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KIN YAT HOLDINGS LIMITED
建溢集團有限公司

website: <http://www.kinyat.com.hk>

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)

**PROPOSED CONNECTED TRANSACTION AND
DISCLOSEABLE TRANSACTION
IN RELATION TO DISPOSAL OF PROPERTY
AND
CONNECTED TRANSACTION IN RELATION TO LEASING OF
PROPERTY FOLLOWING THE DISPOSAL OF A PROPERTY**

**DISPOSAL OF A SUBSIDIARY OWNING PROPERTY 1 AND DISPOSAL OF
PROPERTY 2**

The Board wishes to announce that on 21 January 2020, after trading hours of the Stock Exchange, KYHK (an indirect wholly-owned subsidiary of the Company) and Mr Cheng entered into the S&P Agreement, and KYI (an indirect wholly-owned subsidiary of the Company) and Century Grand (a company wholly owned by Mr Cheng) entered into the Memorandum Agreement. Pursuant to the S&P Agreement, the Company agreed to sell and Mr Cheng agreed to acquire the entire equity interest in Unicon, the sole asset of which is Property 1, for a cash consideration of HK\$39,500,000 in respect of Disposal 1, and pursuant to the Memorandum Agreement, the Company agreed to sell and Century Grand agreed to acquire Property 2 for a cash consideration of HK\$19,750,000 in respect of Disposal 2. Completion of the Disposals shall be conditional upon each other and shall take place simultaneously.

The proceeds of the Disposals will be used to fund general working capital needs and other corporate purposes. The Directors believe that the divestment would enhance not only the cash position of the Company but also its resources allocation strategy and complementing its strategic and operational flexibility.

Upon the completion of Disposal 1, Unicon will cease to be a subsidiary of the Company and its financial statements will no longer be consolidated into the Group's financial statements.

In accordance with Rule 14.22 of the Listing Rules, Disposal 1 and Disposal 2 shall be aggregated as if they were one transaction for the purpose of Chapter 14 of the Listing Rules. As each of Mr Cheng and his associate, Century Grand, is a connected person of the Company, and one or more of the relevant applicable percentage ratios (as defined in the Listing Rules) for Disposal 1 and Disposal 2 (in aggregate) exceeds 5% but is less than 25%, Disposal 1 and Disposal 2 (in aggregate) hence constitutes a discloseable transaction and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement, and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

LEASING OF PROPERTY 1 FOLLOWING THE DISPOSAL OF A SUBSIDIARY

Upon completion of Disposal 1, KYI (an indirect wholly-owned subsidiary of the Company) (as tenant) intends to enter into the Tenancy Agreement to lease Property 1 from Unicon (as Landlord) for a monthly rental amount of HK\$124,800 (inclusive of government rent, rates and management fees only) for a term of three years renewable for further three years at the then market rental rate.

Upon completion of Disposal 1, Unicon will be a connected person of the Company. Accordingly, the leasing of Property 1 under the Tenancy Agreement upon completion of Disposal 1 will constitute a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. In accordance with HKFRS 16 "Leases", the Company will recognise the value of the right-of-use assets on its balance sheet with respect to the leasing of Property 1, if materialised. Accordingly, the leasing of Property 1 following Disposal 1 will be regarded as acquisition of asset by the Company for the purpose of the Listing Rules. As one or more of the relevant applicable percentage ratios (as defined in the Listing Rules) for the leasing of Property 1 exceeds 0.1% but is less than 5%, the transactions contemplated under the Tenancy Agreement will be subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirements under the Listing Rules.

SPECIAL GENERAL MEETING

The Company will convene the Special General Meeting to consider and, if thought fit, approve the S&P Agreement, Memorandum Agreement and the transactions contemplated thereunder.

The Independent Board Committee consisting of all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Disposals. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Disposals. A circular containing, among other things, (1) details of the Disposals; (2) the letter from the Independent Board Committee; (3) the letter from the Independent Financial Adviser; and (4) other information as required to be contained in the circular under the Listing Rules, together with the notice of the Special General Meeting, is expected to be despatched to the Shareholders on or about 13 February 2020.

DISPOSAL 1

THE S&P AGREEMENT

On 21 January 2020, after trading hours of the Stock Exchange, KYHK and Mr Cheng entered into the S&P Agreement in relation to the Disposal 1, pursuant to which KYHK agreed to sell and Mr Cheng agreed to acquire the entire equity interest in Unicon free from all encumbrances for a cash consideration of HK\$39,500,000. The sole asset of Unicon is Property 1. Details of the S&P Agreement are set out below:

Date:	21 January 2020
Parties:	(i) Vendor: KYHK, an indirect wholly-owned subsidiary of the Company; and (ii) Purchaser: Mr Cheng, a connected person of the Company
Assets to be disposed of:	the entire equity interest in Unicon free from all encumbrances, the sole asset of which is Property 1
Consideration:	HK\$39,500,000
Terms of Payment:	Upon signing of the S&P Agreement, an initial deposit of HK\$3,950,000 was paid in cash to KYHK and the balance of the consideration of HK\$35,550,000 will be payable in cash upon completion of the S&P Agreement

Conditions precedent: Completion of Disposal 1 is conditional upon (a) completion of Disposal 2 taking place simultaneously, and (b) the fulfilment of the condition of the passing of all necessary resolutions by the Independent Shareholders in accordance with the requirements under the Listing Rules at the Special General Meeting approving (i) the transactions contemplated under the S&P Agreement, and (ii) the transactions contemplated under the Memorandum Agreements with respect to Disposal 2 submitted for approval at the Special General Meeting

Unicon will not own any material assets or liabilities other than Property 1 immediately prior to the completion of the S&P Agreement. The consideration was reached after arm's length negotiations between the parties with reference to the valuation of the Property 1 made by the independent property valuers (the "Independent Property Valuers") of HK\$43,000,000 as at 31 March 2019 and a preliminary updated valuation of Property 1 made by the Independent Property Valuers close to the date of this announcement of HK\$39,500,000. The finalised updated valuation report of the Property 1 will be included in the Company's circular to be despatched.

Under the S&P Agreement, should the conditions precedent abovementioned not be satisfied on or prior to the long stop date (which is the six-month anniversary date of the date of S&P Agreement or such later date as may be agreed between KYHK and Mr Cheng in writing), all rights, obligations and liabilities of KYHK and Mr Cheng in respect of or under the S&P Agreement shall cease and terminate and KYHK shall return to Mr Cheng forthwith the deposit paid, and no party to the agreement shall have any claim of any nature whatsoever against the other party under the S&P Agreement.

DISPOSAL 2

THE MEMORANDUM AGREEMENT

On 21 January 2020, after trading hours of the Stock Exchange, KYI and Century Grand entered into the Memorandum Agreement in relation to the Disposal 2, pursuant to which KYI agreed to sell and Century Grand agreed to acquire Property 2 for a cash consideration of HK\$19,750,000. Details of the Memorandum Agreement are set out below:

Date: 21 January 2020

Parties: (i) Vendor: KYI, an indirect wholly-owned subsidiary of the Company; and
(ii) Purchaser: Century Grand International Limited, an investment holding company wholly owned by Mr Cheng, a connected person of the Company

Assets to be disposed of:	Property 2
Consideration:	HK\$19,750,000
Terms of Payment:	Upon signing of the Memorandum Agreement, an initial deposit of HK\$1,975,000 was paid in cash to KYI and the balance of the consideration of HK\$17,775,000 will be payable in cash upon completion of the Memorandum Agreement
Conditions precedent:	Completion of Disposal 2 is conditional upon (a) completion of Disposal 1 taking place simultaneously, and (b) the fulfilment of the condition of the passing of all necessary resolutions by the Independent Shareholders in accordance with the requirements under the Listing Rules at the Special General Meeting approving (i) the transactions contemplated under the Memorandum Agreement, and (ii) the transactions contemplated under the S&P Agreement in respect of Disposal 1 submitted for approval at the Special General Meeting

The consideration was reached after arm's length negotiations between the parties with reference to the valuation of the Property 2 made by the Independent Property Valuers of HK\$22,000,000 as at 31 March 2019 and a preliminary updated valuation of the Property 2 made by the Independent Property Valuers close to the date of this announcement of HK\$19,750,000. The finalised updated valuation report of the Property 2 will be included in the Company's circular to be despatched.

Under the Memorandum Agreement, should the conditions precedent abovementioned not be satisfied on or prior to the long stop date (which is the six-month anniversary date of the date of Memorandum Agreement or such later date as may be agreed between KYI and Century Grand in writing), all rights, obligations and liabilities of KYI and Century Grand in respect of or under the Memorandum Agreement shall cease and terminate and KYI shall return to Century Grand forthwith the deposit paid, and no party to the agreement shall have any claim of any nature whatsoever against the other party under the Memorandum Agreement.

ASSETS TO BE DISPOSED OF WITH RESPECT TO DISPOSAL 1 AND DISPOSAL 2

The sole asset of Unicon is Property 1, and the Company will, in effect, dispose of Property 1 through the disposal of the entire equity interest in Unicon. The Company has been using Property 1 since 1995. Property 2 was used by the Group until around June 2018 and was vacant since then.

Both Property 1 and Property 2 are located at Galaxy Factory Building, a 21-storey industrial building built in 1971 and located at 25-27 Luk Hop Street, San Po Kong, Kowloon, Hong Kong. Property 1 is located at the whole floor on 7th floor, Galaxy Factory Building with a gross floor area of approximately 10,400 square feet, while Property 2 is located at Block B on 11th floor, Galaxy Factory Building with a gross floor area of approximately 5,200 square feet.

EFFECT OF THE DISPOSALS ON THE GROUP

For Disposal 1, it is expected that the net asset value or carrying value of Unicon at the completion of Disposal 1 shall be approximately HK\$33,700,000 after taking into account of the movement of revaluation reserve since 31 March 2019 arising from the updated valuation of Property 1 and the associated deferred tax liabilities. Accordingly, the Disposal of the entire equity interest in Unicon at a consideration of HK\$39,500,000 is expected to give rise to a gain of approximately HK\$5,800,000 (subject to audit) for the Group.

Upon the completion of the Disposal 1, Unicon will cease to be a subsidiary of the Company and its financial statements will no longer be consolidated into the Group's financial statements.

For Disposal 2, the fair value of the Property 2 by reference to its open market value based on the preliminary updated valuation made by the Independent Property Valuers close to the date of this announcement is expected to be at HK\$19,750,000. The Disposal 2 at a consideration of HK\$19,750,000 is expected to give rise to an impairment loss of approximately HK\$1,950,000 (subject to audit) representing the fair value change of Property 2 which was classified as asset held for sale since July 2019 with a carrying value of approximately HK\$21,700,000.

LISTING RULES IMPLICATIONS WITH RESPECT TO DISPOSAL 1 AND DISPOSAL 2

In accordance with Rule 14.22 of the Listing Rules, Disposal 1 and Disposal 2 shall be aggregated as if they were one transaction for the purpose of Chapter 14 of the Listing Rules. As each of Mr Cheng and his associate, Century Grand, is a connected person of the Company, and one or more of the relevant applicable percentage ratios (as defined in the Listing Rules) for Disposal 1 and Disposal 2 (in aggregate) exceeds 5% but is less than 25%, Disposal 1 and Disposal 2 (in aggregate) hence constitutes a discloseable transaction and connected transaction for the Company under Chapters 14 and 14A of the Listing Rules and is subject to the reporting, announcement, and independent shareholders' approval requirements set out in Chapter 14A of the Listing Rules.

LEASING OF PROPERTY 1

Upon completion of Disposal 1, KYI, as tenant, intends to enter into the Tenancy Agreement with Unicon, as Landlord, in respect of the leasing of Property 1. Details of the major terms of the Tenancy Agreement are as follows:

- Parties:
- (i) Tenant: KYI, an indirect wholly-owned subsidiary of the Company; and
 - (ii) Landlord: Unicon, will be wholly owned by Mr Cheng upon completion of Disposal 1
- Premises leased: Property 1
- Term: Three-year term from the date of completion of Disposal 1, renewable for further three years at the then market rental rate
- Lease rental: HK\$124,800 (inclusive of government rent, rates and management fees) per calendar month payable in advance on the first day of each calendar month

The monthly lease rental abovementioned was determined on an arm's length basis by reference to the rents payable for other properties in the same building and comparable properties nearby and the rental valuation of a monthly rental amount of HK\$124,000 (exclusive of government rent, rates and management fees) made by the Independent Property Valuers on 20 January 2020.

LISTING RULES IMPLICATIONS WITH RESPECT TO THE LEASING OF PROPERTY 1

Upon completion of Disposal 1, Unicon will be an associate of a connected person of the Company and hence itself will become a connected person of the Company. Accordingly, the leasing of Property 1 under the Tenancy Agreement upon completion of Disposal 1 will constitute a connected transaction for the Company pursuant to Chapter 14A of the Listing Rules. In accordance with HKFRS 16 "Leases", the Company will recognise the value of the right-of-use assets on its balance sheet with respect to the leasing of Property 1, if materialised. Accordingly, the leasing of Property 1 following Disposal 1 will be regarded as acquisition of asset by the Company for the purpose of the Listing Rules. As one or more of the relevant applicable percentage ratios (as defined in the Listing Rules) for the leasing of Property 1 exceeds 0.1% but is less than 5%, the transactions contemplated under the Tenancy Agreement will be subject to the reporting and announcement requirements but exempted from the independent shareholders' approval requirements under the Listing Rules.

INFORMATION ON UNICON

The principal activity of Unicon is property holding for the sole purpose of holding Property 1. Prior to completion of Disposal 1, Unicon has been leasing Property 1 to KYI and the revenue represented the rental income received and receivable and the net asset value of Unicon according to its audited financial accounts as at 31 March 2019 was HK\$43,336,000. The financial information of Unicon as extracted from its audited financial accounts is summarised as follows:

	For the year ended 31 March	
	2018	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	1,872	1,872
Fair value gain on investment properties	4,000	9,000
Profit before taxation	5,288	10,369
Profit after tax	4,993	10,369

REASONS FOR AND BENEFITS OF THE DISPOSALS AND THE LEASING OF PROPERTY 1 FOLLOWING DISPOSAL 1

The principal activity of each of the Company and KYHK is investment holding. The Group operates two main business streams; namely manufacturing businesses and non-manufacturing business segments. In the manufacturing arena, it is engaged in the research-and-development-based production of electrical and electronic products business, electric motors business, and glass technology related business activities. The non-manufacturing segment of the Group currently comprises mainly real estate development business in Guizhou, the PRC. The principal activity of KYI is trading of toys, electronic products, and sourcing of materials.

The proceeds of the Disposals will be used to fund general working capital needs and other corporate purposes. Given that the ownership of the properties to be disposed of is not critical to the operations of the Group's business, the Directors are of the opinion that the divestment would not have any material impact on the overall business operations of the Group and believe that the divestment would enhance not only the cash position of the Company but also its resources allocation strategy and complementing its strategic and operational flexibility.

The Directors (excluding the independent non-executive Directors who will render their views after considering the advice to be given by the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders) are of the view that the Disposals are in the interests of the Company and the Shareholders as a whole, and the terms of the S&P Agreement and the Memorandum Agreement are fair and reasonable and on normal commercial terms.

The Company has been using the Property 1 since 1995. The Directors consider it to be in the interests of the Company and the Shareholders as a whole for the Company to lease back Property 1 from Unicon after completion of Disposal 1 as long as the leasing terms are on normal commercial terms or favourable to the Group so as to avoid relocation and refurbishment costs which otherwise the Group will have to incur. Given that Mr Cheng has a material interest in the proposed leasing of Property 1 following Disposal 1, Mr Cheng and his associates have abstained from voting in respect of the relevant Board resolutions.

Subject to completion of Disposal 1, the Directors consider that the Tenancy Agreement is in the interests of the Company and the Shareholders as a whole, and the terms of the Tenancy Agreement are fair and reasonable and are on normal commercial terms.

INDEPENDENT BOARD COMMITTEE AND INDEPENDENT FINANCIAL ADVISORS

The Independent Board Committee consisting of all independent non-executive Directors has been established to advise the Independent Shareholders in relation to the Disposals. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders regarding the Disposals.

SPECIAL GENERAL MEETING

The Company will convene the Special General Meeting to consider and, if thought fit, approve the S&P Agreement, Memorandum Agreement and the transactions contemplated thereunder.

A circular containing, among other things, (1) details of the Disposals; (2) the letter from the Independent Board Committee; (3) the letter from the Independent Financial Adviser; and (4) other information as is required to be contained in the circular under the Listing Rules, together with the notice of the Special General Meeting, is expected to be despatched to the Shareholders on or about 13 February 2020.

DEFINITIONS

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

“associate(s)”, “connected person(s)”, “controlling shareholder”	each has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Century Grand”	Century Grand International Limited, a company incorporated in Hong Kong with limited liability, wholly owned by Mr Cheng
“Company”	Kin Yat Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 638)
“Director(s)”	the director(s) of the Company
“Disposal 1”	the disposal of the entire equity interest in Unicon by KYHK to Mr Cheng
“Disposal 2”	the disposal of Property 2 by KYI to Century Grand
“Disposals”	the transactions contemplated under Disposal 1 and Disposal 2
“Group”	the Company and its subsidiaries
“HKFRS”	The 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 Shareholders”	Shareholders other than Mr Cheng and his associates
“Independent Board Committee”	the Independent Board Committee of the Company comprising all independent non-executive Directors to advise Independent Shareholders in respect of the Disposals

“Independent Financial Adviser”	Odysseus Capital Asia Limited, a corporation licensed to carry out Type 6 (advising on corporate finance) regulated activities under the SFO, and the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders in respect of the Disposals
“KYHK”	Kin Yat (HK) Holdings Limited, an indirect wholly-owned subsidiary of the Company
“KYI”	Kin Yat Industrial Company Limited, an indirect wholly-owned subsidiary of the Company
“Listing Rule(s)”	the Rules Governing the Listing of Securities on the Stock Exchange
“Memorandum Agreement”	the agreement entered into between KYI and Century Grand with respect to the disposal of Property 2 by KYI to Century Grand
“Mr Cheng”	Mr. Cheng Chor Kit, an executive Director, the chairman and chief executive officer of the Company and the controlling shareholder of the Company
“PRC”	the People’s Republic of China, which for the purpose of this announcement, excludes Hong Kong, the Macau Special Administrative Region and Taiwan
“Property 1”	Block A and Block B, 7th floor, Galaxy Factory Building, 25-27 Luk Hop Street, San Po Kong, Kowloon, Hong Kong
“Property 2”	Block B, 11th floor, Galaxy Factory Building, 25-27 Luk Hop Street, San Po Kong, Kowloon, Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
“Shareholders”	holders of the Shares
“Shares”	the ordinary shares of the Company

“Special General Meeting”	a special general meeting of the Company to be convened to approve the S&P Agreement and the Memorandum Agreement and the transactions contemplated thereunder
“S&P Agreement”	the agreement entered into between KYHK and Mr Cheng with respect to the disposal of the entire equity interest in Unicon by KYHK to Mr Cheng
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancy Agreement”	the agreement to be entered into between Unicon and KYI upon completion of Disposal 1 with respect to the leasing of Property 1 by KYI as tenant from Unicon as Landlord
“Unicon”	Unicon Investments Limited, an indirect wholly-owned subsidiary of the Company, owned as to 100% by KYHK
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“%”	per cent

By Order of the Board
Kin Yat Holdings Limited
Cheng Chor Kit
Chairman and Chief Executive Officer

Hong Kong, 21 January 2020

As at the date of this announcement, the Board comprises nine Directors, of which five are executive Directors, namely Mr CHENG Chor Kit, Mr FUNG Wah Cheong, Vincent, Mr LIU Tat Luen, Mr CHENG Tsz To and Mr CHENG Tsz Hang; and four independent non-executive Directors, namely Mr WONG Chi Wai, Dr SUN Kwai Yu, Vivian, Mr CHENG Kwok Kin, Paul and Mr CHEUNG Wang Ip.