS

Unless otherwise stated, all monetary amounts stated in this valuation report are in Hong Kong Dollars ("**HK$**").

Exchange rate of 1RMB = 1.09HK$ between RMB and HK$ as of the Valuation Date is based on The People's Bank of China provided by the Management.

We hereby confirm that we have neither present nor prospective interests in the Company, the Target Company or the value reported herein.

10. OPINION OF VALUE

Based on the investigation and analysis stated above and on the valuation method employed, the market value of the 100% equity interest in the Target Company as at the Valuation Date is, in our opinion, reasonably estimated as **HK$258,000,000 (HONG KONG DOLLARS TWO HUNDRED AND FIFTY EIGHT MILLION ONLY)**.

Yours faithfully,
For and on behalf of
Cushman & Wakefield Limited

Bruce Oong
CPA
Senior Director
Valuation & Advisory Services, Greater China

This report has been reviewed by

Grace S.M. Lam
MRICS, MHKIS, RPS (GP)
Senior Director
Valuation & Advisory Services, Greater China

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

15 January 2024

The Board of Directors

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

Dear Sir or Madam,

We refer to the circular of dated 15 January 2024 (the "**Circular**") issued by KFM Kingdom Holdings Limited (the "**Company**") in relation to, among others, the major and connected transaction in relation to the KPST Acquisition; and (ii) the valuation (the "**Valuation**") of the market value of the 100% equity interest in Kingdom Precision Science and Technology Holding Limited prepared by Cushman & Wakefield Limited (the "**Valuer**") (the "**Valuation Report**"), details of which are set out in Appendix VIA to the Circular. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless otherwise specified.

This letter constitutes a report pursuant to Rule 11.1(b) of the Takeovers Code and sets out our assessment and review of the qualifications and experience of the Valuer, and the key responsible valuers for the Valuation, being Mr. Bruce Oong and Ms. Grace S.M. Lam. We have conducted reasonable checks and assessment on the relevant qualification, experience and expertise of the Valuer, Mr. Bruce Oong and Ms. Grace S.M. Lam, including, among other things, reviewing the online records and certificates of the professional licences and other supporting documents on the qualification and experience of the Valuer, Mr. Bruce Oong and Ms. Grace S.M. Lam, and discussing with representatives of the Valuer on the qualifications and experience of the Valuer, Mr. Bruce Oong and Ms. Grace S.M. Lam and confirm that their qualifications and experience meet the applicable legal and regulatory requirements for issuing the Valuation Report. We are also satisfied that the Valuer, Mr. Bruce Oong and Ms. Grace S.M. Lam are suitably qualified and experienced with sufficient current knowledge, skills and understanding necessary to undertake the Valuation competently.

In addition, we have reviewed the Valuation and its bases and assumptions and have discussed with the Company and the Valuer. We are satisfied that the Valuation was made after due care and consideration.

Yours faithfully,
For and on behalf of
Altus Capital Limited

Jeanny Leung	**Leo Tam**
Responsible Officer	*Responsible Officer*

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.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS

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

As at the Latest Practicable Date, Directors or chief executive of the Company who had interests or 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 (the "**Model Code**") set out in Appendix 10 to the Listing Rules were as follows:

Long positions in Shares and underlying Shares

Name of Director	Capacity	Number of Shares held(1)	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Mr. Peter Sun(2)	Interest in controlled corporation	449,999,012 (L)	75.00%

Notes:

1. The letter "L" denotes a person's or a corporation's long position in the Shares.

2. Pursuant to the MF SPA, Massive Force conditionally agreed to sell and KIG Real Estate conditionally agreed to purchase 449,999,012 Shares. Accordingly, KIG Real Estate became interested in such Shares which it had the right to take the same. As at the Latest Practicable Date, Mr. Peter Sun beneficially owned approximately 45.4% of the entire issued share capital of KIG Real Estate. Therefore, Mr. Peter Sun is deemed or taken to be interested in all the Shares held or interested by KIG Real Estate for the purposes of the SFO.

Long positions in shares of associated corporation

Name of Director	Name of associated corporation	Capacity/ Nature of interest	Number of shares interested or held	Approximate percentage of interest in the issued shares as at the Latest Practicable Date
Mr. Peter Sun	KIG Real Estate	Beneficial owner	4,490	45.40%

(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 of the Company 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 follows:

Long positions in Shares and underlying Shares

Name of person	Capacity	Number of Shares held(1)	Approximate percentage of issued share capital of the Company as at the Latest Practicable Date
Massive Force(2)	Beneficial owner	449,999,012 (L)	75.00%
KIG Real Estate(3)	Beneficial owner	449,999,012 (L)	75.00%
Kwok Wing Yi	Interest of spouse	449,999,012 (L)	75.00%

Notes:

1. The letter "L" denotes a person's or a corporation's long position in the Shares.

2. These Shares were held by Massive Force Limited, which is owned as to 30%, 30% and 40% by Pan Tihui, Yu Hsuan-jung and Cheung Yuen Tung.

3. Pursuant to the MF SPA, Massive Force conditionally agreed to sell and KIG Real Estate conditionally agreed to purchase 449,999,012 Shares. Accordingly, KIG Real Estate became interested in such Shares which it had the right to take the same. Therefore, KIG Real Estate is deemed, or taken to be interested in such Shares for the purpose of the SFO.

4. Ms. Kwok Wing Yi is the spouse of Mr. Peter Sun. Therefore, Ms. Kwok Wing Yi is deemed, or taken to be interested in all the Shares which are interested by Mr. Peter Sun for the purpose of the SFO.

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 of the Company 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 of the Company 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.

3. COMPETING INTEREST

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

4. 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).

5. DIRECTORS' INTERESTS IN CONTRACTS OR ASSETS

As at the Latest Practicable Date, save for the KPST SPA,

(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 2023 (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.

6. 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 operations or financial conditions of the Group.

7. QUALIFICATION AND CONSENTS OF EXPERTS

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

Name	**Qualification**
Altus Capital Limited	A corporation licensed to carry out type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO
SHINEWING (HK) CPA Limited	Certified public accountants
Cushman & Wakefield Limited	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 2023 (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 their reports or letters or their name and logo in the form and context in which they respectively appear.

8. MATERIAL CONTRACTS

As at the Latest Practicable Date, save as the KPST SPA, the Company or any of its subsidiaries did not enter into any contracts (not being contracts in the ordinary course of business) within two years immediately preceding the Latest Practicable Date and are or may be material.

9. DOCUMENTS ON DISPLAY

Copies of the following documents will be published on the websites of the Company (www.kingdom.com.hk) and the Stock Exchange (www.hkexnews.hk) from the date of this circular until 14 days thereafter:

(a) the KPST SPA, being the material contract referred to in paragraph 8 of this appendix;

(b) the letter from the Board, the text of which is set out on pages 5 to 19 of this circular;

(c) the letter of recommendation from the Independent Board Committee, the text of which is set out on pages 20 to 21 of this circular;

(d) the letter from the Independent Financial Adviser, the text of which is set out on pages 22 to 41 of this circular;

(e) the accountant's reports on the Target Group, the text of which is set out in Appendix II to this circular;

(f) the report on the unaudited pro forma financial information of the Group upon KPST Completion, the text of which is set out in Appendix IV to this circular;

(g) the valuation reports on the Factories and the Target Company, the text of which is set out in Appendices V and VIA to this circular respectively;

(h) the letter from the Independent Financial Adviser in respect of the valuation report on the Target Company, the text of which is set out in Appendix VIB to this circular;

(i) the written consents referred to in paragraph 7 of this appendix; and

(j) this circular.

10. 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 SMP Partners (Cayman) Limited at Royal Bank House — 3rd Floor, 24 Shedden Road, P, O. Box 1586, Grand Cayman KY1-1110, Cayman Islands.

(e) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong.

(f) The English text of this circular shall prevail over its Chinese text.

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

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3816)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of KFM Kingdom Holdings Limited (the "**Company**") will be held at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong on Wednesday, 31 January 2024 at 10:00 a.m. for the purpose of considering and, if thought fit, passing the following ordinary resolution. Capitalised terms contained in the circular dated 15 January 2024 issued by the Company shall have in the same meanings when used herein unless otherwise specified.

ORDINARY RESOLUTION

"**THAT** the KPST SPA, a copy of which has been produced to the EGM and marked "A" and initialed by the chairman of the EGM for identification purpose, and the transaction as contemplated thereunder be and are hereby approved, confirmed and ratified; and any one Director be and is hereby authorised to do all such acts and things and to sign and execute all such documents, instruments and agreements for and on behalf of the Company as he/she may consider necessary, appropriate, desirable or expedient to give effect to or in connection with this resolution."

By order of the Board
KFM Kingdom Holdings Limited
Zhang Haifeng
Chairman

Hong Kong, 15 January 2024

Principal place of business in Hong Kong:
Workshop C, 31/F, TML Tower 3
Hoi Shing Road, Tsuen Wan
New Territories, Hong Kong

Notes:

1. A shareholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint another person as his/her/its proxy to attend and vote instead of him/her/it. A shareholder who is the holder of two or more shares may appoint more than one proxy to represent him/her/it and vote on his/her/its behalf at the meeting. A proxy need not be a member of the Company but must be present in person to represent him/her/it.

2. The instrument appointing a proxy shall be in writing under the hand of the appointer or of his/her/its attorney duly authorised in wiring or, if the appointer is a corporation, either under its seal or under the hand of an officer, attorney or other person authorised to sign the same.

3. To be valid, the form of proxy together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power or authority must be deposited at the offices of the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited (the "**Branch Registrar**") at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong no later than 48 hours before the time of meeting (i.e. no later than 10:00 a.m. on Monday, 29 January 2024 (Hong Kong time)) or any adjournment.

4. Completion and return of the form of proxy will not preclude a shareholder from attending and voting in person at the meeting or any adjournment thereof and in such event, the instrument appointing a proxy shall be deemed to be revoked.

5. In the case of joint registered holders of a share in the Company, any one of such joint holders may vote, either in person or by proxy, in respect of such Share as if he/she/it were solely entitled thereto or if more than one of such joint holders are present at the meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

6. For the purpose of ascertaining Shareholders' right to attend and vote at the EGM, the register of members of the Company will be closed from Friday, 26 January 2024 to Wednesday, 31 January 2024, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the EGM, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, namely Tricor Investor Services Limited at 17th Floor, Far East Finance Centre, No. 16 Harcourt Road, Hong Kong for registration not later than 4:30 p.m. on Thursday, 25 January 2024.

7. Where a "black" rainstorm warning is in force or a tropical cyclone warning signal number 8 or above is hoisted or remains hoisted or "extreme conditions" caused by super typhoons is in force at 8:00 a.m. on the date of the EGM, the EGM will be postponed. The Company will publish an announcement on the website of the Company (www.kingdom.com.hk) and the Stock Exchange (www.hkexnews.hk) to notify the Shareholders of the date, time and place of the rescheduled meeting. The EGM will be held as scheduled when an amber or red rainstorm warning signal is in force. Having considered their own situations, Shareholders should decide on their own whether they would attend the EGM under any bad weather condition and if they do so, they are advised to exercise care and caution.

As at the date of this notice, the board of Directors comprises the executive Directors: Mr. Sun Kwok Wah Peter and Mr. Wong Chi Kwok; the non-executive Director: Mr. Zhang Haifeng (Chairman); and the independent non-executive Directors: Mr. Wan Kam To, Ms. Zhao Yue and Mr. Shen Zheqing.