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KFM KINGDOM HOLDINGS LIMITED

KFM金德控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 3816)

MAJOR AND CONNECTED TRANSACTIONS

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On 13 August 2021 (after trading hours), Able Elite entered into the Disposal Agreement with Cosmic Master, pursuant to which Cosmic Master has conditionally agreed to acquire and Able Elite has conditionally agreed to sell the Sale Shares, which represented the entire issued share capital of the Target Company, at the Consideration, being HK\$66,000,000.

As at the date of this announcement, the Target Company was indebted to the Group (excluding the Target Companies) the Existing Loan. It was one of the undertakings by Cosmic Master under the Disposal Agreement that Cosmic Master shall procure the Target Company to settle in full the Existing Loan within three years from Completion.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Lam, being a director of a subsidiary of the Company, is the ultimate beneficial owner of Cosmic Master. Thus, Cosmic Master is a deemed connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (i) Cosmic Master is a connected person at the subsidiary level; (ii) the Board has approved the Disposal; and (iii) the Directors (including the independent non-executive Directors) have confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole, the Disposal is subject to the announcement, reporting, but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Nevertheless, as one of the applicable percentage ratios for the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Subject to and upon Completion, the Target Companies will become wholly owned subsidiaries of Cosmic Master, thus each of the Target Companies will become a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Existing Loan will also constitute a connected transaction for the Company. By virtue of Rule 14A.101 of the Listing Rules, since (i) Cosmic Master is a connected person at the subsidiary level upon Completion; (ii) the Board has approved the Existing Loan; and (iii) the Directors (including the independent non-executive Directors) have confirmed that the terms of the Existing Loan are fair and reasonable and the Existing Loan is on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole, the Existing Loan is subject to the announcement, reporting, but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Nevertheless, as the applicable percentage ratios calculated on an annual basis are more than 5% but less than 25%, the transaction constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, such transaction is subject to announcement and reporting requirements, but is exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolution to approve the Disposal Agreement if the Company was to convene a general meeting for such approval. Massive Force Limited, being the controlling Shareholder holding 449,999,012 Shares (representing approximately 75% of the issued share capital of the Company as at the date of this announcement), has given its written approval for the Disposal Agreement, and such written approval is accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules.

A circular containing, among other things, further particulars of the Disposal will be despatched to the Shareholders on or before 3 September 2021.

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

MAJOR AND CONNECTED TRANSACTIONS

On 13 August 2021 (after trading hours), Able Elite entered into the Disposal Agreement with Cosmic Master, pursuant to which Cosmic Master has conditionally agreed to acquire and Able Elite has conditionally agreed to sell the Sale Shares, which represented the entire issued share capital of the Target Company, at the Consideration, being HK\$66,000,000.

THE DISPOSAL AGREEMENT

Details of the Disposal Agreement and the transactions contemplated thereunder are set out below:

Date: 13 August 2021

Parties: (1) Cosmic Master (as purchaser); and
(2) Able Elite (as vendor).

As at the date of this announcement, Mr. Lam, being a director of a subsidiary of the Company, is the ultimate beneficial owner of Cosmic Master. Thus, Cosmic Master is deemed to be a connected person of the Company.

Subject matter: Pursuant to the Disposal Agreement, Cosmic Master has conditionally agreed to acquire and Able Elite has conditionally agreed to sell the Sale Shares, which represented the entire issued share capital of the Target Company.

The Target Company is a limited liability company, which was incorporated in BVI. The Target Company has an issued and paid-up share capital of US\$2 comprising 2 ordinary shares of US\$1.00 each, which are beneficially owned by Able Elite, a directly wholly-owned subsidiary of the Company.

Consideration: The Consideration for the sale and purchase of the Sale Shares equals to the sum of HK\$66,000,000. The Consideration shall be paid by the Purchaser or its designated person in the following manner:

- (1) HK\$30,000,000 shall be payable within seven Business Days from the date of the Disposal Agreement as a deposit and part payment (the “**Deposit**”); and
- (2) the remaining balance of HK\$36,000,000 shall be payable on the date of Completion.

The Consideration was determined after arm’s length negotiations between Able Elite and Cosmic Master with reference to, among others:

- (i) the unaudited net asset value of the Target Companies of approximately HK\$138.3 million as at 31 March 2021; and
- (ii) the appraised value of the Target Companies conducted by an independent valuer of approximately HK\$65.0 million as at 30 June 2021.

If any of the conditions precedent is not fulfilled at or before 5:00 p.m. on the Long Stop Date or Completion does not take place on the date of Completion otherwise than as a result of the default or failure of the Purchaser, the Deposit (excluding any interest thereon) shall be refunded to the Purchaser or a person designated by it.

Conditions precedent: Completion is conditional upon the following conditions precedent having been fulfilled:

- (1) all requirements imposed by the Stock Exchange under the Listing Rules or otherwise in connection with the transaction contemplated by the Disposal Agreement having been fully complied with; and
- (2) all necessary consents, authorisations or other approvals (or, as the case may be, the relevant waiver) of any kind in connection with the entering into and performance of the terms of the Disposal Agreement including without limitation the obtaining of the waiver of pre-emption rights (if any) to purchase the Sale Shares and those which may be required under the Listing Rules having been obtained by the Company or Able Elite from the Stock Exchange or any regulatory authority.

All of the above conditions precedents are not waivable by any parties to the Disposal Agreement. If the conditions precedent as set out in the Disposal Agreement have not been fulfilled in full on the Long Stop Date, the Disposal Agreement shall cease and terminate, and no party shall have any claim against or liability to the other parties with respect to any matter referred thereto save for any antecedent breaches.

**Undertaking by
Cosmic Master:**

As at the date of this announcement, the Target Company was indebted to the Group (excluding the Target Companies) the Existing Loan. It was one of the undertakings by Cosmic Master under the Disposal Agreement that Cosmic Master shall procure the Target Company to settle in full the Existing Loan within three years from Completion. For further details of the Existing Loan, please refer to the paragraph headed “The Existing Loan” below.

Completion:

Completion shall take place on the fifth Business Day immediately following the satisfaction of the last of the outstanding conditions precedent, or any other date as agreed by the parties in writing. Upon Completion, each of the Target Companies will cease to be a subsidiary of the Company.

INFORMATION ON THE VENDOR AND THE GROUP

The Vendor is an investment holding company incorporated under the laws of BVI with limited liability and is a direct wholly-owned subsidiary of the Company. The principal activities of the Company's subsidiaries consist of manufacturing and sales of fine metal products and the provision of precision metal stamping and lathing services.

INFORMATION ON COSMIC MASTER

Cosmic Master is a company incorporated in BVI with limited liability. To the best knowledge, information and belief of the Directors, Cosmic Master is an investment holding company. As at the date of this announcement, Mr. Lam, being a director of a subsidiary of the Company, is the ultimate beneficial owner of Cosmic Master.

INFORMATION ABOUT THE ASSETS TO BE DISPOSED OF

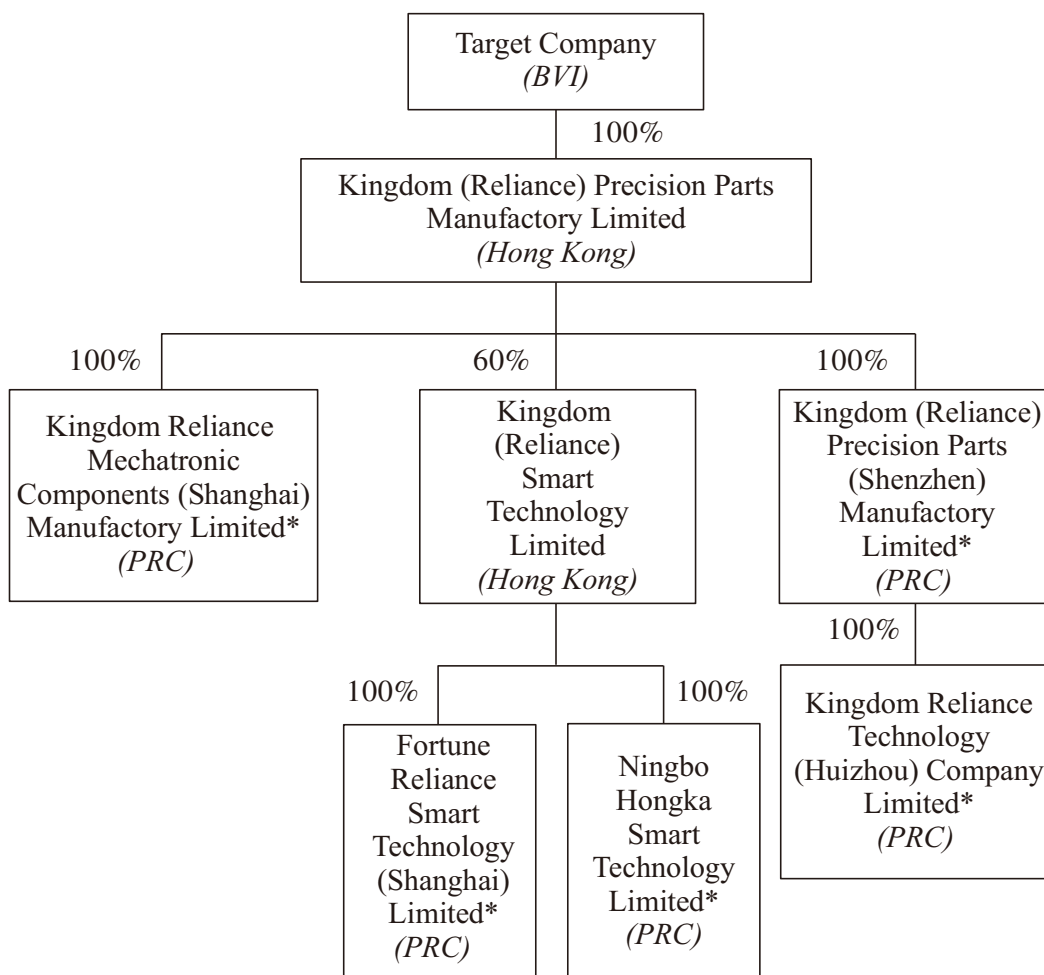
Information on the Target Companies

The Target Company is a company incorporated in BVI with limited liability and a direct wholly-owned subsidiary of Able Elite.

As at the date of this announcement, the Target Company wholly owned Kingdom (Reliance) Precision Parts Manufactory Limited, which in turn owned (i) 金德利賚精密機電部件(上海)有限公司 (Kingdom Reliance Mechatronic Components (Shanghai) Manufactory Limited*) as to 100%; (ii) Kingdom (Reliance) Smart Technology Limited as to 60%; and (iii) 德利賚精密五金製品(深圳)有限公司 (Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited*) as to 100%. Kingdom (Reliance) Smart Technology Limited wholly owned (a) 富賚德智能科技(上海)有限公司 (Fortune Reliance Smart Technology (Shanghai) Limited*); and (b) 寧波港華智能科技有限公司 (Ningbo Hongka Smart Technology Limited*), while 德利賚精密五金製品(深圳)有限公司 (Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited*) wholly owned 德利賚精密智造(惠州)有限公司 (Kingdom Reliance Technology (Huizhou) Company Limited*).

The principal activities of the Target Companies consist of manufacturing and sales of precision metal products and the provision of precision metal lathing services.

Set out below is the organisation structure chart of the Target Companies as at the date of this announcement:



Set out below is the financial information extracted from the unaudited consolidated management accounts of the Target Companies for the relevant periods:

	For the year ended 31 March	
	2020	2021
	<i>(HK\$'million)</i>	<i>(HK\$'million)</i>
Profit before taxation and extraordinary items	24.0	10.4
Profit after taxation and extraordinary items	21.1	7.1
		As at
		31 March 2021
		<i>(HK\$'million)</i>
Net assets		138.3

FINANCIAL EFFECT OF THE DISPOSAL AND INTENDED USE OF PROCEEDS

Upon Completion, the Target Companies will cease to be subsidiaries of the Company and their financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group.

The Group expects to record a total comprehensive expense of approximately HK\$72.3 million from the Disposal, comprising approximately HK\$64.2 million of loss from the Disposal and approximately HK\$8.1 million of release of translation reserve upon completion of the Disposal (subject to adjustment and audit). This amount is calculated based on the difference between the Consideration of the Disposal and the net book value of the Target Companies. The actual loss to be recorded by the Company can only be ascertained when the consolidated net asset value of the Target Companies and the incidental transaction costs are determined upon Completion.

The Board intends to apply the net proceeds from the Disposal of approximately HK\$66.0 million for repayment of existing indebtedness of the Group.

THE EXISTING LOAN

As at the date of this announcement, the Target Company was indebted to the Group (excluding the Target Companies) the Existing Loan. The Existing Loan consisted of the existing intra-group loan between the Target Company and the Group (excluding the Target Companies), amounting to HK\$38,000,000 as at the date of this announcement.

Details of the Existing Loan are set out below:

Parties:	(1) Able Elite; and (2) Target Company
Amount:	Such amount as at the date of Completion. As at the date of this announcement, HK\$38,000,000 remaining outstanding.
Interest rate:	5.25% per annum
Repayment terms:	The outstanding balance, together with the interest incurred, shall be fully repaid by the Target Company to the Remaining Group within three years from Completion.

The terms of the Existing Loan (together with the applicable interest rate) were determined after arm's length negotiations between the parties and after making reference to the prevailing market rates.

Pursuant to the Disposal Agreement, Cosmic Master shall procure the Target Company to settle in full the Existing Loan within three years from Completion.

REASONS FOR AND BENEFITS OF ENTERING INTO THE DISPOSAL AGREEMENT AND THE EXISTING LOAN

As stated in the annual report (“**Annual Report**”) of the Group for the year ended 31 March 2021, the Group has been facing the challenges and uncertainties in the business and economic outlook, including the uncertainties arising from (i) the subsisting impact of the pandemic spread across the world; and (ii) China-US trade disputes which may lead to slower economic growth and greater currency fluctuations, and the increasing labour cost, material cost and production costs in the PRC. Facing the cautious business and economy environment, the Group has been streamlining its operations by effective allocation of resources to enhance its overall efficiency where necessary.

The Directors are of the view that the difficulties faced by manufacturing industries in the PRC are expected to subsist in the foreseeable future. Therefore, it is critical for the Group to continue streamline its operation, adopt stringent cost control measures and look for strong financial position with light asset operation, lower gearing structure, rich liquidity and better return on assets. At the same time, it was the aim of the Group to explore more potential opportunities to diversify its customer base and product portfolios.

As disclosed in the Annual Report, revenue generated from the Group’s metal lathing segment decreased by approximately 10.1% for the year ended 31 March 2021, as compared to the same for last year. The decrease was mainly attributable by the subsisting drop in sales to the customers who engaged in the consumer electronics industry which the Group had experienced consecutive drop in number of orders for recent years, mainly due to (i) a change in business strategy for the relevant customers; and (ii) escalated China-US tensions. On the other hand, regarding the Group’s metal stamping segment, the revenue thereof (excluding the revenue contributed by Disposed Group (as defined in the Annual Report) in 2020) recorded an increase mainly due to a significant increase in sales derived from customers engaged in network and data storage industry as a result of acceleration and more widespread digitalisation of business process worldwide because of the outbreak of COVID-19 during the year ended 31 March 2021. The Directors are of the view that the abovementioned market trend for both segments will subsist in the future.

As disclosed in the announcements of the Company dated 27 October 2020 and 2 March 2021), the production base of the Target Companies will be relocated (the “**Relocation**”) to a production facility located in Huizhou city, Guangdong Province, the PRC (the “**Production Facility**”). As at the date of this announcement, the construction of the Production Facility was completed and renovation work was being carried out on the Production Facility in order to facilitate the use of the Production Facility by the Target Companies. As at the date of this announcement, the Target Companies incurred approximately HK\$47.3 million of capital expenditure as a result of the Relocation. It is expected that further capital expenditure of approximately HK\$49.3 million will be incurred for the Relocation and completion of the Relocation will take place by October 2021.

Despite the Group's metal stamping segment traditionally incurs higher operating costs, in particular, selling and administrative costs than the Group's metal lathing segment in general, given (i) the expected deteriorating financial performance of the Target Companies and improving financial performance of the Remaining Group as a result of the change in the business demands of the Group's customers in both segments as abovementioned; and (ii) the substantial amount of capital expenditure incurred and to be incurred by the Target Companies as a result of the Relocation, in order to minimise the expected adverse impact of the Target Companies on the overall financial performance of the Group, the Directors are of the view that it is crucial for the Group to operate in line with the Group's customers' demand by shifting its focus on metal stamping segment through the Disposal in order to maximise return to the Shareholders in long run. On the other hand, Mr. Lam, the ultimate beneficial owner of Cosmic Master, held director position in most of the Target Companies and has been overseeing the overall business operations of the Target Companies. Mr. Lam also has over 25 years of experience specialising in the lathing processes of metal.

Instead of liquidating the Target Companies which is expected to incur substantial costs and jeopardise the Group's financial position, the Directors consider that it would be more beneficial to dispose of the Target Companies to streamline the Group's operation, while making use of the Group's cash position to invest in more profitable business so that the Group would have more flexibility to deal with unexpected changes. The net proceeds from the Disposal will be used for repayment of existing indebtedness of the Group, which will lower the Group's gearing. This could benefit the Group through lower operating cost, better profitability and lower gearing. The Group will keep on searching potential opportunities, so as to overcome the current difficulties and create better returns for Shareholders and investors.

Further, upon Completion, the Target Companies will cease to be the Company's subsidiaries and the Existing Loan will be repaid to the Group pursuant to the undertaking made by Cosmic Master under the Disposal Agreement. The Directors have also made reference to the interest rate of the Existing Loan as well as the market practice and are of the view that a repayment period of three years will maximise the interest income expected to be generated from the Existing Loan to the Group without compromising the Group's risk exposure. The Directors also consider that repayment of the Existing Loan in cash after Completion will provide the Group with liquid assets for operations and thus are in the interests of the Company and the Shareholders as a whole.

Taking into account of the above factors, the Directors (including the independent non-executive Directors) believe the terms of the Disposal Agreement are not in the ordinary and usual course of business of the Group, but are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

In addition, the Directors (including the independent non-executive Directors) are of the view that the Existing Loan were not entered into in the ordinary and usual course of business of the Group, but the terms thereof are fair and reasonable and the transactions contemplated thereunder are in the interests of the Company and the Shareholders as a whole.

As none of the Directors are considered to have material interests in the Disposal, no Directors have abstained from voting on the Board resolutions approving the Disposal and the Existing Loan.

LISTING RULES IMPLICATIONS

As at the date of this announcement, Mr. Lam, being a director of a subsidiary of the Company, is the ultimate beneficial owner of Cosmic Master. Thus, Cosmic Master is a deemed connected person of the Company for the purpose of Chapter 14A of the Listing Rules. Accordingly, the Disposal also constitutes a connected transaction for the Company under Chapter 14A of the Listing Rules. By virtue of Rule 14A.101 of the Listing Rules, since (i) Cosmic Master is a connected person at the subsidiary level; (ii) the Board has approved the Disposal; and (iii) the Directors (including the independent non-executive Directors) have confirmed that the terms of the Disposal are fair and reasonable and the Disposal is on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole, the Disposal is subject to the announcement, reporting, but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Nevertheless, as one of the applicable percentage ratios for the Disposal is more than 25% but less than 75%, the Disposal constitutes a major transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, the Disposal is subject to the reporting, announcement, circular and Shareholders' approval requirements under Chapter 14 of the Listing Rules.

Subject to and upon Completion, the Target Companies will become wholly owned subsidiaries of Cosmic Master, thus each of the Target Companies will become a connected person of the Company under Chapter 14A of the Listing Rules. Accordingly, the Existing Loan will also constitute a connected transaction for the Company. By virtue of Rule 14A.101 of the Listing Rules, since (i) Cosmic Master is a connected person at the subsidiary level upon Completion; (ii) the Board has approved the Existing Loan; and (iii) the Directors (including the independent non-executive Directors) have confirmed that the terms of the Existing Loan are fair and reasonable and the Existing Loan is on normal commercial terms or better and in the interest of the Company and the Shareholders as a whole, the Existing Loan is subject to the announcement, reporting, but is exempt from the circular, independent financial advice and independent Shareholders' approval requirements under Chapter 14A of the Listing Rules.

Nevertheless, as the applicable percentage ratios calculated on an annual basis are more than 5% but less than 25%, the transaction constitutes a discloseable transaction for the Company under Chapter 14 of the Listing Rules. Accordingly, such transaction is subject to announcement and reporting requirements, but is exempt from Shareholders' approval requirement under Chapter 14 of the Listing Rules.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting on the resolution to approve the Disposal Agreement if the Company was to convene a general meeting for such approval. Massive Force Limited, being the controlling Shareholder holding 449,999,012 Shares (representing approximately 75% of the issued share capital of the Company as at the date of this announcement), has given its written approval for the Disposal Agreement, and such written approval is accepted in lieu of holding a general meeting pursuant to Rule 14.44 of the Listing Rules.

A circular containing, among other things, further particulars of the Disposal will be despatched to the Shareholders on or before 3 September 2021.

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

DEFINITIONS

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

“Able Elite”	Able Elite Holdings Limited, a company incorporated under the laws of BVI and was a direct wholly-owned subsidiary of the Company as at the date of this announcement
“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day(s)”	a day (excluding Saturday, Sunday and any day on which a tropical cyclone warning No. 8 or above is hoisted or remains hoisted between 9:00 a.m. and 12:00 noon and is not lowered at or before 12:00 noon or on which a “black” rainstorm warning signal is hoisted or remains in effect between 9:00 a.m. and 12:00 noon and is not discontinued at or before 12:00 noon) on which commercial banks are open for business in Hong Kong
“BVI”	the British Virgin Islands
“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)
“Completion”	completion of the transactions contemplated under the Disposal Agreement
“Consideration”	the consideration of HK\$66,000,000 for the Sale Shares
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling Shareholder”	has the meaning ascribed to it under the Listing Rules

“Cosmic Master”	Cosmic Master Holdings Limited, a company incorporated under the laws of BVI and was wholly owned by Mr. Lam as at the date of this announcement
“Director(s)”	the director(s) of the Company
“Disposal”	the disposal of the Sale Shares under the Disposal Agreement
“Disposal Agreement”	the sale and purchase agreement in relation to the Sale Shares entered into between Able Elite, as vendor, Cosmic Master, as purchaser on 13 August 2021
“Existing Loan”	the existing intra-group loan of HK\$38,000,000 owing by the Target Company to the Group (excluding the Target Companies) as at the date of this announcement
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Long Stop Date”	30 September 2021 (or such later date as the parties to the Disposal Agreement may agree in writing)
“Mr. Lam”	Mr. Lam Kin Shun, a director of a subsidiary of the Company and the ultimate beneficial owner of Cosmic Master as at the date of this announcement, a connected person of the Company
“PRC”	the People’s Republic of China (for the purpose of this announcement, excluding Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan)
“Remaining Group”	the Company and its subsidiaries upon Completion
“Sale Shares”	2 shares of the Target Company, which represented the entire issued share capital of the Target Company
“Shares”	ordinary shares in the issued share capital of the Company
“Shareholder(s)”	the holder(s) of the Shares

“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Target Company”	Kingdom (Reliance) Precision Parts Manufactory Holdings Limited, a company incorporated under the laws of BVI and a direct wholly-owned subsidiary of Able Elite as at the date of this announcement
“Target Companies”	Target Company and its subsidiaries
“US\$”	US dollars, the lawful currency of the United States of America
“%”	per cent.

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

Hong Kong, 13 August 2021

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

* *For identification purposes only*