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# king fook holdings limited 景福集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 280)

## **Proposals for continuing connected transactions relating to tenancies and license, and disposal which may constitute a very substantial disposal**

It is proposed to renew the tenancy for Property 1, and enter into a new tenancy for Property 2 and a new license agreement for two advertising signboards. It is expected that the annual consideration payable to the Landlord under the Tenancies Proposal, the License Proposal and the Property 3 Tenancy Agreement aggregated pursuant to Rule 14A.27 of the Listing Rules will exceed \$10 million. The Tenancies Proposal and the License Proposal constitute continuing connected transactions under the Listing Rules which require the approval of the Independent Shareholders.

It is also proposed to obtain the authorisation of Shareholders for further disposal of HKEC Shares held by KF Securities to independent third parties which may together with the Disposals constitute a very substantial disposal of the Company under the Listing Rules.

A circular giving details of the Proposals and incorporating a notice of an extraordinary general meeting will be sent to Shareholders shortly.

### **THE TENANCIES PROPOSAL AND THE LICENSE PROPOSAL**

#### **Property 1**

KF Jewellery, a wholly owned subsidiary of the Company, entered into a tenancy agreement with the Landlord on 28th April, 2004 in respect of Property 1, which is the key retail outlet of the Group for gold ornaments, jewellery, watches and gifts. The Existing Property 1 Tenancy Agreement is for a term of 3 years from 16th July, 2003 to 15th July, 2006 at the monthly rent of \$897,290, exclusive of rates, management fees, air-conditioning charges and promotion contribution fees.

Currently, the monthly management fees, air-conditioning charges and promotion contribution fees payable to the Landlord are as follows :

	<i>Amount (\$)</i>
Management fees and air-conditioning charges (subject to adjustment)	61,867
Promotion contribution fees	8,972.90

KF Jewellery proposes to renew the tenancy in respect of Property 1 in order to continue to use such property as its key retail outlet. The proposed renewal will be for a term of up to 3 years from 16th July, 2006 at the prevailing market rent not exceeding that valued by an independent valuer, subject to a maximum annual

consideration payable to the Landlord of \$16,200,000. This cap is arrived at with reference to the monthly open market rent of \$1,260,000 of Property 1 as at 21st April, 2006 as advised by the Valuer, and aggregating the promotion contribution fees (being 1% of the rent according to the Group's experience) and the management fees and air-conditioning charges at the current rates with a buffer of about 20% to allow for adjustment of such fees/charges during the term of the tenancy. The Group has commenced negotiation with the Landlord. However, no agreement has been made.

## Property 2

Top Angel, a wholly owned subsidiary of the Company, proposes to enter into a tenancy agreement with the Landlord in respect of Property 2, which will be used as a shop of luxurious items such as watches, jewellery and fashion to expand the Group's business activities. Negotiation with the Landlord has reached an advanced stage but no agreement has been made. The main terms of the proposed tenancy agreement are as follows :

Area (Sq.ft.)	Monthly rent	Rent-free period	Term
18,121	\$362,420	Initial 2 months	From delivery of vacant possession of Property 2 by the Landlord to Top Angel, which will not be later than 31st December, 2006, up to the expiry date of the Property 3 Tenancy Agreement (with an option for Top Angel to renew for 2 years at market rent)

The proposed monthly rent will be exclusive of rates, management fees, air-conditioning charges and promotion contribution fees. Other fees/charges payable to the Landlord will include:

	Amount (\$)
Vetting fee on decoration plans	18,121
Monthly management fees and air-conditioning charges (subject to adjustment)	100,752.76
Monthly promotion contribution fees (subject to adjustment)	3,624.20

The total amount of the annual rent, management fees, air-conditioning charges and promotion contribution fees payable to the Landlord under the proposed tenancy agreement in respect of Property 2 at the above rates will be about \$5,601,563.52. The promotion contribution fees, management fees and air-conditioning charges will be subject to adjustment by the Landlord from time to time. The vetting fee on decoration plans is expected to be an one-off payment only.

The Valuer has valued the open market rent of Property 2 at \$370,000 per month as at 21st April, 2006. The Valuer and its ultimate beneficial owner are independent and not connected with the directors, chief executive or substantial shareholders of the Company or any of its subsidiaries or any of their respective associates (as defined in the Listing Rules). It is proposed that the cap of the total annual consideration payable to the Landlord under the proposed tenancy agreement in respect of Property 2 shall be \$5,950,000, which is arrived at with reference to the open market rent of Property 2 valued by the Valuer, and aggregating the promotion contribution fees, and the management fees and air-conditioning charges at the above rates with a buffer of about 20% to allow for adjustment of such fees/charges during the term of the tenancy.

## Advertising Signboards

Top Angel also proposes to enter into a license agreement with the Landlord to use the Advertising Signboards for exhibiting advertisements. Negotiation with the Landlord (on arm's length basis) has reached an advanced stage but no agreement has been made. The main terms of the proposed license agreement are as follows:

Area	Monthly license fee	Term
50 ft. × 25 ft. for each signboard	\$40,000	3 years from delivery of vacant possession of the Advertising Signboards by the Landlord to Top Angel.

The proposed monthly license fee will be exclusive of rates and electricity charges. It is proposed that the cap of the total annual license fee payable to the Landlord under the proposed license agreement in respect of the Advertising Signboards shall be \$480,000 based on the above terms. The Group has made reference to the terms of its posting of advertisements in other places/medium in the negotiation of the terms of the proposed license agreement with the Landlord.

### Connection between the parties

The Landlord is principally engaged in property investment. It is a wholly owned subsidiary of Miramar, a substantial shareholder of the Company holding approximately 13.66% of the issued share capital of the Company and a company whose shares are listed on the Main Board of the Stock Exchange.

### Listing Rules requirements

On 30th March, 2006, it was announced that Top Angel and the Landlord agreed to enter into a tenancy agreement relating to Property 3 on the following terms pursuant to the offer letter dated 27th March, 2006 and accepted by the agent of the Landlord on 30th March, 2006:

Area (sq.ft)	Monthly rental	Rent-free period	Term
15,781	\$473,430	Initial 2 months	3 years from delivery of vacant possession of Property 3 by the Landlord to Top Angel (with an option for Top Angel to renew for 2 years at market rent)

Other fees/charges payable by Top Angel to the Landlord includes:

	<i>Amount (\$)</i>
Vetting fee on decoration plans	15,781
Monthly management fees and air-conditioning charges (subject to adjustment)	87,742.36
Monthly promotion contribution fees	4,734.30

The Group has made reference to the monthly market rent of Property 3 as advised by an independent valuer in the negotiation of the terms of the relevant offer letter.

The total annual consideration payable to the Landlord for the year ending 31st March, 2007 (with payment of vetting fee for decoration plans and rent-free period of the initial 2 months) and each of the two years ending 31st March, 2009 (without payment of vetting fee for decoration plans) are \$5,859,800.92 and \$6,790,879.92 respectively.

For the Company, the proposed transactions under the Tenancies Proposal and the License Proposal (which will be on normal commercial terms) will be continuing connected transactions under the Listing Rules. It is expected that the total annual consideration payable to the Landlord (which will be in cash) under the Property 3 Tenancy Agreement and the Existing Property 1 Tenancy Agreement, the proposed tenancy agreements in respect of the Properties and the proposed license agreement in respect of the Advertising Signboards aggregated pursuant to Rule 14A.27 of the Listing Rules for the year ending 31st March, 2007 and each of the two years ending 31st March, 2009 will be about HK\$21,911,693.91 and HK\$28,886,047.44 respectively (assuming that the tenancy for Property 2 and the license in respect of the Advertising Signboards will commence on 1st December, 2006 and without taking into account the possible increase of the promotion contribution fees, the management fees and the air-conditioning charges under the aforesaid existing and proposed tenancy agreements). As the aggregate consideration payable to the Landlord under the aforesaid existing and proposed transactions on an annual basis will exceed HK\$10 million, the Tenancies Proposal and the License Proposal are subject to the approval of the Independent Shareholders in accordance with the Listing Rules.

If the Tenancies Proposal and the License Proposal materialize, the Group and the Landlord will enter into offer letters in relation to such proposals, followed by the formal tenancy agreements and license agreement. Further announcement on their respective finalised terms will be made after the relevant offer letters have been entered into.

The Company intends to seek Independent Shareholders' approval prior to entering into the proposed tenancy and license agreements in respect of the Properties and the Advertising Signboards respectively as (i) the Group will be provided with the flexibility in negotiating for terms which are more favourable to the Group with reference to the then property market conditions in the event of a falling property market; and (ii) the Group does not consider commercially viable to request the Landlord to enter into conditional tenancy/license agreements which are subject to the Company's obtaining Independent Shareholders' approval, and fulfillment of such condition may take about 2 months.

## **THE DISPOSAL PROPOSAL**

### **Assets to be disposed of**

On 7th March, 2006 and 10th April, 2006, the Company announced that the Vendors disposed of a total of 980,000 HKEC Shares during the periods from 10th February, 2006 to 3rd March, 2006 and from 9th March, 2006 to 7th April, 2006 respectively on-market through the Stock Exchange at the price range of \$38 to \$53.5 per share (totalling \$43,350,229).

HKEC is a company incorporated in Hong Kong. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses. For the two years ended 31st December, 2005, its net profits before taxation were about \$1,250,525,000 and \$1,567,008,000 respectively. For the two years ended 31st December, 2005, its net profits after taxation were about \$1,056,884,000 and \$1,399,548,000 respectively.

As at the date of this announcement, KF Securities holds 1,874,000 HKEC Shares, which were distributed by HKEC to KF Securities (a member of the Stock Exchange) in 2000 as consideration for the cancellation of shares in the Stock Exchange then held by KF Securities pursuant to a scheme of arrangement prior to the listing of HKEC.

KF Securities intends to further dispose of the HKEC Shares held by it on-market through the Stock Exchange to independent third parties at the prevailing market prices in cash. It will realise a gain equal to the amount of the net proceeds (after expenses) on any disposal of such HKEC Shares.

KF Securities may or may not dispose of all the 1,874,000 HKEC Shares in the near future. Disposal of such shares is a commercial decision which depends on various factors including the market conditions. As KF Securities needs the flexibility in further disposal of such shares, the Company seeks for Shareholders' approval for the disposal of all the HKEC Shares held by KF Securities. The authorisation proposed to be sought will be limited to a period of one year from the date of the approval of Shareholders.

### **Reasons for the Disposal Proposal**

The market price of HKEC Shares has risen substantially since last year. The Directors consider that it will be for the benefit of the Company and the Shareholders to obtain the authorisation of Shareholders to dispose of all the HKEC Shares held by KF Securities so that KF Securities can have the flexibility to dispose of such shares in the market efficiently in order to realise the gain on its holding.

### **Use of proceeds**

It is intended that the proceeds under the Disposal Proposal will be used as additional working capital and to reduce the liability of the Group.

### **Listing Rules requirements**

Based on the closing price of \$57.45 per HKEC Share quoted on the Stock Exchange as at the date of this announcement, the total consideration for the disposal of all 1,874,000 HKEC Shares held by KF Securities will be about \$107,661,300. Such further disposal, together with the Disposals, may constitute a very substantial disposal of the Company which requires the approval of Shareholders in accordance with the Listing Rules.

Further announcement on the disposal of the HKEC Shares will be made after all of the 1,874,000 HKEC Shares have been disposed of.

## **INFORMATION FOR SHAREHOLDERS**

The Group is principally engaged in retailing of gold ornaments, jewellery, watches and gifts, trading of bullion, wholesaling of diamond and securities broking in Hong Kong.

The Company has established an independent board committee comprising Messrs. Cheng Kwai Yin, Lau To Yee, Cheng Kar Shing, Peter and Chan Chak Cheung, William (all independent non-executive Directors) to advise the Independent Shareholders about the Tenancies Proposal and the License Proposal. The Company will appoint an independent financial adviser to advise the independent board committee in this regard.

A circular giving details of the Proposals, and setting out the recommendation of the independent board committee and the advice of the independent financial adviser in respect of the Tenancies Proposal and the License Proposal, and incorporating a notice of an extraordinary general meeting will be sent to Shareholders shortly. As the Disposal Proposal may constitute a very substantial disposal under the Listing Rules, the circular will be prepared based on the relevant requirements relating to a very substantial disposal under the Listing Rules.

### **Terms used in this announcement**

“Advertising Signboards”	Advertising signboards C1 and C2 at the external wall of Hotel Miramar
“Company”	King Fook Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“Directors”	directors of the Company
“Disposals”	the disposals of a total of 980,000 HKEC Shares by the Vendors during the periods from 10th February, 2006 to 3rd March, 2006 and from 9th March, 2006 to 7th April, 2006 respectively as announced on 7th March, 2006 and 10th April, 2006 respectively
“Disposal Proposal”	the proposal relating to the disposal of up to 1,874,000 HKEC Shares owned by KF Securities
“Existing Property 1 Tenancy Agreement”	the tenancy agreement dated 28th April, 2004 between KF Jewellery and the Landlord in respect of Property 1
“Group”	the Company and its subsidiaries
“HKEC”	Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange
“HKEC Share(s)”	share(s) of \$1 each in the share capital of HKEC
“Hotel Miramar Shopping Arcade”	the Shopping Arcade at Hotel Miramar, 118-130 Nathan Road, Tsimshatsui, Kowloon
“Independent Shareholders”	Shareholders other than Miramar and its associates (as defined in the Listing Rules)
“KF Jewellery”	King Fook Jewellery Group Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“KF Securities”	King Fook Securities Company Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Landlord”	Contender Limited, a wholly owned subsidiary of Miramar
“License Proposal”	The proposal relating to the license of the Advertising Signboards
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Miramar”	Miramar Hotel and Investment Company, Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange

“Properties”	Property 1 and Property 2
“Property 1”	Shop units G1-2 and G1A on Ground Floor and Shop units AR201-02 and AR217 on 1st Floor, Hotel Miramar Shopping Arcade
“Property 2”	Shops 2B1 and 2B2 on 2nd Basement Level, Hotel Miramar Shopping Arcade
“Property 3”	Shops 1B1 and 1B2 on 1st Basement Level, Hotel Miramar Shopping Arcade
“Property 3 Tenancy Agreement”	the tenancy agreement to be entered into between Top Angel and the Landlord in respect of Property 3
“Proposals”	the Tenancies Proposal, the License Proposal and the Disposal Proposal
“Shareholder(s)”	holder(s) of share(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tenancies Proposal”	the proposal relating to tenancies in respect of the Properties
“Top Angel”	Top Angel Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company
“Valuer”	BMI Appraisals Limited
“Vendors”	King Fook Gold & Jewellery Company Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company, and KF Securities
“\$” and “cent(s)”	Hong Kong dollar(s) and cent(s) respectively

By Order of the Board  
**Yeung Ping Leung, Howard**  
*Chairman*

Hong Kong, 3rd May, 2006

*As at the date of this announcement, the executive Directors are Mr. Yeung Ping Leung, Howard, Mr. Tang Yat Sun, Richard, Mr. Cheng Ka On, Dominic, Mr. Yeung Bing Kwong, Kenneth and Ms. Fung Chung Yee, Caroline, the non-executive Directors are Dr. Sin Wai Kin, Mr. Wong Wei Ping, Martin and Mr. Ho Hau Hay, Hamilton and the independent non-executive Directors are Mr. Cheng Kwai Yin, Mr. Lau To Yee, Mr. Cheng Kar Shing, Peter and Mr. Chan Chak Cheung, William.*