

KFM KINGDOM HOLDINGS LIMITED

KFM 金德控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock code: 3816



Interim Report
2012

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Corporate Information

EXECUTIVE DIRECTORS

Mr. Sun Kwok Wah Peter (*Chairman*)
Mr. Wong Chi Kwok
Mr. Lam Kin Shun
Mrs. Chow Suen Christina

INDEPENDENT NON-EXECUTIVE DIRECTORS AND AUDIT COMMITTEE

Mr. Wan Kam To (*Chairman*)
Mr. Lam Hon Keung Keith
Dr. Chung Chi Ping Roy

REMUNERATION COMMITTEE

Mr. Lam Hon Keung Keith (*Chairman*)
Mr. Sun Kwok Wah Peter
Mr. Wan Kam To

NOMINATION COMMITTEE

Mr. Sun Kwok Wah Peter (*Chairman*)
Mr. Lam Hon Keung Keith
Dr. Chung Chi Ping Roy

HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Block A3, 10/F., Yee Lim Industrial Centre,
2-28 Kwai Lok Street, Kwai Chung,
New Territories, Hong Kong.

PRINCIPAL PLACE OF BUSINESS IN THE PRC

Block A, No. 1301 Guanguang Road,
Dabu Lane, Guanlan Street,
Baoan District, Shenzhen, the PRC.

REGISTERED OFFICE

Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111, Cayman Islands

COMPANY SECRETARY

Mr. Kwok For Chi

AUTHORISED REPRESENTATIVES

Mr. Sun Kwok Wah Peter
Mr. Kwok For Chi

COMPLIANCE ADVISER

DBS Asia Capital Limited

LEGAL ADVISER AS TO HONG KONG LAW

Chiu & Partners

AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKER

Standard Chartered Bank (Hong Kong) Limited

CAYMAN ISLANDS SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fulcrum Group (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 609, Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
26/F., Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong.

WEBSITE

www.kingdom.com.hk

STOCK CODE

3816

Management Discussion and Analysis

The board (the “Board”) of directors (the “Directors” and each a “Director”) of KFM Kingdom Holdings Limited (the “Company”) is pleased to present the interim results of the Company and its subsidiaries (together, the “Group”) for the six months ended 30 September 2012 (the “Reporting Period”) prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), together with the comparative figures for the corresponding period of 2011.

The interim results and the interim condensed consolidated financial information of the Group for the Reporting Period, after review by the audit committee of the Company (the “Audit Committee”) and by the Company’s auditor in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, was approved by the Board on 28 November 2012.

Revenue for the Reporting Period reached approximately HK\$419.9 million, representing a decrease of 16.9% over the corresponding period last year.

The Group recorded a net profit of approximately HK\$12.7 million for the Reporting Period which decreased approximately 65.0% as compared to the net profit of HK\$36.3 million for the corresponding period in 2011. Before the recognition of non-recurring listing expenses which amounted to approximately HK\$14.5 million for the Reporting Period (six months ended 30 September 2011: HK\$12.2 million), the net profit attributable to the equity owners of the Company was approximately HK\$27.2 million, which decreased approximately 43.9% as compared to the adjusted net profit of HK\$48.5 million of the corresponding period in 2011.

Management Discussion and Analysis

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2012, revenue of the Group reached approximately HK\$419.9 million, representing a decrease of approximately HK\$85.7 million or 16.9% from approximately HK\$505.6 million for the corresponding period last year. Set out below is a breakdown of our revenue by our five business segments:

	Six months ended 30 September			
	2012		2011	
	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)	
Office automation	154,552	36.8	164,484	32.5
Medical and test equipment	104,714	24.9	107,534	21.3
Consumer electronics	71,131	16.9	145,617	28.8
Finance equipment	27,080	6.5	27,092	5.4
Network and data storage	24,144	5.8	27,839	5.5
Others	38,313	9.1	33,010	6.5
	419,934	100.0	505,576	100.0

The decline in revenue is mainly due to: (i) HK\$74.5 million or 51.2% decrease in revenue from the consumer electronics segment as compared to the period ended 30 September 2011. It was mainly due to, as stipulated in the prospectus of the Company dated 28 September 2012 (the "Prospectus"), our Ultimate Customer (as defined in the Prospectus) had gradually ceased to engage one of our major customers for sourcing and procurement of the relevant metal parts at the beginning of 2012. Instead, from June 2012 onward, our Group started to serve another two sub-contracting manufacturers of the Ultimate Customer for the manufacturing of similar type of metal parts that we previously produced for the major customer. As a result, our Group experienced significant drop in revenue from this segment for the period ended 30 September 2012 as compared to the same period last year; (ii) HK\$9.9 million or 6.0% decrease in revenue from the office automation segment when compared to the period ended 30 September 2011 due to phase out of certain low gross margin or loss making products of certain clients of our Group under current market condition; and (iii) HK\$3.7 million or 13.3% decrease in revenue from the network and data storage segment when compared to the period ended 30 September 2011 as one of our clients has phased out the production of certain old models.

Management Discussion and Analysis

The major markets of our Group are the PRC, North America, Japan and Europe. They accounted for 68.4%, 12.5%, 6.9% and 6.3% respectively of the revenue of our Group for the six months ended 30 September 2012. Details of revenue generated by geographical location are set out in Note 6(c) to the interim condensed consolidated financial information.

Cost of sales

Our cost of sales comprise of the direct cost associated with the manufacturing of our products, which consists mainly of direct materials, direct labour, processing fee and other direct overheads. Set out below is the breakdown of our Group's cost of sales:

	Six months ended 30 September			
	2012		2011	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Direct materials	185,893	57.0	221,435	58.4
Direct labour	73,924	22.7	70,544	18.6
Processing fee	31,022	9.5	46,169	12.2
Other direct overheads	35,340	10.8	41,145	10.8
	326,179	100.0	379,293	100.0

The cost of sales of the Group decreased by 14.0% to HK\$326.2 million as compared to the corresponding period of last year. The decrease is in line with decrease in total revenue. Furthermore, the percentage of cost of sales to the total revenue was 77.7%, representing an increase of 2.7% as compared to 75.0% in the corresponding period of last year, which is primarily due to the increase in labour costs and operating lease expenses.

Gross profit and gross profit margin

Our gross profit was approximately HK\$93.8 million representing a decrease of 25.8% as compared to the corresponding period in 2011. It is mainly due to decrease in overall sales by 16.9%, and in particular a decrease in revenue of the high gross margin consumer electronics segment by 51.2%.

The gross profit margin of the Group was 22.3% for the period ended 30 September 2012 which decreased by 2.7% as compared to 25.0% in the corresponding period in 2011. This was primarily due to decrease in revenue from the high gross profit margin consumer electronics segment. In terms of percentage of total revenue, the revenue from the consumer electronics segment decreased from 28.8% to 16.9% which in turn resulted in a decrease of 5.5% of the Group's gross profit margin. Such impact was partly offset by increase in sales of another high gross profit margin segment, medical and test equipment segment which increased from 21.3% to 24.9% as percentage of the total revenue and contributed to an increase of 1.6% of the Group's gross profit margin. The gross profit margin of the Group's various business segments remain stable for the period ended 30 September 2012. For the details of the Group's gross profit margin of the various business segments, please refer to the Note 6(a) and 6(b) to the interim condensed consolidated financial information.

Other income and gains

Other income and gains of our Group amounted to approximately HK\$4.5 million and HK\$1.4 million for the six months ended 30 September 2012 and 2011 respectively. The increase was primarily due to the product assembly service income from BDT Media Automation GmbH ("BDT-Germany") amounted to HK\$4.2 million.

On 29 March 2012, the Group acquired the product assembly business carried out by BDT Automation Technology (Zhuhai FTZ) Co., Ltd. ("BDT-Zhuhai"), from BDT-Germany. The product assembly services involve the assembly of the data storage automation and other related products which are ultimately used by information technologies and computer technologies companies worldwide. Pursuant to the sale and purchase agreement entered into on 29 March 2012 between our Group, BDT-Germany and BDT-Zhuhai, the operation of BDT-Zhuhai will be integrated with Kingdom Technology (Shenzhen) Co., Ltd. by no later than 31 December 2012. During the transitional period from 1 April 2012 to 31 December 2012, our Company is entitled to a fixed monthly fee amounting to US\$90,000 per month.

Please refer to the section headed "Business – Recent business development" in the Prospectus for further details.

Management Discussion and Analysis

Distribution and selling expenses

Distribution and selling expenses refers to the expenses incurred for the promotion and selling of our products. It mainly comprises salaries and related costs for sales and marketing staff, travelling and transportation costs and marketing expenses etc. Distribution and selling expenses were approximately HK\$9.6 million and HK\$11.7 million for the six months ended 30 September 2012 and 2011 respectively. The decrease in our distribution and selling expenses was generally in line with the decrease in revenue.

General and administrative expenses

General and administrative expenses comprised primarily of salaries and related costs for key management, finance and administration staff, rental expenses, depreciation, audit fees and listing expenses in relation to the professional and related costs incurred in the process of the Group's initial public offering.

The general and administrative expenses of the Group increased to approximately HK\$70.1 million for the six months ended 30 September 2012 from HK\$65.8 million in corresponding period in 2011. The increase in general and administrative expenses is mainly due to the increase in listing expenses by HK\$2.3 million and additional payroll cost due to the hiring of more senior and professional staff to manage the listing process and post listing requirements.

Finance costs

Our finance costs of approximately HK\$2.2 million (for the six months ended 30 September 2011: HK\$0.7 million) represented interest expenses on bank borrowings. Increase in finance costs was mainly due to increase in bank loans from HK\$102.4 million as at 30 September 2011, of which HK\$74.2 million was drawn down in August 2011 to HK\$146.3 million as at 30 September 2012.

Income tax expense

Our income tax expense amounted to approximately HK\$3.7 million and HK\$13.2 million for the six months ended 30 September 2012 and 2011 respectively. The decrease was attributable primarily to the lower taxable profit recorded for the six months ended 30 September 2012. Our effective tax rate decreased from 26.7% for the period ended 30 September 2011 to 22.4% for the period ended 30 September 2012, was mainly due to certain non-tax deductible expenses including stamp duty, business development cost and accrual for housing provident fund in the PRC incurred during the period ended 30 September 2011.

Profit attributable to equity holders of the Company

For the six months ended 30 September 2012, profit attributable to equity holders of the Company amounted to HK\$12.7 million, representing a decrease of 65.0% as compared to the corresponding period in 2011. The decrease of net profit was mainly attributable to the decrease in revenue and the increase in related labour costs and listing expenses.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Financial resources and liquidity

Our current assets comprise mainly of cash and bank balances, trade and other receivables and inventories. Our total current assets amounted to approximately HK\$467.7 million and HK\$511.4 million as at 30 September 2012 and 31 March 2012 respectively, which represented approximately 63.8% and 69.8% of our total assets as at 30 September 2012 and 31 March 2012 respectively.

Management Discussion and Analysis

Capital structure

The Group's capital structure is summarised as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Bank borrowings	144,869	111,696
Bank overdrafts	1,463	1,411
Total debts	146,332	113,107
Less: Cash and cash equivalents	(97,527)	(133,423)
Net debt/(cash)	48,805	(20,316)
Shareholders' equity	376,105	448,171
Total capitalisation*	424,910	448,171
Gearing ratio		
– Total debt to shareholders' equity ratio	38.9%	25.2%
– Net debt to shareholders' equity ratio	13.0%	Net cash

* *Total capitalisation is the sum of the net debt and the shareholders' equity*

The Group's primary sources of funds came from cash generated from operating activities and short-term bank loans. Our Group had recorded net cash inflow from operating activities of approximately HK\$44.5 million and HK\$69.1 million for the period ended 30 September 2012 and 2011 respectively.

Details of the Group's bank loans and other borrowings as at 30 September 2012 are set out in Note 19 to the interim condensed consolidated financial information.

The capital structure of the Group consists of equity attributable to the equity owners of the Company (comprising issued share capital and reserves) and bank borrowings. The Directors will review the capital structure regularly. As part of such review, the Directors consider the cost of capital and the optimal use of debt and equity so as to maximise the return to the equity holders.

Capital expenditure

During the six months ended 30 September 2012, the Group acquired property, plant and equipment of approximately HK\$59.0 million as compared to the six months ended 30 September 2011 of approximately HK\$16.7 million.

We financed our capital expenditure through cash flows generated from operating activities and bank borrowings.

Charges on the Group's assets

Details relating to the pledge of assets by the Group over the Reporting Period are set out in Note 19 to the interim condensed consolidated financial information.

Foreign currency exposure

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Our Group operates mainly in Hong Kong and the PRC. The Group's Hong Kong entities are exposed to foreign exchange risk arising from Renminbi, while the Group's PRC entities are exposed to foreign exchange risk arising from United States dollars.

Our Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. Save for bank borrowings denominated in Renminbi as discussed below, the Group does not use any derivative financial instruments to manage the foreign exchange exposure arising from the financial assets/liabilities which are denominated in a currency which is not the functional currency of our Group entities.

Derivative financial instruments

As disclosed within the Prospectus, the Group has previously entered into one foreign exchange derivative contract in August 2011 to hedge against the foreign exchange exposure in relation to a long-term bank borrowings denominated in Renminbi. The effective period of the contract is two years and will expire by August 2013. In the foreseeable future, after taking into account of the existing financial position, our Group does not intend to invest in any new financial instruments.

Management Discussion and Analysis

Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 30 September 2012 are set out in Note 21(a) and Note 21(b) to the interim condensed consolidated financial information.

Contingent liabilities

As at 30 September 2012, the Group had no material contingent liabilities as set out in Note 22 to the interim condensed consolidated financial information.

BUSINESS REVIEW

The global economy has experienced continued uncertainties and downside risks emanating from the unresolved sovereign debt crisis in Europe, the faltering economic growth in the US and China's slowing economy. Revenue of the Group decreased by 16.9% from approximately HK\$505.6 million for the six months ended 30 September 2011 to HK\$419.9 million for the six months ended 30 September 2012.

The decline in revenue is mainly due to decrease in revenue of consumer electronics segment by 51.2% as compared with the same period last year since our Ultimate Customer had gradually ceased to engage one of our major customers for sourcing and procurement of the relevant metal parts at the beginning of 2012. Such decreasing trend continued and we have not received any purchase orders from that major customer for the relevant metal parts since the end of June 2012. Although from June 2012, we started to serve another two sub-contracting manufacturers of the Ultimate Customer for the manufacturing of similar type of the metal parts that we previously produced for the said major customer, our Group has already suffered significant drop in revenue and net profit for the period ended 30 September 2012 as compared to the same period last year.

Although under such circumstances, the Group has continued to mitigate its risks by focusing on business fundamentals. With respect to our diversified portfolio in the five business segments that we principally engage in, and our solid long term relationship with our major customers, we have managed the prevailing unfavourable macroeconomic uncertainties within particular business segment.

OUTLOOK AND STRATEGY

In the middle of the unresolved sovereign debt crisis in Europe, hindering economic growth in the Europe, US and China's slowing economy, our customers are expected to be more cautious in order placement. However, the Group is cautiously optimistic about the business opportunities for the second half of the financial year.

In the near term, our Group will increase the use of robotic arms and adopt other automatic features in our equipment for feeding works and therefore reduce reliance on our workers. We believe the optimisation of our overall production process would further increase our capabilities to produce high quality products and reduce our labour cost, thereby enhancing our profit margins.

In the long run, the Group believes that our business strategies include the following: (a) we intend to further expand our sales effort for growing business segments for precision engineered metal parts; (b) we plan to develop a new production base in Suzhou, which among other purposes, can minimise the impact of rental increase in the long run on our current production base in Suzhou which is located on several leased factory premises; (c) we will continue to optimise our production process by utilising our engineering skills, strengthen our research and development capabilities and increase our production automation; and (d) we intend to seek opportunities for acquisitions of production facilities or further strengthen our relationship with our customers by strategic cooperation, which will better prepare the Group to materialise the future business opportunities in the long run.

With our professional management expertise, an insightful business strategy, careful execution, compelling products quality and our stable and conservative financial position, the Group is well-positioned for sustainable and healthy growth in the chosen market segments in which we operate and strive to reward our shareholders with fruitful returns.

Management Discussion and Analysis

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2012, the Group had a total number of 2,897 full-time employees (as at 30 September 2011: 3,094). The Group determined the remuneration packages of all employees based on several factors including individual qualifications, contribution to the Group, performance and years of experience of the respective staff.

The Group provides on-going training to our staff in order to enhance their technical skills and product knowledge and to provide them with updates with regards to industry quality and work safety.

The Group maintains good relationships with our employees. We have not had any labour strikes or other labour disturbances that have interfered with our operations during the Reporting Period.

As required by the PRC regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities.

USE OF PROCEEDS FROM THE SHARE OFFER

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 October 2012 (being the listing date of the Company, the "Listing Date") and raised a net proceeds of HK\$85.6 million. As at the date of this interim condensed consolidated financial information, the net proceeds from the share offer was deposited into a licensed bank in Hong Kong. The Group will apply net proceeds from the share offer in the manner as set out in the Prospectus.

INTERIM DIVIDEND

On 2 May 2012 and 26 June 2012, the Group declared dividends of HK\$53,646,000 and HK\$31,582,000 respectively to the shareholders. For the six months ended 30 September 2011, dividends totaling to HK\$35,579,000 was declared and paid. As of the date of this interim condensed consolidated financial information, the dividend has been fully paid by the Group. Except for these dividends, no dividend has been declared or made by the Company or any of its subsidiaries comprising the Group in respect of any period subsequent to 31 March 2012.

At the meeting of the Board, the Directors resolved not to declare any interim dividend for the six months ended 30 September 2012 (30 September 2011: nil).

SUBSEQUENT EVENTS AFTER REPORTING PERIOD

The Company raised gross proceeds of HK\$102 million upon the listing of its share on the Main Board of the Stock Exchange on 15 October 2012. For details of the changes in the issued share capital of the Company, please refer to Note 16 to the interim condensed consolidated financial information.

UPDATES ON COMPLIANCE AND REGULATORY MATTERS AS DISCLOSED IN THE PROSPECTUS

Long term relocation plan

As disclosed in the Prospectus, one of our four production bases, namely our factory building and staff dormitory currently located in Xili, Nanshan District, Shenzhen (the "Xili Leased Properties") were leased by Kingdom (Reliance) Precision Parts (Shenzhen) Mfy. Limited ("KRP-Shenzhen"). As advised by our PRC legal advisers, there is a potential risk of demolition and expropriation of the Xili Leased Properties as it may be deemed as the historical illegal construction. For details, please refer to pages 186 to 190 of the Prospectus.

As a result, our Directors plan to relocate from the Xili Leased Properties should the potential risk regarding the legality and ownership title of the Xili Leased Properties persist upon expiry of the current lease term (the "Long Term Relocation Plan"). Our Directors intend to lease a new factory site for the Long Term Relocation Plan. As disclosed in the Prospectus, we will budget for the costs of the relocation in around 12 to 18 months prior to the expiry date of the lease term of October 2016, and disclose in future interim and annual reports should there be any significant costs expected.

Contingency lease property

As disclosed in the Prospectus, in the event we receive notice for relocation prior to the completion of the Long Term Relocation Plan, our Group will implement the contingency plan, which involves relocating the production facilities and production lines at the Xili Leased Properties to Kingdom Technology (Shenzhen) Co., Ltd. ("KFM-Shenzhen") and a lease factory space in Dongguan with total gross area of approximately 4,850 square meters (the "Contingency Lease Property"). We have entered into an agreement ("Contingency Lease Property Agreement") with the landlord of the Contingent Lease Property to secure our right but not obligation to lease the Contingent Lease Property within 1 year of signing should the contingency plan be triggered. Please refer to page 190 to 191 of the Prospectus for further details.

Management Discussion and Analysis

Towards the expiry of the Contingency Lease Property Agreement, our Company will seek to either renew the agreement or engage another lessor for similar arrangement.

As at the date of this interim report, our Directors confirm that both the lessor and our Group have not received any order from the relevant authorities to vacate the Xili Leased Properties. Our Directors also confirm that the Contingency Lease Property Agreement is still effective and we have confirmed with the lessor that the Contingency Lease Property is still available. We shall disclose the status of the Contingency Lease Property Agreement (including whether another lessor is engaged and relevant details of such lessor and land) in future interim and annual reports until the earlier of the execution of the Long Term Relocation Plan or the contingency plan.

Our Group has assigned specific staff from the Group's senior management and local management of KRP-Shenzhen to manage the relocation process of the Xili Leased Properties. The aforementioned staff will be responsible for locating the appropriate premises and estimation of the costs of the relocation.

Housing provident fund contributions

As disclosed in the Prospectus, on 20 December 2010, the relevant housing provident fund authority in Shenzhen required enterprises in Shenzhen to undergo the necessary registration procedures within six months from 20 December 2010 and make housing provident fund contributions for their employees. In addition, it is mandatory for enterprises in Shanghai to make housing provident fund contributions only for employees who are urban hukou (城鎮戶口) holders. Therefore, KRP-Shenzhen and KFM-Shenzhen are required to undergo certain registration procedures and to make housing provident fund contributions together with their entitled employees with effect from 20 December 2010, and for Kingdom Reliance Mechatronic Components (Shanghai) Mfy. Ltd. ("KRP-Shanghai") with effect since its incorporation in 2002.

Our Group has opened certain bank accounts and made the necessary registration procedures for the purpose of making housing provident fund contribution for all entitled employees of KRP-Shenzhen, Shenzhen Shunan Kingdom Contract Processing Factory ("KFM-Shenzhen Factory") (formerly KFM-Shenzhen before its change of business form as disclosed in P.154 to 155 of the Prospectus) and KRP-Shanghai. Housing provident fund contributions for all entitled employees

Management Discussion and Analysis

of: (i) KRP-Shenzhen and KFM-Shenzhen Factory have been made since November 2011; and (ii) KRP-Shanghai has been made since July 2011. We have also made full provision in the amount of about RMB1.86 million, which cover for both of the employer's and the employee's portions of the unpaid housing provident fund contributions for the period since the enactment of the relevant rules governing the housing provident fund contribution in Shenzhen and Shanghai, to the period when we made such contributions for all entitled employees. Please refer to page 197 to 199 of the Prospectus for further details.

As at the date of this report: (i) we have not received any notification or orders from the relevant housing provident fund authorities in relation to the opening of housing provident fund accounts and the making of contributions to the previously unpaid housing provident fund; and (ii) our management has entered into a negotiation process with relevant housing provident fund authorities in Shenzhen and Shanghai for settlement of previously unpaid housing provident fund contribution in order to rectify the non-compliance.

We shall continue to update and monitor the progress and results of the rectification in future interim and annual reports.

Non-competition

As disclosed in the Prospectus, to further delineate the respective business of Innotech Advanced Products Limited (匯德產品發展有限公司) and its wholly-owned subsidiary Dongguan Tech-in Electrical & Mechanical Products Limited (東莞德鎂精密機電產品有限公司) ("Innotech Group"), Kingdom Innovative Storage Systems Limited and its wholly-owned subsidiary Innotech Advanced Creative Metal Products (Shenzhen) Limited (匯德創意金屬產品(深圳)有限公司) ("Kingdom Innovative Group") and our Group from any potential competition from them, Innotech Group and Kingdom Innovative Group have entered into a deed of non-competition in favour of our Group on 22 September 2012 pursuant to which the Innotech Group and Kingdom Innovative Group have, among other matters, irrevocably and unconditionally undertaken with us that each of them shall, and shall procure that each of their respective associates (other than our Group) shall not directly or indirectly be engaged in any business in competition with our Group ("Restricted Activity"). For further details, please refer to page 226 to 227 of the Prospectus.

Management Discussion and Analysis

It was also disclosed in the Prospectus that each of the Controlling Shareholders (as defined in the Prospectus) have entered into a deed of non-competition in favour of our Group on 22 September 2012 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us that each of them shall, and shall procure that each of their respective associates (other than our Group) shall not directly or indirectly be engaged in the Restricted Activity. For further details, please refer to page 227 of the Prospectus.

During the Reporting Period and as at the date of this report, our Company has not been offered and has not rejected any project or business opportunity which falls within the Restricted Activity category referred by the Controlling Shareholders, Innotech Group and Kingdom Innovative Group.

INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN THE SHARES, UNDERLYING SHARES OR DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATIONS

As the Company was not listed on the Stock Exchange as at 30 September 2012, Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (CAP 571, Laws of Hong Kong) (the "SFO") and section 352 of the SFO was not applicable to the Directors of the Company as at 30 September 2012.

As at Listing Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they have taken or deemed to have under such provisions of the SFO), or will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or will be required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules, are set out as follows:

Management Discussion and Analysis

Name of Director	Name of group member/ associated corporation	Capacity/Nature of interest	Number and class of securities (Note 1)	Approximate shareholding percentage
Mr. Sun Kwok Wah, Peter ("Peter Sun")	Company	Interest of controlled corporation/Interests of Concert Party (Notes 3)	450,000,000 shares (L) (Note 2)	75%
Mr. Wong Chi Kwok ("David Wong")	Company	Interests of Concert Party (Notes 3)	450,000,000 shares (L) (Note 2)	75%
Mr. Lam Kin Shun ("Banson Lam")	Company	Interests of Concert Party (Notes 3)	450,000,000 shares (L) (Note 2)	75%
Mr. Sun Kwok Wah, Peter	Kingdom International Group Limited ("KIG")	Beneficial owner	4,670 shares (Note 4)	46.70%
Mr. Wong Chi Kwok	KIG	Beneficial owner	1,369 shares	13.69%
Mr. Lam Kin Shun	KIG	Beneficial owner	617 shares	6.17%

Notes:

1. The letter "L" denotes our Directors' long position in the shares of our Company or the relevant associated corporation.
2. These shares were held by KIG, which is owned as to 46.70% by Mr. Peter Sun, among the 4,670 shares (representing 46.70% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 220 shares (representing 2.20% of the total issued share capital of KIG) were held by him as trustee on trust for the share award plan of KIG, as to 13.69% by Mr. David Wong, as to 13.69% by Mr. Yau Lam Chuen, as to 9.12% by Mr. Yung Ching Tak, as to 6.17% by Mr. Banson Lam, as to 6.17% by Mr. Chan Lin On and as to 3.09% by Mr. Yeung Man Chiu.

Management Discussion and Analysis

3. *Pursuant to the confirmation of concert party arrangement dated 26 September 2011 entered into by Mr. Peter Sun, Mr. David Wong, Mr. Yau Lam Chuen, Mr. Yung Ching Tak, Mr. Banson Lam, Mr. Chan Lin On and Mr. Yeung Man Chiu, they have confirmed that they are parties acting in concert in the operation and management of Kingdom Precision Product Limited ("KPP-HK"), Kingdom Precision Product (Suzhou) Co., Ltd. ("KPP-Suzhou"), Kingdom (Reliance) Precision Parts Manufactory Limited ("KRP-HK"), KRP-Shenzhen, KRP-Shanghai, Kingdom Fine Metal Limited ("KFM-HK") and KFM-Shenzhen since 13 March 2002, being the date of incorporation of KPP-HK. Accordingly, each person under the concert party arrangement is taken to be interested in the Shares the other party under such concert party arrangement is interested under the SFO.*
4. *Among the 4,670 shares (representing 46.70% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 220 shares (representing 2.20% of the total issued share capital of KIG) were held by him as trustee on trust for the share award plan of KIG.*

SUBSTANTIAL SHAREHOLDERS', OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

The Company was not listed on the Stock Exchange as at 30 September 2012. Accordingly, no disclosure of interest or short positions in any shares or underlying shares of the Company was required to be made to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as at 30 September 2012.

As at Listing Date, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Management Discussion and Analysis

Name of Shareholder	Name of group member/ associated corporation	Capacity/Nature of interest	Number and class of securities (Note 1)	Approximate shareholding percentage
KIG	Company	Beneficial owner	450,000,000 shares (L)	75%
Ms. Kwok Wing Yi (Note 4)	Company	Interest of spouse	450,000,000 shares (L)	75%
Ms. Mak Kam Fung (Note 5)	Company	Interest of spouse	450,000,000 shares (L)	75%
Ms. Lo Ka Wai (Note 6)	Company	Interest of spouse	450,000,000 shares (L)	75%
Mr. Yau Lam Chuen	Company	Interest of Concert Party (Note 3)	450,000,000 shares (L) (Note 2)	75%
Ms. Tsang Mo Jan (Note 7)	Company	Interest of spouse	450,000,000 shares (L)	75%
Mr. Yung Ching Tak	Company	Interest of Concert Party (Note 3)	450,000,000 shares (L) (Note 2)	75%
Ms. Wen Shi Fang (Note 8)	Company	Interest of spouse	450,000,000 shares (L)	75%
Mr. Chan Lin On	Company	Interest of Concert Party (Note 3)	450,000,000 shares (L) (Note 2)	75%
Ms. Pang Sau Ying (Note 9)	Company	Interest of spouse	450,000,000 shares (L)	75%
Mr. Yeung Man Chiu	Company	Interest of Concert Party (Note 3)	450,000,000 shares (L) (Note 2)	75%
Ms. Wan Wing Sze (Note 10)	Company	Interest of spouse	450,000,000 shares (L)	75%

Management Discussion and Analysis

Notes:

1. *The letter "L" denotes the corporation/person's long position in our shares.*
2. *These shares were held by KIG, which is owned as to 46.70% by Mr. Peter Sun, among the 4,670 shares (representing 46.70% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 220 shares (representing 2.20% of the total issued share capital of KIG) were held by him as trustee on trust for the share award plan of KIG, as to 13.69% by Mr. David Wong, as to 13.69% by Mr. Yau Lam Chuen, as to 9.12% by Mr. Yung Ching Tak, as to 6.17% by Mr. Banson Lam, as to 6.17% by Mr. Chan Lin On and as to 3.09% by Mr. Yeung Man Chiu.*
3. *Pursuant to the confirmation of concert party arrangement dated 26 September 2011 entered into by Mr. Peter Sun, Mr. David Wong, Mr. Yau Lam Chuen, Mr. Yung Ching Tak, Mr. Banson Lam, Mr. Chan Lin On and Mr. Yeung Man Chiu, they have confirmed that they are parties acting in concert in the operation and management of KPP-HK, KPP-Suzhou, KRP-HK, KRP-Shenzhen, KRP-Shanghai, KFM-HK and KFM-Shenzhen since 13 March 2002, being the date of incorporation of KPP-HK. Accordingly, each person under the concert party arrangement is taken to be interested in the Shares the other party under such concert party arrangement is interested under the SFO.*
4. *Ms. Kwok Wing Yi is the spouse of Mr. Peter Sun.*
5. *Ms. Mak Kam Fung is the spouse of Mr. David Wong.*
6. *Ms. Lo Ka Wai is the spouse of Mr. Banson Lam.*
7. *Ms. Tsang Mo Jan is the spouse of Mr. Yau Lam Chuen.*
8. *Ms. Wen Shi Fang is the spouse of Mr. Yung Ching Tak.*
9. *Ms. Pang Sau Ying is the spouse of Mr. Chan Lin On.*
10. *Ms. Wan Wing Sze is the spouse of Mr. Yeung Man Chiu.*

SHARE OPTION SCHEME

The Company has adopted a share option scheme (the "Share Option Scheme") on 22 September 2012. The principal terms of the Share Option Scheme was summarised in the section headed "Other information – Share Option Scheme" in Appendix V to the Prospectus.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected persons as incentives or rewards for their contribution or future contribution to the Group.

During the six months ended 30 September 2012, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

CORPORATE GOVERNANCE

The shares of the Company have been listed on the Main Board of the Stock Exchange since 15 October 2012.

The Board confirms that, other than the deviation from Code provision A.2.1 as set out in the "Corporate Governance Code and Corporate Governance Report" ("CG Code") contained in the Listing Rules, the Company has complied with the CG Code from the date of listing on 15 October 2012 up to the date of this interim condensed consolidated financial information.

Code Provision A.2.1 stipulates that the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. Mr. Peter Sun is the chairman and chief executive officer of the Company. In view of Mr. Peter Sun's extensive experience in the industry and in-depth knowledge of the Group's operation and business, the Board believes that Mr. Peter Sun is instrumental in formulating and implementing the Group's strategies. The Board expects that the Group will benefit from a unified chairman and chief executive officer position that provides clarity of leadership and allows efficient decision-making in strategic matters as well as the Group's day-to-day business. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The balance of power and authority is ensured by the effective operations of the Board, which comprises experienced and high caliber individuals.

Management Discussion and Analysis

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

As at Listing Date, the Company has adopted a code for securities transactions by the Directors on terms equivalent to the required standard of the Model Code as set out in Appendix 10 to the Listing Rules.

The Board confirmed that, having made specific enquiry, the Directors have complied in full with the required standards as set out in the Model Code and its code of conduct since the date of listing up to 28 November 2012, the date of this interim condensed consolidated financial information.

AUDIT COMMITTEE

The Company has established the Audit Committee in accordance with the requirements of the Listing Rules with written terms of reference formulated for the committee.

The Audit Committee has reviewed the Group's interim condensed consolidated financial information for the six months ended 30 September 2012 and has discussed the financial information with the management and the independent auditor of the Company. The Audit Committee is of the opinion that the preparation of such financial report has complied with the applicable accounting standards and requirements and that adequate disclosures have been made.

SUBSTANTIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED CORPORATIONS

During the Reporting Period, the Group did not conduct any substantial acquisitions or disposals for its subsidiaries or associated corporations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the period from the listing date and up to the date of this interim condensed consolidated financial information.

By order of the Board

Sun Kwok Wah Peter

Chairman

Hong Kong, 28 November 2012



羅兵咸永道

TO THE BOARD OF DIRECTORS OF KFM KINGDOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 28 to 56, which comprises the interim condensed consolidated balance sheet of KFM Kingdom Holdings Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 September 2012 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". The comparative interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six months ended 30 September 2011 were not reviewed or audited. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 November 2012

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2012

	Six months ended 30 September		
	Note	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
Revenue	6	419,934	505,576
Cost of sales	7	(326,179)	(379,293)
Gross profit		93,755	126,283
Other income	8	4,185	–
Other gains, net		273	1,408
Distribution and selling expenses	7	(9,627)	(11,674)
General and administrative expenses	7	(70,139)	(65,840)
Operating profit		18,447	50,177
Finance income		174	114
Finance costs		(2,215)	(744)
Profit before income tax		16,406	49,547
Income tax expense	9	(3,668)	(13,226)
Profit for the period		12,738	36,321
Other comprehensive income for the period, net of tax			
Currency translation differences		424	6,366
Total comprehensive income for the period		13,162	42,687
Profit for the period attributable to:			
Equity holders of the Company		12,738	36,321
Total comprehensive income attributable to:			
Equity holders of the Company		13,162	42,687
Earnings per share for profit attributable to equity holders of the Company			
– Basic and diluted (HK cents)	10	2.12	6.05
Dividends	11	85,228	35,579

The notes on pages 32 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet

As at 30 September 2012

	Note	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	12	227,417	181,873
Intangible asset	13	13,190	15,074
Goodwill		24,540	24,540
		265,147	221,487
Current assets			
Inventories	14	105,473	102,958
Trade and other receivables	15	217,622	227,720
Derivative financial assets		221	258
Tax recoverable		24	210
Restricted bank deposit		46,800	46,800
Cash and cash equivalents		97,527	133,423
		467,667	511,369
Total assets		732,814	732,856
EQUITY			
Attributable to the Company's equity holders			
Owner's equity		376,105	448,171
Total equity		376,105	448,171
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	12,399	12,751
		12,399	12,751
Current liabilities			
Trade and other payables	18	191,181	152,753
Bank borrowings	19	146,332	113,107
Current income tax liabilities		6,797	6,074
		344,310	271,934
Total liabilities		356,709	284,685
Total equity and liabilities		732,814	732,856
Net current assets		123,357	239,435
Total assets less current liabilities		388,504	460,922

The notes on pages 32 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2012

		Attributable to equity holders of the Company (Unaudited)					
	Note	Share capital HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
Balance at 1 April 2012		–	3,545	17,735	36,459	390,432	448,171
Comprehensive income							
Profit for the period		–	–	–	–	12,738	12,738
Other comprehensive income							
Currency translation differences		–	–	–	424	–	424
Total comprehensive income for the period		–	–	–	424	12,738	13,162
Transactions with equity holders							
Issue of share capital	16	100	(100)	–	–	–	–
Dividends	11	–	–	–	–	(85,228)	(85,228)
Balance at 30 September 2012		100	3,445	17,735	36,883	317,942	376,105

		Attributable to equity holders of the Company (Unaudited)					
	Note	Share capital HK\$'000	Capital reserve HK\$'000	Statutory reserve HK\$'000	Exchange reserve HK\$'000	Retained profits HK\$'000	Total equity HK\$'000
Balance at 1 April 2011		–	3,545	14,271	25,662	385,082	428,560
Comprehensive income							
Profit for the period		–	–	–	–	36,321	36,321
Other comprehensive income							
Currency translation differences		–	–	–	6,366	–	6,366
Total comprehensive income for the period		–	–	–	6,366	36,321	42,687
Transactions with equity holders							
Issue of share capital	16	–	–	–	–	–	–
Dividends	11	–	–	–	–	(35,579)	(35,579)
Balance at 30 September 2011		–	3,545	14,271	32,028	385,824	435,668

The notes on pages 32 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012	2011
Note	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net cash generated from operations	47,419	70,129
Income tax paid	(4,073)	(1,874)
Income tax refunded	937	725
Interest received	174	114
Net cash generated from operating activities	44,457	69,094
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	772	1,924
Purchase of property, plant and equipment	(27,138)	(16,734)
Acquisition of business	(17,825)	–
Net cash used in investing activities	(44,191)	(14,810)
Cash flows from financing activities		
Proceeds from bank borrowings	60,000	74,174
Repayments of bank borrowings	(26,827)	(7,985)
Receipt of amounts due from shareholders	20,028	–
Interest paid	(2,215)	(744)
Dividends paid	(85,228)	(54,419)
Net cash (used in)/generated from financing activities	(34,242)	11,026
Net (decrease)/increase in cash and cash equivalents		
	(33,976)	65,310
Cash and cash equivalents at beginning of the period	132,012	119,349
Exchange (loss)/gain on cash and cash equivalents	(1,972)	3,140
Cash and cash equivalents at end of the period	96,064	187,799
Analysis of balances of cash and cash equivalents:		
Cash at bank and on hand	92,567	184,387
Short-term bank deposits with original maturity within three months	4,960	4,960
Bank overdrafts	19 (1,463)	(1,548)
	96,064	187,799

The notes on pages 32 to 56 form an integral part of this interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Statements

1 GENERAL INFORMATION AND REORGANISATION

(a) General information

The Company was incorporated in the Cayman Islands on 13 July 2011, as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.

The Company is an investment holding company and its subsidiaries (together, the "Group") are principally engaged in the provision of precision metal stamping services, and manufacturing and sales of fine metal products (the "Group's Businesses").

This interim condensed consolidated financial information is presented in Hong Kong Dollar ("HK\$"), unless otherwise stated.

This interim condensed consolidated financial information was approved by the Board (the "Board") for issue on 28 November 2012.

This interim condensed consolidated financial information has not been audited.

(b) Reorganisation

Pursuant to the reorganisation of the Company in connection with the listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Reorganisation"), the Company became the holding company of the companies now comprising the Group on 13 September 2012. The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 October 2012 (the "Listing").

Notes to the Interim Condensed Consolidated Financial Statements

1 GENERAL INFORMATION AND REORGANISATION (continued)

(b) Reorganisation (continued)

The Company has not been involved in any other business prior to the Reorganisation and does not meet the definition of having a business. The Reorganisation is merely a reorganisation of the Group's Businesses with no change in management of such businesses. The companies now comprising the Group were under the common control of the underlying controlling shareholders before and after the Reorganisation. Accordingly, the interim condensed consolidated statements of comprehensive income, change in equity and cash flows for each of the six months ended 30 September 2012 and 2011 have been prepared using the financial statements of the companies engaged in the Group's Businesses under the common control of the underlying controlling shareholders now comprising the Group as if the current group structure had been in existence throughout each of the six months ended 30 September 2012 and 2011, or since their respective dates of incorporation or establishment of the combining companies, or since the date when the combining companies first came under the control of the underlying controlling shareholders of the Group. The condensed combined balance sheet of the Group as at 31 March 2012 have been prepared to present the assets and liabilities of the companies now comprising the Group at that date, as if the current group structure had been in existence as at that date. The net assets and results of the Group were consolidated using the carrying value from the underlying controlling shareholders' perspective. All significant intra-group transactions and balances have been eliminated on combination.

Apart from the Group's Businesses, the underlying controlling shareholders of the Group also engaged in the plastic injection and sweeper and OEM product assemble businesses (the "Other Businesses"). The results of the Other Businesses were excluded throughout the Reporting Periods as they are not related to the Group's Businesses and were managed separately from the Group's Businesses.

Notes to the Interim Condensed Consolidated Financial Statements

2 BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2012 has been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34, “Interim Finance Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The interim condensed consolidated financial information should be read in conjunction with the combined financial information for the year ended 31 March 2012 as set out in the accountant’s report (the “Accountant’s Report”) included in Appendix I to the prospectus of the Company (the “Prospectus”) in connection with the initial public offering of the Company’s shares on the Stock Exchange dated 28 September 2012.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those adopted in the preparation of the financial information as at and for the year ended 31 March 2012 of the Group, as set out in the Accountant’s Report included in Appendix I to the Prospectus of the Company in connection with the initial public offering of the Company’s shares on the Stock Exchange dated 28 September 2012.

- (a) Amendments to existing standards effective in 2012 but not relevant to the Group:

The following amendments to existing standards are mandatory for the first time for the financial year beginning 1 April 2012.

HKFRS 7 (Amendment)	Disclosures – Transfers of financial assets
HKAS 12 (Amendment)	Deferred Tax: Recovery of underlying assets

Notes to the Interim Condensed Consolidated Financial Statements

3 ACCOUNTING POLICIES (continued)

- (b) The following new standards and amendments, revisions and interpretation to existing standards have been issued but are not effected for the financial year beginning 1 April 2012 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of financial statements	1 July 2012
HKAS 19 (Amendment)	Employee benefits	1 January 2013
HKAS 27 (2011)	Separate financial statements	1 January 2013
HKAS 28 (2011)	Investment in associates and joint ventures	1 January 2013
HKFRS 7 (Amendment)	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities	1 January 2013
HKFRS 10	Consolidated financial statements	1 January 2013
HKFRS 11	Joint arrangements	1 January 2013
HKFRS 12	Disclosures of interests in other entities	1 January 2013
HKFRS 13	Fair value measurements	1 January 2013
HKAS 32 (Amendment)	Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9	Financial instruments	1 January 2015
HKFRS 7 and HKFRS 9 (Amendments)	Mandatory effective date and transition disclosures	1 January 2015

In addition, HKICPA also published a number of amendments to existing standards under its annual improvement project.

The Group is in the process of making an assessment of the impact of these new standards, amendments and interpretations to existing standards on the financial statements of the Group in the initial application. The adoption of the above is not expected to have a material effect on the Group's operating results and financial position.

Notes to the Interim Condensed Consolidated Financial Statements

4 ESTIMATES

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the combined financial statements for the year ended 31 March 2012 of the Group, as set out in the Accountant's Report included in Appendix I to the Prospectus of the Company in connection with the initial public offering of the Company's shares on the Stock Exchange dated 28 September 2012.

5 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's combined financial information for the year ended 31 March 2012 as set out in the Accountant's Report.

There have been no changes in the risk management policies of the Group since year end.

Notes to the Interim Condensed Consolidated Financial Statements

5 FINANCIAL RISK MANAGEMENT (continued)

(b) Liquidity risk

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	On demand HK\$'000 (Unaudited)	Less than 1 year HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Balance at 30 September 2012			
Bank borrowings	154,045	–	154,045
Trade payables	–	89,826	89,826
Other payables	–	101,355	101,355
	154,045	191,181	345,226
	On demand HK\$'000 (Audited)	Less than 1 year HK\$'000 (Audited)	Total HK\$'000 (Audited)
Balance at 31 March 2012			
Bank borrowings	115,325	–	115,325
Trade payables	–	88,403	88,403
Other payables	–	64,350	64,350
	115,325	152,753	268,078

5 FINANCIAL RISK MANAGEMENT (continued)

(c) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- (i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- (ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- (iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

As at 30 September 2012, the Group held certain foreign exchange derivative instruments which are included in level 2. The fair value of these financial instruments is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The significant inputs used by the Group in determining the fair value of those foreign exchange derivatives are observable in the market.

The fair values of trade and other receivables, cash and cash equivalents and a fixed rate bank borrowing are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities. The carrying amounts of the variable rate bank borrowings approximate their fair values because the interest rates are reset to market rates.

6 SEGMENT INFORMATION

The chief operating decision-maker has been identified as the shareholders management of the Group. The shareholders management reviews the Group's internal reporting in order to assess performance and allocate resources and has determined the operating segments based on these reports.

The shareholders management considered the nature of the Group's business and determined that the Group has five reportable operating segments as follows:

- (i) Office automation
- (ii) Medical and test equipment
- (iii) Finance equipment
- (iv) Consumer electronics
- (v) Network and data storage

The shareholders management assesses the performance of the operating segments based on revenue and gross profit percentage of each segment.

Notes to the Interim Condensed Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

- (a) The segment information provided to the shareholders management for the reportable segments for the period ended 30 September 2012 is as follows:

	Medical		Finance	Network			Total
	Office automation	and test equipment		Consumer electronics	and data storage	Others	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Segment revenue (all from external customers)	154,552	104,714	27,080	71,131	24,144	38,313	419,934
Cost of sales	(142,285)	(75,663)	(18,968)	(38,335)	(18,695)	(32,233)	(326,179)
Gross profit	12,267	29,051	8,112	32,796	5,449	6,080	93,755
Gross profit %	7.9%	27.7%	30.0%	46.1%	22.6%	15.9%	22.3%
Other income							4,185
Other gains, net							273
Distribution and selling expenses							(9,627)
General and administrative expenses							(70,139)
Operating profit							18,447
Finance income							174
Finance costs							(2,215)
Profit before income tax							16,406
Income tax expense							(3,668)
Profit for the period							12,738

Notes to the Interim Condensed Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

(b) The segment information provided to the shareholders management for the reportable segments for the period ended 30 September 2011 is as follows:

	Office automation HK\$'000 (Unaudited)	Medical and test equipment HK\$'000 (Unaudited)	Finance equipment HK\$'000 (Unaudited)	Consumer electronics HK\$'000 (Unaudited)	Network and data storage HK\$'000 (Unaudited)	Others HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue (all from external customers)	164,484	107,534	27,092	145,617	27,839	33,010	505,576
Cost of sales	(152,812)	(80,514)	(18,350)	(78,403)	(21,471)	(27,743)	(379,293)
Gross profit	11,672	27,020	8,742	67,214	6,368	5,267	126,283
Gross profit %	7.1%	25.1%	32.3%	46.2%	22.9%	16.0%	25.0%
Other gains, net							1,408
Distribution and selling expenses							(11,674)
General and administrative expenses							(65,840)
Operating profit							50,177
Finance income							114
Finance costs							(744)
Profit before income tax							49,547
Income tax expense							(13,226)
Profit for the period							36,321

Notes to the Interim Condensed Consolidated Financial Statements

6 SEGMENT INFORMATION (continued)

- (c) Revenue from external customers in the PRC, North America, Japan, Europe, Singapore, Oceania, South America and other Asian countries is as follows:

	Six months ended 30 September	
	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
The PRC	287,116	251,875
North America	52,701	57,073
Japan	29,082	34,548
Europe	26,418	26,981
Singapore	16,207	126,242
Oceania	827	1,769
South America	335	328
Other Asian countries excluding the PRC, Japan and Singapore	7,248	6,760
	419,934	505,576

- (d) The total of non-current assets, other than intangible asset and goodwill of the Group as at 30 September 2012 and 31 March 2012 are as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
	The PRC	222,564
Hong Kong	4,853	5,041
	227,417	181,873

Notes to the Interim Condensed Consolidated Financial Statements

7 EXPENSES BY NATURE

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Raw materials and consumables used	185,893	221,435
Changes in inventory of finished goods and work in progress	(532)	5,569
Employee benefit expenses	99,509	95,954
Processing fees	31,022	46,169
Depreciation of property, plant and equipment (<i>Note 12</i>)	13,722	12,369
Amortisation of intangible asset (<i>Note 13</i>)	1,884	–
Operating lease rental in respect of buildings	12,828	9,399
Research and development costs	10,569	10,271
Utilities expenses	8,461	8,883
Transportation, postage and courier expenses	5,870	9,703
Legal and professional fees		
– incurred for initial public offerings	14,542	12,242
– others	859	3,354
Auditor's remuneration	400	80
Others	20,918	21,379
Total cost of sales, distribution and selling expenses and general and administrative expenses	405,945	456,807
Represented by:		
Cost of sales	326,179	379,293
Distribution and selling expenses	9,627	11,674
General and administrative expenses	70,139	65,840
	405,945	456,807

Notes to the Interim Condensed Consolidated Financial Statements

8 OTHER INCOME

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Product assembly service fee income	4,185	–

9 INCOME TAX EXPENSE

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current income tax		
– Hong Kong	2,669	10,245
– The PRC	1,351	2,565
Deferred income tax (Note 17)	(352)	416
	3,668	13,226

10 EARNINGS PER SHARE

(a) Basic earnings per share

	Six months ended 30 September	
	2012	2011
	(Unaudited)	(Unaudited)
Net profit attributable to the equity holders of the Company (HK\$'000)	12,738	36,321
Number of ordinary shares outstanding for basic earnings per share ('000)	600,000	600,000
Basic earnings per share (HK cents per share)	2.12	6.05

Notes to the Interim Condensed Consolidated Financial Statements

10 EARNINGS PER SHARE (continued)

(a) Basic earnings per share (continued)

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by 600,000,000 ordinary shares, which is deemed to have been issued at the beginning of the earliest period presented in the interim condensed consolidated financial information.

(b) Diluted earnings per share

There were no potential dilutive ordinary shares outstanding during the six months ended 30 September 2012 and 2011 and hence the diluted earnings per share is the same as basic earnings per share.

11 DIVIDENDS

On 2 May 2012 and 26 June 2012, the Group declared dividends of HK\$53,646,000 and HK\$31,582,000, respectively to its shareholders. As at 30 September 2012, the dividend has been fully paid by the Group. Except for these dividends, no further dividend is proposed by the Board to be paid for the six months ended 30 September 2012.

For the six months ended 30 September 2011, dividends totaling to HK\$35,579,000 was declared and paid.

12 PROPERTY, PLANT AND EQUIPMENT

	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
At 1 April	181,873	178,284
Additions	59,027	16,734
Disposals	(527)	(956)
Depreciation	(13,722)	(12,369)
Currency translation differences	766	3,413
At 30 September	227,417	185,106

Notes to the Interim Condensed Consolidated Financial Statements

13 INTANGIBLE ASSET

	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
At 1 April	15,074	–
Amortisation	(1,884)	–
At 30 September	13,190	–

On 29 March 2012, the Group acquired the product assembly business from a third party customer, who sourced precision metal part products from the Group, for a consideration of US\$5,000,000 (equivalent to HK\$38,750,000).

The intangible asset represents the contractual customer relationship arising from the acquisition of this business.

14 INVENTORIES

	As at	As at
	30 September	31 March
	2012	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Raw materials	34,474	32,491
Work in progress	20,611	21,490
Finished goods	50,388	48,977
	105,473	102,958

Notes to the Interim Condensed Consolidated Financial Statements

15 TRADE AND OTHER RECEIVABLES

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Trade receivables (Note (a))		
– third parties	176,060	171,472
– related company	14	29
	176,074	171,501
Prepayments, deposits and other receivables	41,548	36,111
Amounts due from		
– shareholders	–	20,028
– ultimate holding company	–	58
– related companies	–	22
	217,622	227,720

Note:

- (a) The Group normally grants credit periods of 30 to 90 days. The ageing analysis of trade receivables (including trade receivables from related companies) is as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Up to 3 months	167,974	161,310
3 to 6 months	6,728	9,713
6 months to 1 year	1,371	394
1 to 2 years	1	84
	176,074	171,501

Notes to the Interim Condensed Consolidated Financial Statements

16 SHARE CAPITAL

Authorised share capital

Pursuant to a shareholders' resolution passed on 22 September 2012, the authorised share capital of the Company was increased from HK\$100,000 to HK\$450,000,000 by the creation of 4,499,000,000 new shares with a par value of HK\$0.1 per share.

Issued share capital

	Number of shares	Amount
	Issued share capital	Share capital
		HK\$'000
		(Unaudited)
The Company		
At 1 April 2011	–	–
Issue of new share (<i>Note (a)</i>)	1	–
At 30 September 2011 and 1 April 2012	1	–
Issue of new shares (<i>Note (b)</i>)	999,999	100
At 30 September 2012	1,000,000	100
Capitalisation of shares (<i>Note (c)</i>)	449,000,000	44,900
Issue of new shares pursuant to the Global Offering (<i>Note (c)</i>)	150,000,000	15,000
At 15 October 2012	600,000,000	60,000

Notes to the Interim Condensed Consolidated Financial Statements

16 SHARE CAPITAL (continued)

Notes:

- (a) The Company was incorporated in the Cayman Islands on 13 July 2011 with an authorised share capital of HK\$100,000, divided into 1,000,000 shares of HK\$0.1 each. After the incorporation, one nil-paid share was issued.
- (b) On 13 September 2012, the Company acquired the entire equity interest in KFM Group Limited ("KFM BVI") by (a) issuing and allotting 999,999 new shares to Kingdom International Group Limited ("KIG"), credited as fully paid; and (b) crediting as fully paid at par the one nil-paid share which was then registered in the name of KIG.
- (c) Subsequent to the period end, the Company's shares were listed on the Stock Exchange on 15 October 2012. The ordinary issued share capital of the Company was increased from 1,000,000 ordinary shares to 600,000,000 ordinary shares. On the same day, 599,000,000 ordinary shares were issued to the underlying controlling shareholders of the Group and the general public. In respect of the 599,000,000 shares newly issued, 150,000,000 ordinary shares were issued pursuant to the global offering and 449,000,000 ordinary shares were issued pursuant to the capitalisation issue. The ordinary shares newly issued ranked *pari passu* in all respects with the issued shares then existing.

17 DEFERRED INCOME TAX LIABILITIES

	2012 HK\$'000 (Unaudited)	2011 HK\$'000 (Unaudited)
At 1 April	12,751	13,662
Charged to profit or loss (Note 9)	(352)	416
Payment of withholding tax upon distribution of dividend	–	(5,917)
At 30 September	12,399	8,161

Notes to the Interim Condensed Consolidated Financial Statements

18 TRADE AND OTHER PAYABLES

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Trade payables (Note (a))		
– third parties	89,254	87,276
– related companies	572	1,127
	89,826	88,403
Accrual, deposits and other payables	80,430	25,600
Considerations payable for acquisition of business (Note (b))	20,925	38,750
	191,181	152,753

Notes:

(a) The ageing analysis of trade payables at the respective balance sheet dates is as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Up to 3 months	87,539	86,395
3 to 6 months	2,011	1,943
6 months to 1 year	236	13
1 to 2 years	40	52
	89,826	88,403

(b) On 29 March 2012, the Group acquired the product assembly business from a third party customer as mentioned in Note 13. The amount represents remaining balance of consideration for acquisition of the business will be paid in accordance with terms of the sales and purchase agreement dated 29 March 2012.

Notes to the Interim Condensed Consolidated Financial Statements

19 BANK BORROWINGS

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Bank overdrafts	1,463	1,411
Short-term bank loans	40,000	40,000
Portion of long-term bank loans due for repayment within one year	63,063	46,154
Portion of long-term bank loans due for repayment after one year which contain a repayment on demand clause	41,806	25,542
	146,332	113,107

The interest-bearing bank borrowings, including the bank loans repayable on demand, are carried at amortised cost. None of the portion of bank loans due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

As at 30 September 2012, the Group's bank borrowings of HK\$146,332,000 (as at 31 March 2012: HK\$113,107,000) were secured by bank deposits of HK\$46,800,000.

The Group's bank borrowings are repayable based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Within 1 year	104,526	87,565
Between 1 and 2 years	22,956	21,742
Between 2 and 5 years	18,850	3,800
	146,332	113,107

Notes to the Interim Condensed Consolidated Financial Statements

20 BUSINESS COMBINATION

On 29 March 2012, the Group acquired the product assembly business from a third party customer, who sourced precision metal part products from the Group, for a consideration of US\$5,000,000 (equivalent to HK\$38,750,000).

As a result of the acquisition, the Group is able to enter into the assembly business of the data storage automation integration business and secure the original orders from the third party customer. The goodwill of HK\$24,540,000 arising from the acquisition is attributable to the future economic benefit and economies of scale from incorporating the operations of the product assembly business with the Group. The goodwill and the intangible asset recognised are not expected to be deductible for income tax purposes.

21 COMMITMENTS

(a) Capital commitments

	As at	As at
	30 September	31 March
	2012	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Authorised but not contracted for		
– Plant and machinery	–	37,710
Contracted but not provided for		
– Leasehold land and buildings	48,181	48,850

Notes to the Interim Condensed Consolidated Financial Statements

21 COMMITMENTS (continued)

(b) Operating lease commitments

The Group acts as lessee under operating leases. The Group had future minimum lease payments under non-cancellable operating leases in respect of land use rights and buildings as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Within 1 year	28,521	27,341
Later than 1 year and not later than 5 years	86,957	88,039
Later than 5 years	20,979	28,066
	136,457	143,446

These leases typically run for an initial period of one to ten years. Certain of the operating leases contain renewal options which allow the Group to renew.

22 CONTINGENT LIABILITIES

As at 30 September 2012 and 31 March 2012, the Group had provided guarantee in respect of bank borrowings drawn by a related company of the Group as follows:

	As at 30 September 2012 HK\$'000 (Unaudited)	As at 31 March 2012 HK\$'000 (Audited)
Innotech Advanced Products Limited	–	12,500

Such guarantees was released by 12 June 2012.

Notes to the Interim Condensed Consolidated Financial Statements

23 SIGNIFICANT RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Name and relationship with related parties

Name	Relationship
EuAuto International Limited	A company in which Peter Sun is a shareholder.
EuAuto Technology Limited	An entity in which EuAuto International Limited has equity interest.
Gold Joy (HK) Industrial Limited	A related company owned by Chow Suen, Christina; David Wong; Yau Lam Chuen; and Yung Ching Tak.
Innotech Advanced Products Limited	A subsidiary of Gold Joy (HK) Industrial Limited which was engaged in Other Businesses.
Kingdom Group Limited	A wholly owned subsidiary of KIG.
Kingdom International Group Limited	A company held by the underlying controlling shareholders of the Group before the Reorganisation, and the ultimate holding company of the Group after the Reorganisation.
Peter Sun	One of the underlying controlling shareholders of the Group.
Kingsway Investment (Group) Limited	A company in which Peter Sun, is a shareholder.
Dongguan Tech-in Electrical & Mechanical Products Limited	A subsidiary of Innotech Advanced Products Limited.

Notes to the Interim Condensed Consolidated Financial Statements

23 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Sales and purchase of products

During the Reporting Periods, the Group had the following material transactions with related companies, which were entered into at terms mutually agreed.

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Sales of products to a related company:		
Innotech Advanced Products Limited	29	86
Purchase of products from related companies:		
Innotech Advanced Products Limited	1,448	1,794
Dongguan Tech-in Electrical & Mechanical Products Limited	1,030	1,424
Other income from related companies:		
Kingsway Investment (Group) Limited	–	6
EuAuto International Limited	–	18
	–	24

Other income from related companies represents accounting and secretarial cost recharged to related companies.

Notes to the Interim Condensed Consolidated Financial Statements

23 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(c) Balances with ultimate holding company, fellow subsidiary and related companies

	As at	As at
	30 September	31 March
	2012	2012
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Trade receivables from a related company		
Innotech Advanced Products Limited	14	29
Other receivables from ultimate holding company, fellow subsidiary and related companies		
EuAuto Technology Limited	–	3
Kingdom Group Limited	–	19
Kingdom International Group Limited	–	58
	14	109
Trade payables to related companies		
Innotech Advanced Products Limited	(473)	(800)
Dongguan Tech-in Electrical & Mechanical Products Limited	(99)	(327)
	(572)	(1,127)

24 SUBSEQUENT EVENT

The Company raised proceeds of HK\$102 million upon the Listing. For details of the changes in the issued share capital of the Company, please refer to Note 16.