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

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KFM KINGDOM HOLDINGS LIMITED

KFM 金德控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3816)

**MAJOR TRANSACTION
IN RELATION TO THE TENANCY AGREEMENT**

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

27 November 2020

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DEFINITIONS

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

“associate”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	KFM Kingdom Holdings Limited, a company incorporated in the Cayman Islands with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 3816)
“connected person”	has the meaning ascribed to it under the Listing Rules
“controlling Shareholder”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Factory”	the Tea Garden Industrial Park, Jiangjun Road, Qiuzhang Street Office, Huiyang District, Huizhou City, Guangdong Province, the PRC* (中國廣東省惠州市惠陽區秋長街道辦將軍路茶園工業園) with a total gross floor area of approximately 48,500 square metres
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	a party independent of and not connected with the Company and its connected persons
“Landlord”	Huizhou Weidi Packaging Materials Company Limited* (惠州市偉迪包裝材料有限公司), a company established in the PRC with limited liability and an Independent Third Party

DEFINITIONS

“Latest Practicable Date”	26 November 2020, 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
“New Leasing Agreements”	collectively, the leasing agreements dated 13 March 2020 and entered into between Golden Express Capital Investment Limited (as landlord) and Able Elite Holdings Limited, or other members of the Group (as tenant) in relation to the leasing of (i) the car parking space located at number 65, 3/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong; (ii) the car parking space located at number 66, 3/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong; and (iii) the premises located at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, respectively (for further details, please refer to the announcements of the Company dated 22 January 2020, 31 January 2020 and 13 March 2020, and the circular of the Company dated 6 March 2020)
“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)
“Reliance Technology”	Reliance Technology (Huizhou) Company Limited* (德利賚科技(惠州)有限公司), a company established in the PRC with limited liability and an indirect wholly-owned subsidiary of the Company
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance
“Shareholder(s)”	the holder(s) of the Shares
“Shares”	ordinary shares in the issued share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Suzhou Factory Leasing Agreement”	the leasing agreement dated 1 November 2018 and entered into between 金德精密科技(蘇州)有限公司 (Kingdom Precision Science and Technology (Suzhou) Company Limited*) (as landlord) and 金德精密配件(蘇州)有限公司 (Kingdom Precision Product (Suzhou) Company Limited*) (as tenant) in relation to the leasing of a factory located in Suzhou (for further details, please refer to the announcements of the Company dated 7 September 2018 and 1 November 2018, and the circular of the Company dated 19 October 2018)
“Tenancy Agreement”	the tenancy agreement dated 27 October 2020 and entered into between Reliance Technology (as tenant) and the Landlord (as landlord) in relation to the leasing of the Factory
“Written Approval”	the written approval from Massive Force Limited, which holds 449,999,012 issued ordinary shares of the Company (representing 75% of its entire issued share capital as at the date of this announcement) in respect of the Tenancy Agreement and the transactions contemplated thereunder
“%”	per cent.

* For identification purposes only

For the purpose of this circular, unless otherwise specified, conversions of RMB into HK\$ are based on the approximate exchange rate of RMB1.00 to HK\$1.13.

LETTER FROM THE BOARD



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:

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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

27 November 2020

**MAJOR TRANSACTION
IN RELATION TO THE TENANCY AGREEMENT**

To the Shareholders

Dear Sir or Madam,

I. INTRODUCTION

Reference is made to the announcement of the Company dated 27 October 2020.

On 27 October 2020, Reliance Technology, an indirect wholly-owned subsidiary of the Company, (as tenant) and the Landlord (as landlord) entered into the Tenancy Agreement in respect of the leasing of the Factory for a term of six years from the commencement date of leasing, which is tentatively from 1 March 2021 to 28 February 2027. The Factory is in the course of construction by the Landlord as at the Latest Practicable Date. The commencement date of leasing under the Tenancy Agreement is dependent on the construction completion date of the Factory.

The purpose of this circular is to provide you with, among other things, further information on the transactions contemplated under the Tenancy Agreement and other information as required to be contained in this circular under the Listing Rules.

LETTER FROM THE BOARD

II. THE TENANCY AGREEMENT

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

Date: 27 October 2020

Parties: (1) Reliance Technology (as tenant); and
(2) the Landlord (as landlord).

To the best of the Directors' knowledge, information and belief, and having made all reasonable enquiries, the Landlord and its ultimate beneficial owner(s) are Independent Third Parties of the Company and its connected persons.

Premises: The Tea Garden Industrial Park, Jiangjun Road, Qiuzhang Street Office, Huiyang District, Huizhou City, Guangdong Province, the PRC* (中國廣東省惠州市惠陽區秋長街道辦將軍路茶園工業園) with a total gross floor area of approximately 48,500 square metres.

Usage: Industrial use, staff quarters and other commercial use. The Group intends to use the Factory as one of its production base.

Deposit: Prior to signing of the Tenancy Agreement, the Group and the Landlord had entered into a framework agreement, pursuant to which the Group has paid RMB3.5 million of refundable deposit to the Landlord. Such amount will be applied as follows:

- (a) RMB1.75 million (equivalent to approximately HK\$1.98 million) shall be applied as the rental deposit payable by Reliance Technology to the Landlord under the Tenancy Agreement; and
- (b) the remaining RMB1.75 million (equivalent to approximately HK\$1.98 million) shall be applied as rental payment for the first two months of the lease from Reliance Technology to the Landlord.

LETTER FROM THE BOARD

It is expected that the construction of the Factory will complete on or before 31 January 2021, and the relevant government completion inspection will complete on or before 1 March 2021.

The term of the lease and the rent-free renovation period shall start from the actual date of delivery of the Factory from the Landlord to Reliance Technology. For the avoidance of doubt, in the event that the Landlord fails to deliver the Factory for rent from 1 March 2021, Reliance Technology would not be required to pay any rental fee or utility costs starting from 1 March 2021.

If the Landlord is unable to deliver the Factory for rent within one month from 1 March 2021, parties to the Tenancy Agreement shall not terminate the Tenancy Agreement, and the Landlord shall, within 1.5 months, refund the deposit of RMB3.5 million to Reliance Technology, together with two years of annual interest fees calculated at the loan interest rates of the Industrial and Commercial Bank of China as of the date of signing of the framework agreement (collectively, the “**First Penalty**”).

If the Landlord is unable to deliver the Factory for rent within one month from 1 March 2021, but is able to deliver the Factory after three months from 1 March 2021, parties to the Tenancy Agreement shall not terminate the Tenancy Agreement, and the Landlord shall pay the First Penalty and further pay a penalty fee of RMB3.5 million (the “**Further Penalty**”) to Reliance Technology.

Further, if the Landlord is only able to deliver the Factory for rent after five months from 1 March 2021, the Landlord shall pay the First Penalty and the Further Penalty to Reliance Technology. In addition, the parties may further negotiate whether to terminate the Tenancy Agreement.

LETTER FROM THE BOARD

Term: Six years from the commencement date of leasing, which is tentatively from 1 March 2021 to 28 February 2027. The Factory is in the course of construction by the Landlord as at the Latest Practicable Date. The commencement date of leasing under the Tenancy Agreement is dependent on the construction completion date of the Factory.

Rental fee: Reliance Technology shall enjoy a rent-free renovation period for six months from the date of commencement of the lease (i.e. the actual date of delivering the Factory from the Landlord to Reliance Technology). During such rent-free period, no rental fee is payable by Reliance Technology, but Reliance Technology shall be responsible to pay all utility costs such as water and electricity.

Rental fee for the first three years of the term of the lease shall be calculated at the rate of RMB18 per square metre, and shall be increased by 12% to RMB20.16 per square metre for the rest of the term. The annual rental fee shall be approximately:

- (i) for the first three years of the lease, i.e. tentatively from 1 March 2021 to 29 February 2024: RMB10,476,000 per annum (equivalent to approximately HK\$11,837,880); and
- (ii) after the first three years of the lease, i.e. tentatively from 1 March 2024 to 28 February 2027: RMB11,733,120 per annum (equivalent to approximately HK\$13,258,426).

Further, Reliance Technology shall be responsible to pay other expenses such as security guard fees and cleaning fees incurred in respect of the Factory.

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

LETTER FROM THE BOARD

Prior to entering into the Tenancy Agreement, the Group obtained information from other three independent landlords of comparable properties in the vicinity of the Factory to obtain the prevailing market rental fee. As the prevailing market rental fee of comparable premises in the vicinity of the Factory varies from RMB18.5 per square metre to RMB20.0 per square metre, which is above the rental fee of RMB18 per square metre as stipulated under the Tenancy Agreement. In addition, the management also made reference to the increment of 10% for rental fee for an existing five-year lease of a factory located in Shenzhen, Guangdong Province, with the lease term between 2016 and 2021. Given the annual rental fee would only be increased once within six years of the leasing, the increment of 12% after the first three years of the six-year term of the lease, which is similar to the increment level of the abovementioned rental fee, the Directors are of the view that the rental fee and its increment to be fair and reasonable.

Payment terms:

The rent shall be payable in advance on or before the tenth day of each and every calendar month. Any overdue payment will be subject to a daily penalty fee of 0.3% of the overdue amount.

Conditions precedent:

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

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

LETTER FROM THE BOARD

All of the above conditions precedents are not waivable by any parties to the Tenancy Agreement. If the above conditions precedent have not been fulfilled on or before 31 December 2020 or such later date as the parties may agree in writing, the Tenancy Agreement shall cease and terminate. The Landlord has the right to forfeit the deposit of RMB3.5 million, and Reliance Technology shall pay the Landlord additional penalty fee of RMB3.5 million.

Renewal terms:

The party who wishes to renew the term of the lease shall propose to the other party six months prior to the expiration of the Tenancy Agreement. Both parties will further negotiate and enter into a new tenancy agreement. Reliance Technology has priority over other parties to lease the Factory under the same terms of the Tenancy Agreement.

Termination:

If the Tenancy Agreement is terminated by Reliance Technology prior to the expiration of its term, the Landlord has the right to forfeit the rental deposit paid under the Tenancy Agreement, and:

- (a) if Reliance Technology terminates the Tenancy Agreement within three years from the date of commencement of the lease, Reliance Technology shall pay the Landlord a penalty fee equivalent to three months of rental payment;
- (b) if Reliance Technology terminates the Tenancy Agreement after three years and within five years from the date of commencement of the lease, Reliance Technology shall pay the Landlord a penalty fee equivalent to one month of rental payment; and
- (c) if Reliance Technology terminates the Tenancy Agreement after five years from the date of commencement of the lease, Reliance Technology shall not be subject to any penalty.

LETTER FROM THE BOARD

III. FINANCIAL EFFECTS OF ENTERING INTO THE TENANCY AGREEMENT

The value (unaudited) of the right-of-use asset recognised by the Company under the Tenancy Agreement amounted to approximately RMB47.6 million (equivalent to approximately HK\$53.8 million) which is the present value of total consideration payable throughout the lease term under the Tenancy Agreement and adjustment to fair value at initial recognition of refundable rental deposit in accordance with HKFRS 16. Incremental borrowing rate of 8.32%, which is estimated based on credit analysis and comparable secured bonds with similar credit quality and similar maturity matching the lease' duration, is applied to compute the above right-of-use asset amount recognised by the Company. The following information has been taken into account in order to calculate the incremental borrowing rate: (i) the credit rating of the lessee, which is derived based on the latest financial information of the production bases at Xili Leased Properties with reference to S&P Capital IQ credit analysis model and statistics; and (ii) the average yield of comparable bonds with similar credit quality as mentioned in (i) and similar maturity matching the lease' duration extracted from Bloomberg. The consolidated total assets of the Group would increase by approximately HK\$53.8 million upon the commencement of the lease term under the Tenancy Agreement, and a corresponding amount of lease liabilities of approximately HK\$53.8 million would be recognised at the same time.

The right-of-use asset will be depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Interest expenses on the lease liabilities will be recognised at the rate of 8.32% per annum. After the commencement date of the lease, the lease liabilities are adjusted by interest accretion and lease payments.

IV. INFORMATION ON THE PARTIES

Reliance Technology is established under the PRC laws with limited liability and is an indirect wholly-owned subsidiary of the Company. Reliance Technology principally engages in manufacturing and sale of fine metal products. The Group principally engages in manufacturing and sales of fine metal products and the provision of precision metal stamping and lathing services.

The Landlord is established under the PRC laws with limited liability and is principally engaged in manufacturing and sale of packaging products, plant leasing and property management services. As at the Latest Practicable Date and according to the public search records, the Landlord is held by Geng Hongping (耿紅平), Zeng Yonghong (曾永紅), Mai Muguang (麥目光), Lin Youhong (林佑鴻), each of them being an Independent Third Party.

To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, the Landlord and its ultimate beneficial owner(s) are independent of the Company and its connected persons.

LETTER FROM THE BOARD

V. REASONS FOR AND BENEFITS OF THE TENANCY AGREEMENT

As disclosed in the prospectus of the Company dated 28 September 2012 and the 2020 annual report of the Company, one of the Group's four production bases, namely the Group's factory building and staff dormitory currently located in Xili, Nanshan District, Shenzhen (the "Xili Leased Properties") has a potential risk of demolition and expropriation as it may be deemed as the historical illegal construction. The Group's current lease agreement of the Xili Leased Properties started from 1 November 2016 for a period of five years.

Further, as disclosed in the 2020 annual report of the Company, the Directors plan to relocate from the Xili Leased Properties to mitigate the potential risk regarding the legality and ownership title of the Xili Leased Properties. As such, during the year ended 31 March 2019, the Group entered into a framework agreement with an independent third party, i.e. the Landlord, regarding the lease of the Factory which was under construction. As the construction of the Factory is almost complete, the Group and the Landlord entered into the formal and binding Tenancy Agreement to conclude the terms of the lease of the Factory.

As the Xili Leased Properties are subject to a potential risk of demolition and expropriation, the Directors are of the view that it is in the best interest of the Group and the Shareholders to relocate the production base at the Xili Lease Properties to other premises, in order to mitigate the potential risk regarding the legality and ownership title of the Xili Leased Properties. As the current lease agreement of the Xili Leased Properties will expire in October 2021, in order to minimise any potential disruption of operations of the Group, the Directors consider that it is suitable to enter into the Tenancy Agreement in order to have sufficient time to renovate the Factory for efficient relocation and production use.

In addition, the Directors consider that the Factory is a newly constructed premises which will allow the Group to renovate and move in facilities which are suitable for the Group's production, with a larger production capacity as compared with the Xili Leased Properties, which will minimise the operational costs of the Group in the PRC by achieving economies of scale, and in turn improve the competitiveness of the Group by meeting customers' requirements for larger orders. As such, the Directors consider that the Factory is a suitable premises to be used as the Group's production base. Further, the rental fee under the Tenancy Agreement has been determined after arm's length negotiations between the parties with reference to the prevailing market rental fee for comparable premises in the vicinity of the Factory.

In light of the reasons stated above, the Directors are of the view that the terms of the Tenancy Agreement and the transactions contemplated thereunder are on normal commercial terms after arm's length negotiations, in the ordinary and usual course of business and are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LETTER FROM THE BOARD

None of the Directors has material interest in the Tenancy Agreement and the transactions contemplated thereunder, and therefore no Director was required to abstain from voting on the Board resolutions approving the Tenancy Agreement and the transactions contemplated thereunder.

VI. LISTING RULES IMPLICATIONS

Pursuant to HKFRS 16, the entering into of the Tenancy Agreement by Reliance Technology will require the Group to recognise the Factory as right-of-use assets on its consolidated statement of financial position. Therefore, the entering into of the Tenancy Agreement will be regarded as an acquisition of asset by the Group under the Listing Rules. The value of right-of-use asset recognised by the Company under the Tenancy Agreement amounted to approximately RMB47.6 million.

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

To the best of the knowledge of the Directors, no Shareholder has a material interest in the Tenancy Agreement and the transaction contemplated thereunder, and no Shareholder would be required to abstain from voting at a general meeting of the Company for approving the same if the Company were to convene such a general meeting. Accordingly, pursuant to Rule 14.44 of the Listing Rules, written Shareholders' approval may be accepted in lieu of holding a general meeting for approving the Tenancy Agreement. As the Company has obtained written approval from Massive Force Limited, which holds 449,999,012 issued ordinary shares of the Company (representing 75% of its entire issued share capital as at the Latest Practicable Date) in respect of the Tenancy Agreement and the transactions contemplated thereunder, the Company is exempted from convening a general meeting to approve the Tenancy Agreement and the transaction contemplated thereunder.

VII. FURTHER INFORMATION

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

LETTER FROM THE BOARD

VIII. RECOMMENDATION

As stated in the preceding paragraphs, the Directors considered that the terms of the Agreements were entered into on normal commercial terms, in the ordinary and usual course of business of the Group and are fair and reasonable and in the interests of the Company and its shareholders as a whole.

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

IX. WARNING NOTICE

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

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

1. FINANCIAL SUMMARY

Financial information of the Group for the three years ended 31 March 2020 are disclosed on pages 46 to 125 of the annual report 2018 of the Group published on 20 July 2018, pages 48 to 128 of the annual report 2019 of the Group published on 19 July 2019, and pages 46 to 128 of the annual report 2020 of the Group published on 23 July 2020, respectively, which were published on both the website of the Stock Exchange (www.hkexnews.hk) and the Company's website (www.kingdom.com.hk).

2. STATEMENT OF INDEBTEDNESS

Borrowings

As at 30 September 2020, the Group's borrowings were as follows:

	As at 30 September 2020 (HK\$'000)
Leases liabilities	38,531
Unsecured Borrowings from a related company (with accrued interest)	<u>167,313</u>
Total	<u>205,844</u>

Security

As at 30 September 2020, save as certain lease liabilities amounted to approximately HK\$3,132,000 which were secured by the underlying assets where the lessors have the rights to revert in the event of default, the Group did not have any borrowings which were secured by way of charge over the Group's assets.

Saved as disclosed and apart from intra-group liabilities and normal trade and other payables, as at 30 September 2020, the Group did not have any debt securities issued and outstanding, and authorised or otherwise created but unissued, or term loans, bank overdrafts, liabilities under acceptances (other than normal trade bills) or acceptance credits or hire purchase commitments, distinguishing between guaranteed, unguaranteed, secured and unsecured borrowings and debt.

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 2020 (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, after taking into account the effect of the transactions contemplated under the Tenancy Agreement, the Group's internal resources, cash flow from operations, facilities available to the Group, the Group has sufficient working capital to satisfy its requirements for at least the next 12 months following the date of this circular, in the absence of unforeseeable circumstances.

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

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

The Group recorded revenue of approximately HK\$986.7 million for the year ended 31 March 2020, with a decrease by approximately HK\$19.7 million or 2.0% as compared to the same for the year ended 31 March 2019. The total gross profit of the Group decreased by approximately HK\$17.1 million from approximately HK\$252.2 million for the year ended 31 March 2019 to approximately HK\$235.1 million for the year ended 31 March 2020. The net profit amounted to approximately HK\$0.6 million during the year ended 31 March 2020, which had decreased as compared to the net profit of approximately HK\$50.7 million of the same period last year. Net assets attributable to the owners of the Group were approximately HK\$508.5 million as at 31 March 2020, while it was approximately HK\$520.7 million as at 31 March 2019.

The tension between China-US on trade disputes and coronavirus pandemic will likely subsist for a period of time. Major economies have signalled a deteriorating situation suffering with dampening market sentiments, striking rise in unemployment, possibly lasting retaliations from the tension. Meanwhile, the difficulties faced by manufacturing industries in the PRC are expected to subsist as well. The increasing labour cost, material cost and production costs in the PRC will remain the major challenges to the Group. It is also expected that a certain number of the Group's customers will continue to relocate their businesses to lower cost regions such as the Southeast Asia. The stamping segment business of the Group, suffered with thin profit margins and bigger asset scale of operation, is particularly vulnerable to the adverse threats and challenges beyond the control of a manufacturer in the PRC.

Looking forward, with the newly elected administration of the US starting 2021, there is a possibility of easing the tension between China-US. Meanwhile there are multiple advancements in the development of new vaccines for COVID-19, of which may become available to the public next year. The Group will be in a better position to catch the economic rebound and business opportunities in which it will make use of its resources for investment with a view to having a higher return on the assets and in compliance with the prudence investment policy of the Group. The Group will invest in the metal lathing segment (i.e. expanding the production base thereof) when the leasing of the Factory begins next year. Despite the uncertainties ahead, the Group will continue to closely assess and monitor the challenges and take appropriate actions to mitigate those impacts, as necessary. The Group has been striving to develop more new customers in the region to broaden its customer base with some success. The Group will also put more efforts in maintaining good relationships with existing customers and in enhancing the overall operational efficiency. Last but not least, the Group will continuously 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.

1. RESPONSIBILITY STATEMENT

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

2. SHARE CAPITAL

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

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

3. DISCLOSURE OF INTERESTS

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

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

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

As at the Latest Practicable Date, substantial Shareholders and other persons (other than Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying shares 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 follow:

Long positions in Shares and underlying Shares

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

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

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

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

4. COMPETING INTEREST

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

5. DIRECTORS' SERVICE CONTRACTS

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

6. DIRECTORS' INTERESTS IN CONTRACTS OR ASSETS

As at the Latest Practicable Date, save for the existing loan of HK\$4.0 million owing by KFM Group Limited and its subsidiaries ("**Target Companies**") to the Group, the New Leasing Agreements and the Suzhou Factory Leasing Agreement,

- (i) there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group; and
- (ii) none of the Directors had any direct or indirect interest in any assets which had been since 31 March 2020 (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.

Reference is made to the announcement ("**Announcement**") of the Company dated 22 January 2020 in respect of, among others, the New Leasing Agreements and the Suzhou Factory Leasing Agreement. As set out in the Announcement, Target Companies were indebted to the Group in an amount of HK\$21.0 million as at the date of the Announcement. Upon completion ("**Completion**") of the acquisition of the Target Companies, the Target Companies become wholly-owned subsidiaries of Kingdom International Group Limited ("**KIG**"). The interest rate of such loan is 5.25% per annum and the balance, together with the interest incurred, shall be fully repaid by the Target Companies to the Group within 360 days from Completion. For further details, please refer to the Announcement. As at the Latest Practicable Date, the outstanding balance of such loan is approximately HK\$4.0 million.

As at the Latest Practicable Date, the entire issued share capital of KIG is ultimately beneficially owned by Mr. Wong Chi Kwok, an executive Director, Mr. Yau Lam Cheun, Mr. Yung Ching Tak, Mr. Lam Kin Shun, Mr. Chan Lin On, Mr. Yeung Man Chiu and Mr. He Lin as to approximately 12.59%, 12.59%, 9.23%, 5.37%, 6.24%, 3.13% and 4.01%, respectively. The abovementioned individuals are directors of subsidiaries of the Company as at the Latest Practicable Date.

7. LITIGATION

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

8. MATERIAL CONTRACTS

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

- (a) the New Leasing Agreements;
- (b) the Suzhou Factory Leasing Agreement;
- (c) the sale and purchase agreement in relation to the 100,002 shares of the KFM Group Limited entered into between Able Elite Holdings Limited, as vendor, and Kingdom International Group Limited, as purchaser, and Mr. Wong Chi Kwok, an executive Director, as warrantor, on 22 January 2020; and
- (d) the Tenancy Agreement.

9. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from 9:30 a.m. to 5:30 p.m. on any Business Days from the date of this circular up to and including 14 days (except public holidays) at the Company's principal place of business in Hong Kong situated at workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong:

- (a) the memorandum and articles of association of the Company;
- (b) the Tenancy Agreement;
- (c) the annual reports of the Company for each of the year ended 31 March 2018, 2019 and 2020;
- (d) the material contracts referred to in the section headed "8. Material contracts" in this appendix; and
- (e) 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 Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong.
- (f) The English text of this circular shall prevail over its Chinese text.