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 TRANSACTIONS

Independent Financial Adviser

MERDEKA 領智

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

15 December 2021

CONTENTS

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

"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 Latest Practicable Date
"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
"connected person"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the consideration of HK$66.0 million for the Sale Shares
"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 Latest Practicable Date
"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, and Cosmic Master, as purchaser, on 13 August 2021
"Existing Loan"	the existing intra-group loan of HK$38,000,000 owing by the Target Companies to the Group (excluding the Target Companies) as at the Latest Practicable Date
"Group"	the Company and its subsidiaries
"HK$"	Hong Kong dollars
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"Independent Financial Adviser"	Merdeka Corporate Finance Limited, a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO, which has been appointed as the independent financial adviser to the independent non-executive Directors in relation to the Disposal Agreement, the Existing Loan and the transactions contemplated thereunder
"Latest Practicable Date"	10 December 2021, being the latest practicable date prior to the publication of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Long Stop Date"	17 December 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 member of the Group and the ultimate beneficial owner of Cosmic Master as at the Latest Practicable Date, a connected person of the Company
"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)

"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
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"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
"Target Companies"	Target Company and its subsidiaries
"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 Latest Practicable Date
"US$"	US dollars, the lawful currency of the United States of America
"%"	per cent.

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 December 2021

MAJOR AND CONNECTED TRANSACTIONS

To the Shareholders

Dear Sir or Madam,

I. INTRODUCTION

Reference is made to the announcements of the Company dated 13 August 2021, 9 November 2021 and 30 November 2021.

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 purpose of this circular is to provide you with, among other things, (i) further details of the Disposal Agreement and the transactions contemplated thereunder; (ii) certain financial information as required under the Listing Rules; and (iii) further information of the Group.

II. 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 Latest Practicable Date, 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.

If any of the conditions precedent is not fulfilled at or before 12:00 p.m. on the Long Stop Date or Completion does not take place on the date of Completion otherwise than as a result of default or failure of the Purchaser, the Deposit (excluding the interest thereon) shall be refunded to the Purchaser or a person designated by it.

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, namely Cushman & Wakefield Limited (the "**Valuer**"), of approximately HK$65.0 million as at 30 June 2021.

The Valuer is certified with the relevant professional qualifications required to perform the valuation and the principal valuer of the valuation has more than 28 years of experience in conducting corporate valuation services. During conducting the valuation of the Target Company, the Valuer has adopted the market approach by referring to companies which are comparable to the Target Company. The Valuer has conducted comparable company search in Bloomberg Terminal TM based on the following criteria:

(i) The subject company is principally engaged in metal lathing manufacturing business in the PRC. However, no companies were identified. The Valuer then loosened the selection criteria to companies principally engaged in metal lathing and metal product manufacturing business in the PRC, which were considered to be still highly relevant to the Target Company;

(ii) The subject company is profitable for the trailing 12 months before the valuation date (i.e. 30 June 2021) (the "**Valuation Date**"); and

(iii) The subject company is listed on the Stock Exchange.

A complete and exhaustive list of four comparable companies satisfying the above selection criteria were identified as follows:

1. KFM Kingdom Holdings Limited (stock code: 3816), an advanced precision metal engineering solution provider in Hong Kong and the PRC, which principally engages in manufacturing and sales of fine metal products and the provision of metal stamping and metal lathing services;

2. Lung Kee (Bermuda) Holdings Limited (stock code: 255) — principally engages in the manufacturing of metal products;

3. Tongda Group Holdings Limited (stock code: 698) — specialises in consumer electronic products, covering handsets, metal accessories and casings, smart home appliances, household and sports goods, and network communication facilities. According to its annual report for the year ended 31 December 2020, approximately 85% of total revenue of Tongda Group Holdings Limited in 2020 were generated from handset casings, high-precision components and smart electrical appliances casings, which involves metal product manufacturing;

4. Ju Teng International Holdings Limited (stock code: 3336) — principally engages in plastic injection molding, spray painting, metal tooling and stamping and assembly. According to its annual report for the year ended 31 December 2020, approximately 100% of total revenue of Ju Teng International Holdings Limited in 2020 were generated from the business segment of casing products, which involves metal product manufacturing.

The Valuer has adopted the following key parameters and assumptions in the valuation.

*Price to earnings ("**P/E**") multiple*

In the valuation, the Valuer has considered various commonly used value multiples, including (i) P/E; (ii) price to sales ("**P/S**") and (iii) price to net book value ("**P/B**"). However, P/S multiple ignores the cost structure of a company, while P/B multiple does not take into consideration of the profitability of a company. On the other hand, P/E multiple is the most commonly used valuation multiple for profit-making business and earnings is one of the most direct drivers of equity value. As the Target Company is operating a profit-making business before the Valuation Date, the Valuer considered that P/E multiple was the most appropriate multiple to appraise the value of the Target Company. The P/E multiple and the market capitalisation of each of the above comparable companies as at 30 June 2021 are as follows:

Stock code of comparable company	**Name of comparable company**	**Market capitalisation** *(HK$ million)*	**P/E multiple**
3816	KFM Kingdom Holdings Limited	156	8.7
255	Lung Kee (Bermuda) Holdings Limited	2,135	11.8
698	Tongda Group Holdings Limited	3,078	8.8
3336	Ju Teng International Holdings Limited	1,956	10.8
	Average:		10.0

Although the market capitalisations of the other three comparable companies were larger than that of the Company, all of them were still considered to be listed companies with small capitalisation. Moreover, as reflected in the P/E multiples of the comparable companies, there were no indications that the market capitalisations of the comparable companies had any material impact on the valuations of the comparable companies. Since all of them were within the same industry, the Valuer considered these comparable companies to be fair and representative samples to be included in the valuation.

Marketability discount

The concept of marketability deals with the liquidity of an ownership interest, that is how quickly and easily it can be converted into cash if the owner chooses to sell. The lack of marketability discount reflects the fact that there is no ready market for shares in privately held companies which are typically not readily marketable compared to similar interest in public companies. Therefore, a share of stock in a privately held company is usually worth less than an otherwise comparable share in a publicly held company. In the valuation of the Target Company, the Valuer considered 15.8% is deemed to be sufficient to reflect the lack of marketability of the equity interest in the Target Company, which was with reference to Stout Restricted Stock Study™.

Control premium

A control premium is the premium an investor is willing to pay in addition to the marketable minority equity value to obtain controlling interest in a business subject. The published market price of each of the identified comparable companies was on a minority stake of the subject company, therefore adjustments has been made to reflect the degree of control associated with a 100% equity interest in the Target Company. In the valuation, the Valuer considered 17.9% is deemed to be sufficient to reflect the control premium of the equity interest in the Target Company, which was with reference to FactSet Mergerstat/BVR Control Premium Study.

The average P/E of the comparable companies being approximately 10.0 was adjusted with marketability discount of 15.8% and control premium of 17.9% to arrive at approximately 9.9.

Having considered the above, the adjusted average P/E of the comparable companies was then applied to the latest available historical profit attributable to shareholders of the Target Company for the trailing 12 months before the Valuation Date of approximately HK$6,584,000, to arrive at the market value of the 100% equity interest in the Target Company of approximately HK$65.0 million.

The Valuer has also performed a cross checking analysis using P/B multiple. The implied P/B multiple from the valuation was approximately 0.5, which was derived with reference to the latest available historical net book value of the Target Company attributable to the shareholders before the Valuation Date of approximately HK$134,225,000. The P/B multiple of each of the comparable companies are as follows:

Stock code of comparable company	Name of comparable company	P/B multiple
3816	KFM Kingdom Holdings Limited	0.3
255	Lung Kee (Bermuda) Holdings Limited	0.9
698	Tongda Group Holdings Limited	0.5
3336	Ju Teng International Holdings Limited	0.3
	Average:	0.5

The average P/B of the comparable companies being approximately 0.5 was adjusted with marketability discount of 15.8% and control premium of 17.9% to arrive at approximately 0.5, which was in line with the implied P/B multiple from the valuation.

The P/E multiple of the Target Companies is approximately 10.02, being the consideration HK$66.0 million divided by the profit attributable to shareholders of the Target Company of approximately HK$6,584,000, with reference to the adjusted average P/E multiple of the comparable companies.

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 transactions 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 Latest Practicable Date, 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 details set out 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 ABOUT THE ASSETS TO BE DISPOSED OF

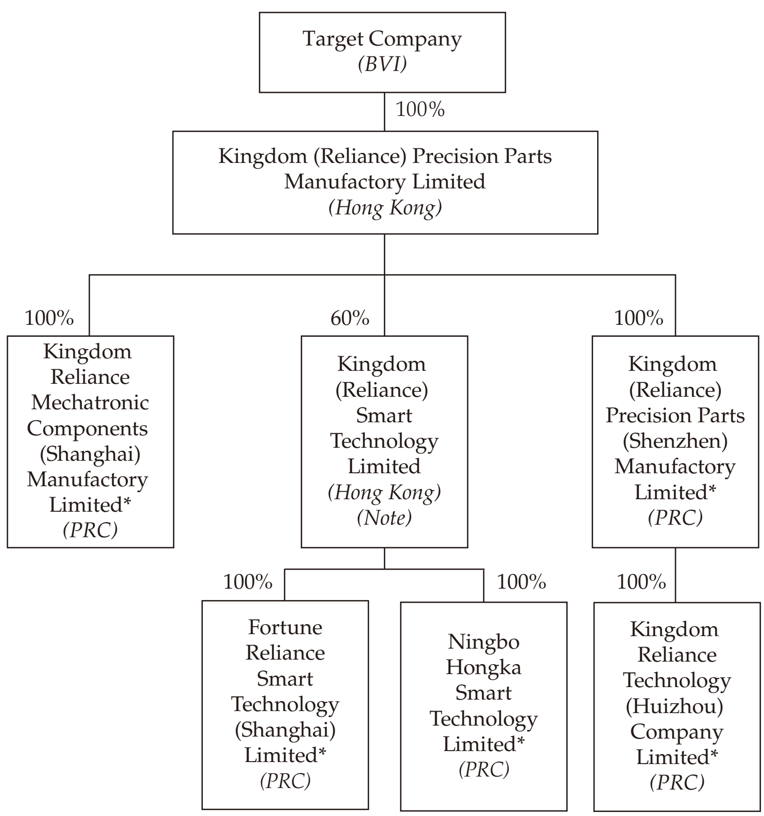
Information on the Target Companies

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

As at the Latest Practicable Date, the Target Company wholly owned Kingdom (Reliance) Precision Parts Manufactory Limited, which in turn owned (i) 金德利資精密機電部件(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) 德利資精密五金制品(深圳)有限公司 (Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited*) as to 100%. Kingdom (Reliance) Smart Technology Limited wholly owned (a) 富資德智能科技(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 德利資精密五金制品(深圳)有限公司 (Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited*) wholly owned 德利資精密智造(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 Latest Practicable Date:



Note:

Such company was owned by three Independent Third Parties as to 40% in aggregate as at the Latest Practicable Date.

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		For the six months ended 30 September
	2020	**2021**	**2021**
	(HK$ million)	*(HK$ million)*	*(HK$ million)*
Revenue	303.6	272.0	126.8
Cost of sales	239.8	202.7	103.3
Gross profit	63.8	69.3	23.5
Profit/(Loss) before taxation and extraordinary items	24.0	10.4	(8.5)
Profit/(Loss) after taxation and extraordinary items	21.1	7.1	(73.8)

	As at 31 March 2021	As at 30 September 2021
	(HK$ million)	*(HK$ million)*
Net assets	138.3	64.9

The net loss of approximately HK$73.8 million of the Target Companies for the six months ended 30 September 2021 was primarily due to (i) the recognition of impairment loss of approximately HK$64.0 million in the accounts upon remeasurement to fair value of the Target Companies arising from the Disposal for the six months ended 30 September 2021; and (ii) the significant drop in sales to customers who engaged in the consumer electronics industry. For further details, please refer paragraph headed "III. Reasons for and benefits of entering into the Disposal Agreement and the Existing Loan" in this letter.

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.

As at the time of entering into the Disposal Agreement, based on the then information available to the Group, it was expected that the Group would record a total comprehensive expenses 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 (subject to adjustment and audit). As Completion did not take place as at 30 September 2021, having considered that (i) the Target Companies are anticipated to be but yet to be disposed of as at 30 September 2021; and (ii) the Group is committed to proceed with the Disposal and Completion is highly probably to take place within one year, an impairment loss of approximately HK$64.0 million was recognised in the accounts upon remeasurement to fair value of the Target Companies. Thus, should Completion subsequently take place, the Group expects to record a total comprehensive gain of approximately HK$1.1 million from the Disposal, comprising approximately HK$9.4 million of gain from the Disposal and approximately HK$8.3 million of release of translation reserve upon Completion (subject to adjustment, audit and the consolidated net asset value of the Target Companies at Completion). The table below sets out the arithmetic calculation of the expected loss of Disposal of approximately HK$64.2 million and expected gain of the Disposal of approximately HK$9.4 million, based on the financial information of the Group as at 31 March 2021 and 30 September 2021, respectively:

	As at 31 March 2021 *HK$' million*	**As at 30 September 2021** *HK$' million*
Consideration	66.0	66.0
Net assets disposed of	(138.3)	(64.9)
Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries	8.1	8.3
(Loss)/gain from the Disposal	**(64.2)**	**9.4**

The above amount is calculated based on the difference between the Consideration and the net book value of the Target Companies. The actual loss/gain 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 (i) repayment of existing borrowings of the Group as to approximately 54.5%; and (ii) general working capital as to approximately 45.5%. The existing borrowings of the Group (excluding the Target Companies) consist of two unsecured borrowings from Kingdom International Group Limited. The outstanding balance of such borrowings amounted to approximately HK$36.0 million in aggregate as at 30 September 2021. The repayment date of the two aforementioned borrowings are 31 March 2022 and 9 June 2022 respectively with an effective interest rate of 5.25%.

Assets and liabilities

Upon Completion, each of the Target Companies will cease to be the Company's subsidiary and its financial results will not be consolidated into the Group's consolidated financial statements. Based on the unaudited financial information of the Target Companies as at 30 September 2021 and assuming there are no substantial changes in the assets and liabilities of the Target Companies until the date of Completion, it is expected that:

(i) the total assets of the Group would be decreased by approximately HK$342.6 million due to the total assets of the Target Companies would no longer be consolidated into the Group's consolidated financial statements;

(ii) the total liabilities of the Group would be decreased by approximately HK$277.7 million due to the total liabilities of the Target Companies would no longer be consolidated into the Group's consolidated financial statements; and

(iii) the net assets of the Group would be increased by approximately HK$1.1 million due to the net gain from Disposal.

However, the actual impact of the Disposal to be recognised by the Group will be subject to the then financial position of the Target Companies upon Completion.

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 Latest Practicable Date, Cosmic Master is ultimately beneficially owned by Mr. Lam, also being a director of a subsidiary of the Company.

THE EXISTING LOAN

Details of the Existing Loan are set out below:

Parties:	(1) Able Elite (as the lender); and (2) Target Company (as the borrower)
Amount:	Such amount as at the date of Completion. As at the Latest Practicable Date, 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.

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

As disclosed in the prospectus of the Company dated 28 September 2012 and 2020 annual report of the Company, the production base of the Target Companies, namely the Group's factory building and staff dormitory located in Xili, Nanshan District, Shenzhen (the "**Xili Leased Properties**") had had a potential risk of demolition and expropriation as it may be deemed as the historical illegal construction. Therefore, it had been the intention of the Directors to relocate one of the Group's then production bases from the Xili Leased Properties to another location. During the six months ended 30 September 2018, a location, which was then a factory premises under construction and is located in Huizhou city, Guangdong Province, the PRC (the "**Production Facility**"), was identified and the Directors are of the view that it is a suitable site for relocating the Group's production base from the Xili Leased Properties. The Group entered into a framework agreement with the independent third party owner of the Production Facility in relation to the leasing of the Production Facility.

As disclosed in the announcements of the Company dated 27 October 2020 and 2 March 2021, by entering into a formal tenancy agreement with the independent third party owner of the Production Facility on 27 October 2020, the production base of the Target Companies will be relocated (the "**Relocation**") from the Xili Leased Properties to Production Facility. With the then expectation of the Production Facility being delivered to the Group on or before 1 April 2021 and given the Production Facility is a newly constructed premises which requires renovation for efficient relocation and production use, on 2 March 2021, the Target Companies entered into (i) a renovation agreement; and (ii) a system supply agreement for developing and setting up an automated facility and a smart management and security system at the Production Facility. For further details regarding such renovation agreement and system supply agreement, please refer to the announcement of the Company dated 2 March 2021.

As at the Latest Practicable Date, 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 Latest Practicable Date, the Target Companies incurred and borne approximately HK$65.2 million of capital expenditure as a result of the Relocation. The Relocation took place during October 2021 and it is expected that further capital expenditure of approximately HK$31.4 million will be recorded for (i) the remaining payments for the abovementioned renovation agreement and system supply agreement at the Production Facility; and (ii) the further installation of machineries. Regardless whether Completion will take place or not, such expected further capital expenditure shall be borne by the Target Companies with their general working capital. Should Completion take place, the financial statements of the Target Companies will no longer be included in the consolidated statements of the Company. As a result, if Completion does not take place before the further capital expenditure (of approximately HK$31.4 million) being incurred, such capital expenditure will still be borne by the Target Companies, but also be reflected in the financial statement of the Company in a consolidated level, instead of being borne by the Company. As such, the Directors are of the view that it is not necessary to adjust the Consideration or have an reimbursement arrangement mechanism as the further capital expenditure will only be borne by the Target Companies with their general working capital but not from the Remaining Group regardless whether Completion will take place or not.

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. As stated in the interim results announcement ("**Interim Announcement**") of the Company for the six months ended 30 September 2021, such challenges and uncertainties subsisted during the six months ended 30 September 2021.

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. To the best of the Directors' knowledge and belief, the ultimate customer of several customers of the Group which engaged in the consumer electronics industry, being a renowned smartphone brand owner, no longer sell one of its accessory products together with its smartphones as a bundle which the Group have used to produce certain parts thereof (the "**Parts**").

As disclosed in the Interim Announcement, revenue generated from the Group's metal lathing segment decreased by approximately 21.7% for the six months ended 30 September 2021, as compared to the same of the corresponding period last year. The further decrease was mainly attributable to the change in demand of the major customers and the worsen business environment arising from the conflicts between China and the US. Based on the unaudited consolidated management accounts of the Target Companies, the sales of the Parts accounted approximately 39.8%, 18.4% and 1.2% of the total revenue of the Target Companies during the two years ended 31 March 2021 and the six months ended 30 September 2021, respectively. With such change of business strategy for such ultimate customer and escalated China-US tensions, the relevant customers of the Group also changed their business strategy accordingly and reduced placing orders with the Group consecutively. The sale of the Parts has recorded a generally higher gross profit margin, as compared to other products manufactured by the Target Companies. Therefore, with the change of product mix as a result of the aforementioned change of business strategy of relevant customers, the Target Companies further recorded a net loss of HK$73.8 million for the six months ended 30 September 2021. 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 and the six months ended 30 September 2021. The Directors are of the view that the abovementioned market trend for both segments will subsist in the future.

The rapid growth in cloud based and blockchain based technology, enterprises are fueling exponential growth in the global demand for networking and data storage solutions. Some of the largest components and customers of the network and data storage industry are cloud computing, blockchain technology, social media, video streaming and e-commerce. It is expected that the Group could potentially capitalise on the expansion in the network and data storage industry.

As disclosed in the announcement of the Company dated 25 August 2021, the decrease in demand in the metal lathing business from customers who engaged in the consumer electronics industry of the metal lathing segment subsisted during the four months ended 31 July 2021 and such situation continued during the two months ended 30 September 2021 and the gross profit margin of the metal lathing segment decreased significantly from approximately 30.6% for the six months ended 30 September 2020 to approximately 18.5% for the six months ended 30 September 2021. The Board is of the view that such decline in financial performance of the Target Companies and decrease in customers' orders are not temporary, and will subsist for a period of time. In addition, there was an additional depreciation in the right-of-use assets from the segment's newly leased properties during the six months ended 30 September 2021. Thus, the financial performance of the segment had been adversely affected during the six months ended 30 September 2021, and it is expected that such trend will subsist afterwards.

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 Group recorded a negative compound annual growth rate ("**CAGR**") in revenue and profit for its metal lathing business of approximately 10.5% and 59.2%, respectively across the three years ended 31 March 2021; (ii) the expected subsisting and 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 (iii) 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. Having considered that the Target Companies and the Remaining Group are operated, managed and financed (save as the Existing Loan) independently, the Directors are of the view that the Remaining Group's business operation will not be materially adversely affected by the Disposal upon Completion. Thus, the Directors consider the Disposal would enable the Remaining Group to focus on metal stamping segment by expanding production lines, improving operational efficiency, expanding and diversifying its customer base, and thus maximising return to the Shareholders in long run.

With the Remaining Group focusing on metal stamping segment, in particular for networking and data storage solutions, the Directors plan to increase the production capacity thereof by (i) expanding production area; and (ii) acquiring machineries. As at the Latest Practicable Date, the Remaining Group acquired several new production lines, including nine sets of punching machines, and entered into a tenancy agreement (the "**New Tenancy Agreement**") for the renewal of the existing tenancy agreement regarding the leasing of the production base located in Suzhou, the PRC (as disclosed in the announcement of the Company dated 20 September 2021 and the circular of the Company dated 1 November 2021). Pursuant to the New Tenancy Agreement, the Remaining Group leased an additional one five-storey factory building located in Suzhou, the PRC, with an expected total gross floor area of approximately 10,200 square metres.

In order to minimise the adverse impact of continuous deteriorating financial performance of the Target Companies, on 26 July 2021, the Directors resolved that the disposal of the Target Companies would be in the best interests of the Shareholders and the Company as a whole in the long run. Potential purchasers for the Target Companies were sought by the Company after the Board resolved the intention of the disposal of the Target Companies in late July and early August 2021. Despite the best endeavor of the Company in approaching potential purchasers, only an independent third party reverted interests in acquiring the Target Companies by offering a consideration that was much lower than the appraised value of the Target Companies. On the other hand, Cosmic Master offered a consideration, being higher than the appraised value of the Target Companies. 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.

The Directors also explored the possibility of liquidating the Target Companies with the disposal of the key assets of the Target Companies (i.e. mainly machineries). As at 31 March 2021, the total assets of the Target Companies were approximately HK$406.6 million in which the current assets amounted to approximately HK$222.3 million, while the non-current assets amounted approximately HK$184.3 million. The current assets of the Target Companies as at 31 March 2021 mainly comprised (i) cash and cash equivalents of approximately HK$97.8 million; (ii) third party trade and bills receivables of approximately HK$76.5 million; and (iii) inventories of approximately HK$34.3 million. The non-current assets of the Target Companies as at 31 March 2021 mainly comprised (i) property, plant and equipment of approximately HK$98.2 million; and (ii) lease right of use of approximately HK$75.9 million. The property, plant and equipment of the Target Companies as at 31 March 2021 mainly consisted of (a) machineries of approximately HK$93.0 million; and (b) leasehold improvement of approximately HK$3.2 million.

As at 30 September 2021, the total assets of the Target Companies were approximately HK$342.6 million in which the current assets amounted to approximately HK$196.8 million, while the non-current assets amounted approximately HK$145.8 million. The current assets of the Target Companies as at 30 September 2021 mainly comprised (i) third party trade and bills receivables of approximately HK$95.2 million; (ii) cash and cash equivalents of approximately HK$52.1 million; and (iii) inventories of approximately HK$44.4 million. The non-current assets of the Target Companies as at 30 September 2021 mainly comprised (i) property, plant and equipment of approximately HK$58.1 million; and (ii) lease right of use of approximately HK$43.7 million. Given the Target Companies did not own any land or building, but solely owning machineries, the Directors are of the view that the Target Companies are not asset-intensive companies. Based on the information regarding the second-hand machinery market, the second-hand value of the machineries of the Target Companies amounted to approximately HK$36.5 million. Given the second-hand value of the machineries of the Target Companies are much lower than the carrying value of the machineries and the leasehold improvement of the Target Companies, the Directors are of the view that it would not be in the interests of the Company and the Shareholders as a whole to dispose of the machineries and the leasehold improvement of the Target Companies (i.e. mainly machineries). In addition, the Directors also considered that liquidation of the Target Companies would incur significant amount of (a) penalty costs as a result of early termination of the current lease of the Target Companies; (b) compensation costs as a result of early termination of employment of the Target Companies' employees; and (c) write-off of capital expenditure for the Relocation, including but not limited to, the renovation of the Production Facility as aforementioned. As such, even though the Company looks for light-asset operation, the Directors considered that such estimated substantial costs would 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 and achieve light-asset 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. Part of the net proceeds from the Disposal will be used for repayment of existing borrowings 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.

Prior to entering into of the Disposal Agreement, the Company also engaged the Independent Financial Adviser to provide its opinion and advise the Board, in particular the independent non-executive Directors, on the reasonableness and fairness of the terms of the Disposal Agreement (including the Consideration). Based on the then available financial information of the Group, including the Target Companies, prior to the entering into of the Disposal Agreement, the Independent Financial Adviser had evaluated, among other things, the Consideration. In this respect, the Independent Financial Adviser compared the Consideration with the market values of precision metal product manufacturing companies by considering the P/E and P/B multiple. In identifying comparable companies, the Independent Financial Adviser used a different approach from the Valuer, and identified six comparable companies (the "**IFA Comparable(s)**") based on the criteria of companies which are (i) currently listed on the Main Board of the Stock Exchange; and (ii) engaged in principal business similar to the Target Companies and generated over 50% of its total revenue for the latest completed financial year from precision metal product manufacturing business, by using FactSet comparable search. As the IFA Comparables are engaged in a principal business similar to the Target Companies, notwithstanding the IFA Comparables may or may not be identical to the Target Companies in terms of their principal business, operations and financial position, the Independent Financial Adviser considers the IFA Comparables to be an exhaustive list under the aforementioned criteria. Since it is noted that:

(i) the implied P/E of the Consideration (i.e. approximately 10.02) is within the range (i.e. 4.30 to 12.91) and higher than the average P/E (i.e. 8.96) of the IFA Comparables;

(ii) the implied P/B of the Consideration (i.e. 0.48) is slightly below the average of the IFA Comparables (i.e. 0.50 but still within range of the IFA Comparables (i.e. 0.23 to 1.03) and higher than the P/B of the Company itself (i.e. 0.33);

(iii) the valuation of the Target Company (i.e. HK$65.0 million) represents an approximately 11.0% premium to the valuation implied by the IFA Comparables of approximately HK$58.6 million (applying the (1) average P/E of the IFA Comparables of 8.96; (2) marketability discount and control premium utilised for the valuation of 15.8% and 17.9% respectively to the net profit attributable to shareholders of the Target Company); and

(iv) the Consideration of HK$66.0 million represents a further HK$1.0 million premium to the valuation of the Target Company of approximately HK$65.0 million,

The Independent Financial Adviser is therefore of the view that the Consideration is fair and reasonable. Therefore, despite the Consideration was at a significant discount to the Target Companies' net asset value, having considered (i) the fact that the Target Companies are not asset-intensive companies, whereby the carrying value of their key assets (i.e. property, plant and equipment (which mainly consisted of machineries)) amounted approximately HK$98.2 million as at 31 March 2021; (ii) the deteriorating financial performance of the Target Companies as further disclosed in the paragraph headed "III. Reasons for and benefits of entering into the Disposal Agreement and the Existing Loan" above; and (iii) the aforementioned opinion provided by the Independent Financial Adviser, the Directors are of the view that putting more emphasis on the appraised value of the Target Companies as disclosed above is more appropriate to reflect the value thereof fairly and accurately. Since the Consideration represents a further HK$1.0 million premium to the appraised value of the Target Companies, the Directors (including the independent non-executive Directors) are of the view that the Consideration is fair and reasonable, and in the interest of the Company and the Shareholders as a whole.

As at the Latest Practicable Date, save as the Disposal, the Company does not have any intention, arrangement, agreement, understanding, negotiation (concluded or otherwise) on (i) any disposal, termination or scaling down of the Group's remaining business (i.e. metal stamping segment); (ii) injection of any new business or assets to the Group; and (iii) any change in the Company's shareholding and the Board's structure.

Prior to the entering into the Disposal Agreement, the Existing Loan has already existed as an intra-group loan between members of the Group (including the Target Companies), which the Target Company do not bear any interest liabilities to the Group. Upon Completion, as the Target Companies will cease to be the Company's subsidiaries, the Existing Loan would no longer be an intra-group loan between members of the Group. Thus, based on arm's length negotiation between the Vendor and the Purchaser, it was agreed that the Existing Loan will be repaid to the Group (excluding the Target Companies) within three years from the date of Completion; and Cosmic Master has undertaken to procure the Target Companies to repay the Existing Loan to the Group pursuant to the undertaking made by Cosmic Master under the Disposal Agreement. Having considered that (i) further capital expenditure will be incurred by the Target Companies for the Relocation as disclosed above; (ii) creditability and financial position of the Target Companies; and (iii) the Company has a comprehensive understanding on the financial position of the Target Companies given they have been members of the Group immediately prior to Completion, the Directors considered that the default risk is low. Even though the Target Company does not and will not provide any collaterals, with the Directors assessing default rate of the Target Company being low, the Directors consider that it would be more appropriate to grant a longer period of time (i.e. three years from Completion) to the Target Company for settlement of the Existing Loan, instead of granting a shorter repayment period (such as one year from Completion), as longer repayment period would enable the Target Companies a greater flexibility on the allocation of cash and better cash flow, so that it could be financially stable to operate its business, implement the Relocation as well as settle the Existing Loan (including the interest rates incurred) at the same time. If a shorter repayment period were granted, the Directors are of the view that it may impose pressure on the business operation and cash flow of the Target Company since the Target Company may not have sufficient cash to (i) pay the abovementioned further capital expenditure of approximately HK$31.4 million for the Relocation; and (ii) repay the Existing Loan, together with the interests, all at the same time.

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 the interest rate of the Existing Loan is higher than Hong Kong's prime lending rate of 5.00% per annum as at the time when the Existing Loan was granted. Thus, with a repayment period of three years, the Directors are of the view that the Existing Loan could provide the Group (excluding the Target Companies) an annual stable interest income of approximately HK$2.0 million, 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.

In order to ensure the Target Company will be able to settle the Existing Loan, the Remaining Group will monitor the settlement by (i) obtaining regular updates on the Target Company's financial conditions after Completion; and (ii) reminding the Target Company prior to relevant due date. If any material adverse change to the financial condition of the Target Company was discovered, or other circumstances that may materially and adversely affect the collectability of the Existing Loan, the Remaining Group shall discuss with the Target Company regarding ways to resolve the matters before taking any legal proceedings. The management may consider requesting the Target Company to immediate repay either a portion of or all outstanding amount of the Existing Loan.

At the relevant time of the signing of the Disposal Agreement, the Directors were confident in the Target Companies' repayment capacity after taking into consideration of the financial conditions, credibility and the cash flow of the Target Companies. In particular, the Target Companies had a positive operating cash flow of approximately HK$55.8 million as at 31 March 2021. The drop of positive operating cash flow of the Target Companies to approximately HK$0.6 million as at 30 September 2021 was mainly due to the pile-up of finished goods for customers upon the Relocation which took place in October 2021, and the significant decrease in revenue of the metal lathing business. The finished goods has been piled up for customers to accommodate customers' orders, which shall be delivered in the upcoming months, while production has been halted temporarily for the Relocation. It is expected that full production at the Production Facility will be resumed by the end of 2021. Therefore, the Directors are of the view that minimal positive operating cash flow of the Target Companies shall be temporary. As a result, even though the Target Companies have been loss making for the six months ended 30 September 2021, the Directors are of the view that the Target Companies are financially healthy enough to repay the Existing Loan and the default risk of the Target Companies is low. During the arm's length negotiation of the Disposal, the Company conducted background search on and enquired the financial position of Cosmic Master and its ultimate beneficial owner. Since both Cosmic Master and its ultimate beneficial owner has not been adjudged bankrupt or insolvent, and Cosmic Master was able to pay the Deposit as per the Disposal Agreement, the Directors are of the view that Cosmic Master is credible. Despite the fact that the Directors are still of the view that the default risk is low, subsequent to the entering into of the Disposal Agreement, the Directors are of the view that it would be appropriate to obtain a further security for repayment of the Existing Loan. Therefore, the Company has requested, and Cosmic Master has agreed to give an undertaking to Able Elite upon Completion that it would undertake to settle all sums due, owing and/or payable but unpaid by the Target Company upon demand by Able Elite. In the event if the Target Companies failed to repay the Existing Loan or any part thereof, in which the Directors are of the view that the risk is low, the Group will request the Cosmic Master to repay on behalf of the Target Companies, and/or take relevant legal actions against both the Target Companies and Cosmic Master in order to ensure that the Existing Loan can be properly repaid.

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.

IV. LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, 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 and 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 for the Existing Loan 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.

V. WRITTEN APPROVAL FROM THE SHAREHOLDERS IN RESPECT OF THE DISPOSAL

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 Latest Practicable Date), 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. As at the Latest Practicable Date, save as being the controlling shareholder of the Company, Massive Force Limited and its ultimate beneficial owner do not have any business, financial or any other relationship with both (i) Kingdom International Group Limited and its ultimate beneficial owner; and (ii) the Vendor and its ultimate beneficial owner.

VI. FURTHER INFORMATION

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

VII. WARNING NOTICE

Completion of the transactions contemplated under the Disposal Agreement 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.

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

* *For identification purposes only*

1. FINANCIAL SUMMARY

Financial information of the Group for the three years ended 31 March 2021 are disclosed on pages 52 to 126 of the annual report 2019 of the Group published on 19 July 2019, pages 50 to 126 of the annual report 2020 of the Group published on 23 July 2020, pages 49 to 118 of the annual report 2021 of the Group published on 21 July 2021, and pages 20 to 60 of the interim report for the six months ended 30 September 2021 of the Group published on 10 December 2021, 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 31 October 2021, the Group's borrowings were as follows:

	As at 31 October 2021 *(HK$'000)*
Leases liabilities	76,699
Unsecured Borrowings from a related company (with accrued interest)	137,471
Total *(Note)*	214,170

Note: Including approximately HK$101.3 million of unsecured borrowings and approximately HK$74.1 million of lease liabilities due from the Target Companies to a related company.

Security

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

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

3. MATERIAL ADVERSE CHANGE

Save as disclosed in the Interim Announcement, where it was disclosed that the Company recorded a loss of approximately HK$65.7 million for the six months ended 30 September 2021, as at the Latest Practicable Date, the Directors were not aware of any material adverse change in the financial or trading position of the Group since 31 March 2021 (being the date to which the latest published audited financial statements of the Group were made up) up to and including the Latest Practicable Date.

4. SUFFICIENCY OF WORKING CAPITAL

The Directors, after due and careful enquiries, are of the opinion that following Completion, after taking into account 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.

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

5. FINANCIAL AND TRADING PROSPECT OF THE GROUP

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

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

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

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

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. 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.

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 (i) leasing of the premises located at workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and the car parking spaces number 65 and 66, 3/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong (for further details, please refer to the circular of the Company dated 6 March 2020); and (ii) leasing of factory located in Suzhou, the PRC (for further details, please refer to the circular of the Company dated 1 November 2021),

(i) there was no contract or arrangement subsisting in which any Director was materially interested and which was significant in relation to any business of the Group; and

(ii) none of the Directors had any direct or indirect interest in any assets which had been since 31 March 2021 (being the date to which the latest published audited financial statements of the Group were made up) acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

6. EXPERTS AND CONSENTS

The followings are the qualifications of the experts who have been named in this circular or have given their respective opinion or advice which are contained in this circular:

Name	**Qualification**
Merdeka Corporate Finance Limited	a licensed corporation to carry out type 6 regulated activity (advising on corporate finance) under the SFO
Cushman & Wakefield Limited	a professional independent valuer

(a) 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.

(b) As at the Latest Practicable Date, each of the above experts had no direct or indirect interests in any assets which has been acquired or disposed of by or leased to any member of the Group since 31 March 2021 (the date to which the latest published audited consolidated financial statements of the Group were made up) or proposed to be so acquired, disposed of or leased to any member of the Group.

(c) 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 of its letter or report or all references to its name in the form and context in which they respectively appear.

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 sale and purchase agreement dated 22 January 2020 and entered into between Able Elite, as vendor, and Kingdom International Group Limited, as purchaser, in relation to the sale and purchase of the entire issued shares of KFM Group Limited at a consideration of HK$44.0 million;

(b) the leasing agreement dated 13 March 2020 and entered into between Golden Express Capital Investment Limited ("**GECI**") (as landlord) and Able Elite (as tenant) in relation to the leasing of the car parking space located at number 65, 3/F, TML Tower, 3 Hoi Shing Road, Tusen Wan, New Territories, Hong Kong at a rental fee of HK$52,800 per annum;

(c) the leasing agreement dated 13 March 2020 and entered into between GECI (as landlord) and Able Elite (as tenant) in relation to the leasing of the car parking space located at number 66, 3/F, TML Tower, 3 Hoi Shing Road, Tusen Wan, New Territories, Hong Kong at a rental fee of HK$52,800 per annum;

(d) the leasing agreement dated 13 March 2020 and entered into between GECI (as landlord) and Able Elite (as tenant) in relation to the leasing of the premises located at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong at a rental fee of HK$1,944,000 per annum;

(e) the tenancy agreement dated 27 October 2020 and entered into between Reliance Precision Smart Production (Huizhou) Company Limited* (德利賚精密智造(惠州)有限公司) formerly known as Reliance Technology (Huizhou) Company Limited* (德利賚科技(惠州)有限公司) (as tenant) and Huizhou Weidi Packaging Materials Company Limited* (惠州市偉迪包裝材料有限公司) (as landlord) in relation to the leasing of the Tea Garden Industrial Park, Jiangjun Road, Qiuzhang Street Office, Huiyang District, Huizhou City, Guangdong Province, the PRC* (中國廣東省惠州市惠陽區秋長街道辦將軍路茶園工業園) at a rental fee of (i) RMB10,476,000 per annum for the first three years of lease; and (ii) RMB11,733,120 per annum after the first three years of lease;

(f) the renovation agreement dated 2 March 2021 and entered into between Reliance Precision Smart Production (Huizhou) Company Limited* (德利賚精密智造(惠州)有限公司) and Shenzhen Yijiayi Commercial Real Estate Investment Company Limited* (深圳市一佳一商業地產投資有限公司) regarding the renovation work, including installation of the power distribution system, air conditioning system, sewage system and carrying out renovation work for the Production Facility, i.e. the factory in the production facility of the Group located at No. 55 Jiangjun Road, Qiuzhang Street Office, Huiyang District, Huizhou City, Guangdong Province, the PRC* (中國廣東省惠州市惠陽區秋長街道辦將軍路), at a consideration of RMB16,000,000;

(g) the systems supply agreement dated 2 March 2021 and entered into between Reliance Precision Metal Manufacturing (Shenzhen) Company Limited* (德利賚精密五金制品(深圳)有限公司), Shenzhen Pengans Technology Company Limited* (深圳市鵬安視科技有限公司) and Tencent Cloud Computing (Beijing) Company Limited* (騰訊雲計算(北京)有限責任公司) regarding the systems supply work, including (i) the supply of a software system consisting of an internet of things platform in the Production Facility which connects with a cloud server; and (ii) the set up and installation of the IoT Platform System in the Production Facility at a consideration of RMB19,180,000;

(h) the Disposal Agreement; and

(i) the tenancy agreement dated 20 September 2021 and entered into between Kingdom Precision Science and Technology (Suzhou) Company Limited* (金德精密科技(蘇州)有限公司) (as landlord) and Kingdom Precision Product (Suzhou) Company Limited* (金德精密配件(蘇州)有限公司) (as tenant) in relation to the leasing of a factory located in Suzhou, the PRC at an initial rental fee of RMB14,548,992 per annum for Factory Phases I & II (as defined in the announcement of the Company dated 20 September 2021) and RMB3,059,400 per annum for Factory Phase III (as defined in the announcement of the Company dated 20 September 2021) (the rental fee shall be adjusted with an increment every two years, details of which are set out in the announcement of the Company dated 20 September 2021).

9. DOCUMENTS AVAILABLE ON DISPLAY

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

(a) Disposal Agreement;

(b) the letter from the Independent Financial Adviser;

(c) the valuation report issued by the Valuer;

(d) the written consents referred to in the paragraph headed "6. Experts and consents" 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 Suntera (Cayman) Limited at Suite 3204, Unit 2A, Block 3, Building D, P.O. Box 1586, Gardenia Court, Camana Bay Grand Cayman KY1-1110, Cayman Islands.

(e) The branch share registrar of the Company in Hong Kong is Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong.

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