# KFM KINGDOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability)
(HKEx Stock Code: 3816)

Our goals are far and high
We cultivate for tomorrow

*Interim Report* **2013**

www.kingdom.com.hk

# Contents



# 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
Prof. 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
Prof. 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 bankers
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

## Corporate Information

### Cayman Islands share registrar and transfer office

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

### Hong Kong branch share registrar and transfer office

Tricor Investor Services Limited
Level 54, Hopewell Centre,
183 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 2013 (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 2012.

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, were approved by the Board on 26 November 2013.

Revenue for the Reporting Period reached approximately HK$488.5 million, representing an increase of 15.2% over the corresponding period last year. The Group recorded a net profit of approximately HK$25.3 million for the Reporting Period which increased approximately 99.2% as compared to the net profit of approximately HK$12.7 million for the corresponding period in 2012. The increase was mainly contributed by the increase in revenue during the Reporting Period and the fact that the Group did not further incur any listing expenses. For the six months ended 30 September 2012, one-off listing expenses amounted to approximately HK$14.5 million was incurred. The above effect was partly offset by the increase in general and administrative expenses, finance costs, and income tax expenses, as compared to the corresponding period in 2012.

# Management Discussion and Analysis

## Financial review

### Revenue

For the six months ended 30 September 2013, revenue of the Group reached approximately HK$488.5 million, representing an increase of approximately HK$64.4 million or 15.2% from approximately HK$424.1 million for the corresponding period last year. Set out below is a breakdown of our revenue by business segments:

| | Six months ended 30 September | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **HK$'000** | **%** | HK$'000 | % |
| | **(Unaudited)** | | (Unaudited) | |
| Metal Stamping | **351,912** | **72.0** | 326,935 | 77.1 |
| Metal Lathing | **136,584** | **28.0** | 97,184 | 22.9 |
| | **488,496** | **100.0** | 424,119 | 100.0 |

During the Reporting Period, the Group had redefined its business segment in order to better describe our business activities and to align with market practice and enhance comparability. Under the new segment classification, our business activities are categorised by the manufacturing process by which we produce products to customers, namely, metal stamping and metal lathing.

Metal stamping is the process of bending, forming and cutting a sheet metal into the desired shape and size through the use of a die on a stamping machine. It includes computer numerical control ("CNC") metal plate processing which is also used for producing stamped metal parts. The metal stamping process is usually employed to produce products to customers engaged in various industries, including office automation, medical and test equipment, finance equipment, network and data storage, and consumer electronics. Metal lathing includes two categories of metal production processes, namely cam-operated automatic lathing and CNC lathing. It is a metal cutting operation, in which a work piece is fast spinning while the blade is moving on a plane in a linear or curvilinear track, so as to remove excess material from a work piece to produce parts in desired shapes. The process is used to shape the inner and outer cylindrical surface, end surface, cone surface, finished surface and screw thread, etc. The metal lathing process is usually employed to produce products mainly to customers engaged in the consumer electronics and medical and test equipment industries.

## Management Discussion and Analysis

Revenue from the metal stamping segment increased by approximately HK$25.0 million or 7.6% from approximately HK$326.9 million for the six months ended 30 September 2012 to approximately HK$351.9 million for the six months ended 30 September 2013. The improvement was mainly due to a number of our customers introducing new product models to the market during the period and placed more orders to the Group. However, the increase was partly offset by the phasing out of certain low margin office automation products.

Revenue from the metal lathing segment increased approximately HK$39.4 million or 40.5% from approximately HK$97.2 million for the six months ended 30 September 2012 to approximately HK$136.6 million for the six months ended 30 September 2013. The improvement was mainly caused by the rebound of orders from our Ultimate Customer (as defined in our prospectus for global offering dated 28 September 2012 (the "Prospectus")) during the Reporting Period.

As stated in the Prospectus, our Ultimate Customer had gradually ceased to engage one of our major customers for procurement of related metal parts at the beginning of 2012. Instead, from June 2012 onward, the Group started to serve two other sub-contracting manufacturers of the Ultimate Customer for the manufacturing of similar type of metal parts that we previously produced for that major customer. As a result, the Group experienced significant drop in revenue from this segment during the transitional period which happened in the corresponding period last year.

After the transitional period, purchase orders placed by the two sub-contracting manufacturers of the Ultimate Customer gradually increased to the normal level which led to a rebound of our revenue. At the same time, the Group was engaged by other customers which are also sub-contracting manufacturers of our Ultimate Customer to produce other metal parts which are ultimately used in the main product and accessory products of the Ultimate Customer. The mass production of the product for these customers had commenced during the period ended 30 September 2013.

The PRC, North America, Europe and Japan continued to be the major markets of the Group's products. They accounted for approximately 66.3%, 15.3%, 8.8% and 6.2% of our Group's revenue respectively for the six months ended 30 September 2013. Details of revenue generated by different geographical location are set out in Note 6(c) of this interim condensed consolidated financial information.

## Management Discussion and Analysis

### Cost of sales

Cost of sales primarily comprises of the direct costs associated with the manufacturing of our products. It 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 | | | |
|---|---|---|---|---|
| | **2013** | | 2012 | |
| | **HK$'000** | **%** | HK$'000 | % |
| | **(Unaudited)** | | (Unaudited) | |
| Direct materials | **206,580** | **55.2** | 185,893 | 57.0 |
| Direct labour | **88,292** | **23.6** | 73,924 | 22.7 |
| Processing fee | **39,931** | **10.7** | 31,022 | 9.5 |
| Other direct overheads | **39,274** | **10.5** | 35,340 | 10.8 |
| | **374,077** | **100.0** | 326,179 | 100.0 |

During the six months ended 30 September 2013, cost of sales of the Group increased by approximately 14.7% or HK$47.9 million as compared to the corresponding period last year. The increase was largely in line with the growth in total revenue. The percentage of cost of sales to the total revenue was approximately 76.6%, representing a decrease of 0.3%, as compared to approximately 76.9% in the corresponding period of last year. This was primarily due to the increase in the portion of revenue generated from the metal lathing segment in which less direct materials were consumed.

## Management Discussion and Analysis

### Gross profit and gross profit margin

During the six months ended 30 September 2013, our gross profit was approximately HK$114.4 million, representing an increase of approximately 16.9% as compared to the corresponding period in 2012. It was mainly due to increase in overall sales by approximately 15.2%.

For the period ended 30 September 2013, the gross profit margin of the Group was approximately 23.4% which increased by 0.3% as compared to approximately 23.1% in the corresponding period in 2012. As explained, this was primarily due to the increase in revenue generated from the high margin metal lathing segment. As a percentage of total revenue, the revenue from the metal lathing segment increased from approximately 22.9% for the six months ended 30 September 2012 to approximately 28.0% for the six month period ended 30 September 2013, which in turn resulted in an increase of approximately 2.6% of the Group's gross profit margin. Such impact was partly offset by the reduction in gross profit margin of the Group's metal stamping segment from approximately 18.1% for the period ended 30 September 2012 to approximately 16.2% for the period ended 30 September 2013. This contributed to a decrease of approximately 2.3% of the Group's gross profit margin. For details of the gross profit margin of the Group's two business segments, please refer to Note 6(a) of this interim condensed consolidated financial information.

### Other (losses)/gains, net

During the six months ended 30 September 2013, the Group recorded other losses, net which amounted to approximately HK$0.6 million. In the corresponding period of 2012, the Group recorded other gains, net of approximately HK$0.3 million.

In the six months ended 30 September 2013, the Group incurred net exchange losses which amounted to approximately HK$1.5 million. During the period ended 30 September 2012, net exchange losses of approximately HK$0.7 million was recorded. Exchange losses had arisen mainly because the settlement currency between the Group and a number of our major customers is United States dollar. Due to gradual appreciation of the Renminbi, the Group recorded net exchange losses when those customers settles the trade balance due to the Group.

### Distribution and selling expenses

Distribution and selling expenses relate to the expenses incurred for the promotion and selling of our products. It mainly comprises of, among others, salaries and related costs for the sales and marketing staff, travelling and transportation costs, and marketing expenses. Distribution and selling expenses were approximately HK$10.0 million and HK$9.6 million for the six months ended 30 September 2013 and 2012, respectively. Our distribution and selling expenses remained steady compared to the corresponding period last year.

### General and administrative expenses

General and administrative expenses comprised primarily of salaries and related costs for key management, our finance and administration staff, rental expenses, depreciation, audit fees, and professional and related costs incurred by the Group.

The general and administrative expenses of the Group decreased from approximately HK$70.1 million for the six months ended 30 September 2012 to approximately HK$66.7 million for the six months ended 30 September 2013.

The decrease was a combined effect of (i) the one-off listing expenses of approximately HK$14.5 million incurred for the six months ended 30 September 2012 was not incurred in the Reporting Period; (ii) there was an increase in remuneration of directors, senior and administrative staff; (iii) there was an increase in the legal and professional fee mainly paid to our legal and compliance advisors; and (iv) additional operational costs was incurred by a newly established subsidiary.

### Finance costs

Our finance costs of approximately HK$4.0 million (for the six months ended 30 September 2012: approximately HK$2.2 million) represented interest expenses on bank borrowings. Increase in finance costs were mainly due to more bank borrowings drawn down during the period as compared to same period last year and a higher average interest rate for the six months ended 30 September 2013, as compared to the corresponding period last year.

### Income tax expenses

Our income tax expenses amounted to approximately HK$8.2 million and HK$3.7 million, for the period ended 30 September 2013 and 2012, respectively. The increase was attributable primarily to the higher taxable profit recorded for the period ended 30 September 2013.

Our effective tax rate increased from approximately 22.4% for the period ended 30 September 2012 to approximately 24.4% for the period ended 30 September 2013. The increase of the effective tax rate was mainly due to the fact that two of our PRC subsidiaries ceased to enjoy the PRC 5-Year Tax Concession and were subject to a normal corporate income tax rate of 25%. In the corresponding period last year, those subsidiaries were subject to a concessionary corporate income tax rate of 12.5%.

### Profit attributable to equity holders of the Company

For the six months ended 30 September 2013, profit attributable to equity holders of the Company amounted to approximately HK$26.2 million, representing an increase of 105.8% as compared to the corresponding period in 2012. The increase of net profit was mainly attributable to the increase in revenue during the Reporting Period and the fact that the Group did not further incur any listing expenses. For the six months ended 30 September 2012, one off listing expenses which amounted to approximately HK$14.5 million was incurred. The above effect was partly offset by the increase in general and administrative expenses, finance costs, and income tax expenses, as compared to the corresponding period in 2012.

## 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$529.4 million and HK$605.5 million as at 30 September 2013 and 31 March 2013 respectively, which represented approximately 59.5% and 69.5% of our total assets as at 30 September 2013 and 31 March 2013, respectively.

## Management Discussion and Analysis

### Capital structure

The Group's capital structure is summarised as follows:

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Bank borrowings | **157,361** | 209,848 |
| Bank overdrafts | **1,179** | 1,176 |
| Total debts | **158,540** | 211,024 |
| Less: Cash and cash equivalents | **(152,061)** | (218,678) |
| Restricted bank deposit | **(23,400)** | (46,800) |
| Net cash | **(16,921)** | (54,454) |
| Shareholders' equity | **519,539** | 493,523 |
| Total capitalisation* | **519,539** | 493,523 |
| Gearing ratio | | |
| – Total debt to shareholders' equity ratio# | **30.5%** | 42.8% |
| – Net debt to shareholders' equity ratio## | **Net cash** | Net cash |

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

\# *Total debt to shareholders' equity ratio is calculated based on total debts divided by shareholders' equity at the end of the respective periods*

\## *Net debt to shareholders' equity ratio is calculated based on net debt divided by shareholders' equity at the end of the respective periods*

The Group's primary sources of funds came from cash generated from operating activities. The Group had recorded net cash inflow from operating activities of approximately HK$82.9 million and HK$44.5 million for the period ended 30 September 2013 and 2012, respectively.

Details of the Group's bank loans and other borrowings as at 30 September 2013 are set out in Note 19 in this interim condensed consolidated financial information.

## Management Discussion and Analysis

The capital structure of the Group consists of equity attributable to the equity holders 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 2013, the Group acquired property, plant and equipment of approximately HK$106.9 million as compared to the six months ended 30 September 2012 of approximately HK$59.0 million.

During the six months ended 30 September 2013, the Group had purchased a piece of land in Suzhou with land premium amounted to approximately HK$31.0 million, an office for the Group's headquarter in Hong Kong amounted to approximately HK$46.5 million, and other property, plant and equipment of approximately HK$29.4 million during the normal and ordinary course of our business.

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

### Charges on the Group's assets

As at 30 September 2013, the Group's bank borrowings and bank overdrafts of HK$121,873,000 (as at 31 March 2013: HK$161,024,000) were secured by bank deposits of HK$23,400,000 (as at 31 March 2013: HK$46,800,000).

### 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. The 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.

The 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.

## Management Discussion and Analysis

**Derivative financial instruments**

In August 2011, the Group entered into one foreign exchange derivative contract to hedge against the foreign exchange exposure in relation to a long-term bank loan denominated in Renminbi. The effective period of the contract is two years and the contract had expired in August 2013. As at 30 September 2013, the Group did not hold any derivative financial instruments.

**Capital commitments and operating lease commitments**

Details of the Group's capital commitments and operating lease commitments as at 30 September 2013 are set out in Note 20(a) and Note 20(b) in this interim condensed consolidated financial information.

**Contingent liabilities**

As at 30 September 2013, the Group had no material contingent liabilities.

### Business review

In spite of the uncertainty in the United States ("US") and European markets which continued to cloud the pace of global recovery of the economy, the Group saw steady and continued improvement in our business performance and business fundamentals during the Reporting Period.

During the six months ended 30 September 2013, the Group recorded revenue which amounted to approximately HK$488.5 million. It shows an increase of approximately HK$64.4 million, or 15.2% as compared to approximately HK$424.1 million for the corresponding period in 2012. The growth in revenue was fueled by a combination of factors. In the metal stamping segment, there was a continued rise in orders from customers engaged in the medical and test equipment sector and office automation sector, mainly caused by the launching of new product models by these customers. Although the up-trend was partly offset by the Group's exercise to restructure our product portfolio, in which we phased out certain low margin products, the segment generated approximately 7.6% more revenue than the corresponding period last year.

In the metal lathing segment, the Group recorded vibrant growth of approximately 40.5% against the same period last year. During the six months ended 30 September 2013, revenue generated by the metal lathing segment was approximately HK$136.6 million, representing a hike of approximately HK$39.4 million as compared to the same period in 2012. Such growth was mainly contributed by the rebound of orders from our Ultimate Customer after the fourth quarter of 2012. Apart from this, during the six months ended 30 September 2013, the Group was also engaged by certain other subcontractors of the Ultimate Customer to produce other metal components which are used in the products or accessories of our Ultimate Customer. We believed that following a series of direct negotiation with the Ultimate Customer in 2012, we had developed long term secured business relationship with the Ultimate Customer, which is beneficial to our business development in the years to come.

As part of the Group's strategic plan, the Group's first product assembly facilities had come to full operation in December 2012. The assembly operation formed part of our strategic downward expansion from the provision of precision metal engineering and processing service, to a one-stop full scale service to our customers. By providing additional value-added service to our customers, we are able to open new windows of business opportunities with our customers, and enhance the Group's competitiveness and profitability. During the six months ended 30 September 2013, the product assembly operation had begun to contribute value towards such goal.

Apart from the above, the Group was also making progress regarding the development of our Suzhou production base, which is intended to be used as a comprehensive production base to serve nearby customers who are engaged in the medical and test equipment industry. As of the date of this interim condensed consolidated financial information, the design of the new Suzhou base has been finalised. With a gross area of approximately 52,000 sq. m., management is optimistic that, if completed, the new site will provide us with sufficient production capacity to expand into the medical and test equipment industry which has promising profit margin.

With our continued effort in the Group's strategic development, we believe that our Group is well-positioned to expand our business continuously.

## Outlook and strategy

Although under continued uncertain economic atmosphere and competition, the Group has continued to focus on our business fundamentals and endeavor to mitigate business risks. We believe that the fast expanding PRC precision metal and precision engineering market is still far from saturation and has plenty of room to allow quality and well-managed industry players to expand its market share. Compounded with the expected recovery of the global economy, we are cautiously optimistic about the business environment in the foreseeable future.

In order to capture the opportunity presented before us, the Group shall continue to maintain close relationship with our customers in our traditional market, and sort out effective measures to reduce increasing production cost. The Group will continue our effort in enhancing cost management and production efficiency through the use of robotic automation in our production process in order to counter the increasing staff cost in the PRC and enhance production efficiency.

On the other hand, the Group will continue to explore new business and products in high value and high growth industries, such as the medical and test equipment and the consumer electronics industries. We will closely monitor the development progress of our Suzhou production base, which is intended to capture the high value medical and test equipment market. Besides, our Group is also expanding our existing business model to develop our own-branded kiosk products.

With our solid long term relationship with our major customers, our extensive business knowledge in the industry, and our core values of commitment to top product quality, we would dedicate to maximise the returns to our shareholders.

## Employees and remuneration policy

As at 30 September 2013, the Group had a total number of 2,914 full-time employees (as at 30 September 2012: 2,897). 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 and raised net proceeds of approximately HK$85.6 million. As at 30 September 2013, the unused proceeds of approximately HK$52.0 million were deposited with licensed banks in Hong Kong.

As at 30 September 2013, the net proceeds had been utilised as follows:

| | Actual net proceeds HK$ million | Actual utilisation up to 30 September 2013 HK$ million (Note #) | Balance as at 30 September 2013 HK$ million |
|---|---|---|---|
| For the purchase of a piece of land in Suzhou | **58.0** | **33.6** | **24.4** |
| For the construction of production facilities in Suzhou | **27.6** | **–** | **27.6** |
| | **85.6** | **33.6** | **52.0** |

Note #: include the land premium of approximately HK$31.0 million and other taxes and charges levied by the PRC government which amounted to approximately HK$2.6 million in the process of the acquisition

## 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) Manufactory 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, the Group will implement the contingency plan, which involves relocating the production facilities and production lines at the Xili Leased Properties to Kingdom Technology (Shenzhen) Company Limited ("KFM-Shenzhen") and a leased 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.

Towards the expiry of the Contingency Lease Property Agreement, the 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 the 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.

The 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) Manufactory Limited ("KRP-Shanghai") with effect since its incorporation in 2002.

The 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 on page 154 to 155 of the Prospectus and in the process of liquidation) and KRP-Shanghai. Housing provident fund contributions for all entitled employees 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. Because KFM-Shenzhen Factory is in the process of liquidation, and in view of the fact that the provision for housing provident fund made for the factory had been long outstanding, management had reassessed such provision during the Reporting Period. Having considered all factors, the management had reversed the provision amounted to RMB1.17 million. The management is of the view that upon its liquidation, and considering the fact that the factory had not received any notification or orders from the relevant housing provident fund authorities, the likelihood of making payment for previously unpaid long outstanding housing provident fund for KFM-Shenzhen Factory is remote.

## Management Discussion and Analysis

### Non-competition

As disclosed in the Prospectus, to further delineate the respective business of Innotech Advanced Products Limited (滙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) (together, "Innotech Group"), Kingdom Innovative Storage Systems Limited and its wholly-owned subsidiary Innotech Advanced Creative Metal Products (Shenzhen) Limited (滙德創意金屬產品(深圳)有限公司) (together, "Kingdom Innovative Group") and the Group from any potential competition from them, Innotech Group and Kingdom Innovative Group have entered into a deed of non-competition in favour of the 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 the Group) shall not directly or indirectly be engaged in any business in competition with the Group ("Restricted Activity"). For further details, please refer to page 226 to 227 of the Prospectus.

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 the 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 the 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 interim report, the 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 at 30 September 2013, the interests and/or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were 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:

| 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 (Note 3) | 450,000,000 shares (L) (Note 2) | 75% |
| Mr. Wong Chi Kwok ("David Wong") | Company | Interests of Concert Party (Note 3) | 450,000,000 shares (L) (Note 2) | 75% |
| Mr. Lam Kin Shun ("Banson Lam") | Company | Interests of Concert Party (Note 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) | 46.7% |
| Mr. Wong Chi Kwok | KIG | Beneficial owner | 1,244 shares | 12.44% |
| Mr. Lam Kin Shun | KIG | Beneficial owner | 867 shares | 8.67% |

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 12.44% by Mr. David Wong, as to 12.44% by Mr. Yau Lam Chuen, as to 9.12% by Mr. Yung Ching Tak, as to 8.67% 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 Kingdom Precision Product Limited ("KPP-HK"), Kingdom Precision Product (Suzhou) Company Limited ("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.

5. On 30 April 2013, Mr. Banson Lam and Mr. David Wong entered into an agreement for the sale and purchase of the shares in KIG. Mr. Banson Lam acquired 125 ordinary shares of KIG from Mr. David Wong. Since both parties are parties to the concert party arrangement as stated in Note 3, the above mentioned transactions do not affect the control of the concert parties in the Company.

6. On 30 April 2013, Mr. Banson Lam and Mr. Yau Lam Chuen entered into an agreement for the sale and purchase of the shares in KIG. Mr. Banson Lam acquired 125 ordinary shares of KIG from Mr. Yau Lam Chuen. Since both parties are parties to the concert party arrangement as stated in Note 3, the above mentioned transactions do not affect the control of the concert parties in the Company.

## Substantial shareholders', other persons' interests and short positions in shares and underlying shares

As at 30 September 2013, 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:

| 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% |

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 12.44% by Mr. David Wong, as to 12.44% by Mr. Yau Lam Chuen, as to 9.12% by Mr. Yung Ching Tak, as to 8.67% 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.

11. On 30 April 2013, Mr. Banson Lam and Mr. David Wong entered into an agreement for the sale and purchase of the shares in KIG. Mr. Banson Lam acquired 125 ordinary shares of KIG from Mr. David Wong. Since both parties are parties to the concert party arrangement as stated in Note 3, the above mentioned transactions do not affect the control of the concert parties in the Company.

12. On 30 April 2013, Mr. Banson Lam and Mr. Yau Lam Chuen entered into an agreement for the sale and purchase of the shares in KIG. Mr. Banson Lam acquired 125 ordinary shares of KIG from Mr. Yau Lam Chuen. Since both parties are parties to the concert party arrangement as stated in Note 3, the above mentioned transactions do not affect the control of the concert parties in the Company.

## Share option scheme

Pursuant to the written resolution of the shareholders of the Company dated 22 September 2012, the share option scheme (the "Share Option Scheme") of the Company was approved and adopted.

The Share Option Scheme was established for the purpose of providing incentives or rewards for the contribution of Directors and eligible persons. The Share Option Scheme will remain in force for a period of ten years from adoption of the Share Option Scheme. The Share Option Scheme will expire on 21 September 2022.

Under the Share Option Scheme, the Directors may at their discretion grant options to (i) any Director (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest; or (ii) any suppliers, customers, consultants who provided services to the Group, shareholders of the subsidiaries of the Group and joint venture partners to subscribe for the shares.

The offer of a grant of options must be taken up within 21 days of the date of offer. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 30% of the issued share capital of the Company at any point in time. The total number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares in issue at the time dealings in the shares first commence on the Stock Exchange. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors and commences after a certain vesting period and ends in any event not later than ten years from the date of grant of the relevant share option, subject to the provisions for early termination thereof. Options may be granted upon payment of HK$1 as consideration for each grant. The exercise price is equal to the highest of (i) the closing price of the Shares as stated in the daily quotations sheet issued by the Stock Exchange on the date of the offer of grant; (ii) the average closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer of grant; and (iii) nominal value of the Shares.

During the six months ended 30 September 2013, no option was granted, exercised, cancelled or lapsed under the Share Option Scheme.

# Management Discussion and Analysis

## Corporate governance

The Company and the directors confirm, to the best of their knowledge, that the Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited during the six months ended 30 September 2013.

## Model code for securities transactions by directors

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 Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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 during the six months ended 30 September 2013.

## Interim dividend

The Board declared an interim dividend of HK1.3 cents per ordinary share for the six months ended 30 September 2013 to eligible shareholders whose names appear on the register of members of the Company on Monday, 23 December 2013. The interim dividends will be payable in cash on or about Wednesday, 15 January 2014.

## Closure of register of members

The register of members of the Company will be closed from Tuesday, 24 December 2013 to Friday, 27 December 2013, both days inclusive, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed interim dividend for the six months ended 30 September 2013, all transfers of shares of the Company accompanied by the relevant share certificates and transfer forms must be lodged with the Company's share registrar in Hong Kong, namely Tricor Investor Services Limited, at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Monday, 23 December 2013.

## Subsequent event after the reporting period

The Group has no material subsequent events after the Reporting Period up to the date of this interim report.

## 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 2013 and had discussed the financial information with 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 standard and requirements and that adequate disclosures have been made.

## Substantial acquisitions and disposals of subsidiaries and associated corporations

During the six months ended 30 September 2013, 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 six months ended 30 September 2013.

By order of the Board
**Sun Kwok Wah Peter**
*Chairman*

Hong Kong, 26 November 2013

# Report on Review of Interim Condensed Consolidated Financial Information

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 29 to 60, 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 2013 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". 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.

# Report on Review of Interim Condensed Consolidated Financial Information

## 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 Pubic 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, 26 November 2013

## Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2013

| | Note | Six months ended 30 September 2013 HK$'000 (Unaudited) | 2012 HK$'000 (Unaudited) |
|---|---|---|---|
| **Revenue** | 6 | **488,496** | 424,119 |
| Cost of sales | 7 | **(374,077)** | (326,179) |
| **Gross profit** | | **114,419** | 97,940 |
| Other (losses)/gains, net | | **(590)** | 273 |
| Distribution and selling expenses | 7 | **(9,982)** | (9,627) |
| General and administrative expenses | 7 | **(66,743)** | (70,139) |
| **Operating profit** | | **37,104** | 18,447 |
| Finance income | | **367** | 174 |
| Finance costs | | **(3,967)** | (2,215) |
| **Profit before income tax** | | **33,504** | 16,406 |
| Income tax expenses | 8 | **(8,186)** | (3,668) |
| **Profit for the period** | | **25,318** | 12,738 |
| **Other comprehensive income for the period, net of tax** | | | |
| *Item that may be reclassified to profit or loss* | | | |
| Currency translation differences | | **6,581** | 424 |
| **Total comprehensive income for the period** | | **31,899** | 13,162 |
| **Profit/(loss) for the period attributable to:** | | | |
| – Equity holders of the Company | | **26,211** | 12,738 |
| – Non-controlling interests | | **(893)** | – |
| | | **25,318** | 12,738 |
| **Total comprehensive income/(loss) attributable to:** | | | |
| – Equity holders of the Company | | **32,792** | 13,162 |
| – Non-controlling interests | | **(893)** | – |
| | | **31,899** | 13,162 |
| **Earnings per share for profit attributable to equity holders of the Company** | | | |
| – Basic and diluted (HK cents) | 9 | **4.37** | 2.83 |
| **Dividends** | 10 | **7,800** | 85,228 |

The notes on pages 36 to 60 form an integral part of this interim condensed consolidated financial information.

# Interim Condensed Consolidated Balance Sheet

As at 30 September 2013

| | Note | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **315,809** | 224,086 |
| Intangible assets | 12 | **14,125** | 11,305 |
| Goodwill | | **24,540** | 24,540 |
| Deferred income tax assets | 17 | **5,537** | 5,565 |
| **Total non-current assets** | | **360,011** | 265,496 |
| **Current assets** | | | |
| Inventories | 13 | **120,394** | 110,527 |
| Trade and other receivables | 14 | **233,508** | 229,215 |
| Derivative financial asset | | **–** | 319 |
| Restricted bank deposit | | **23,400** | 46,800 |
| Cash and cash equivalents | | **152,061** | 218,678 |
| **Total current assets** | | **529,363** | 605,539 |
| **Total assets** | | **889,374** | 871,035 |

The notes on pages 36 to 60 form an integral part of this interim condensed consolidated financial information.

# Interim Condensed Consolidated Balance Sheet

As at 30 September 2013

| | Note | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|---|
| **EQUITY** | | | |
| **Capital and reserves** | | | |
| Share capital | 15 | **60,000** | 60,000 |
| Share premium | | **26,135** | 26,135 |
| Reserves | | | |
| – Proposed dividends | 10 | **7,800** | 12,000 |
| – Others | | **420,380** | 395,388 |
| **Capital and reserves attributable to equity holders of the Company** | | **514,315** | 493,523 |
| Non-controlling interests | | **5,224** | – |
| **Total equity** | | **519,539** | 493,523 |
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 17 | **14,754** | 14,716 |
| **Current liabilities** | | | |
| Trade and other payables | 18 | **185,049** | 144,302 |
| Bank borrowings | 19 | **158,540** | 211,024 |
| Current income tax liabilities | | **11,492** | 7,470 |
| **Total current liabilities** | | **355,081** | 362,796 |
| **Total liabilities** | | **369,835** | 377,512 |
| **Total equity and liabilities** | | **889,374** | 871,035 |
| **Net current assets** | | **174,282** | 242,743 |
| **Total assets less current liabilities** | | **534,293** | 508,239 |

The notes on pages 36 to 60 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 2013

| | | Attributable to equity holders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 | Statutory reserve HK$'000 | Exchange reserve HK$'000 | Retained profits HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| **Balance at 1 April 2013** | | 60,000 | 26,135 | 3,445 | 21,074 | 40,849 | 342,020 | - | 493,523 |
| **Comprehensive income/(loss)** | | | | | | | | | |
| Profit/(loss) for the period | | - | - | - | - | - | 26,211 | (893) | 25,318 |
| **Other comprehensive income** | | | | | | | | | |
| Currency translation differences | | - | - | - | - | 6,581 | - | - | 6,581 |
| **Total comprehensive income/(loss) for the period** | | - | - | - | - | 6,581 | 26,211 | (893) | 31,899 |
| **Transaction with equity holders** | | | | | | | | | |
| Dividends paid | 10 | - | - | - | - | - | (12,000) | - | (12,000) |
| **Transfer of retained profits to statutory reserve** | | - | - | - | 2,015 | - | (2,015) | - | - |
| **Non-controlling interests from formation of a subsidiary** | | - | - | - | - | - | - | 6,117 | 6,117 |
| **Balance at 30 September 2013 (unaudited)** | | 60,000 | 26,135 | 3,445 | 23,089 | 47,430 | 354,216 | 5,224 | 519,539 |

The notes on pages 36 to 60 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 | | | | | |
|---|---|---|---|---|---|---|---|
| | 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 | 15 | 100 | (100) | – | – | – | – |
| Dividends paid | 10 | – | – | – | – | (85,228) | (85,228) |
| **Balance at 30 September 2012 (unaudited)** | | 100 | 3,445 | 17,735 | 36,883 | 317,942 | 376,105 |

The notes on pages 36 to 60 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 2013

| | Note | Six month ended 30 September 2013 HK$'000 (Unaudited) | 2012 HK$'000 (Unaudited) |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net cash generated from operations | | **86,704** | 47,419 |
| Income tax paid | | **(4,478)** | (4,073) |
| Income tax refunded | | **302** | 937 |
| Interest received | | **367** | 174 |
| Net cash generated from operating activities | | **82,895** | 44,457 |
| **Cash flows from investing activities** | | | |
| Proceeds from sale of property, plant and equipment | | **653** | 772 |
| Purchase of property, plant and equipment | 11 | **(106,866)** | (27,138) |
| Acquisition of business | | **–** | (17,825) |
| Net cash used in investing activities | | **(106,213)** | (44,191) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | **20,000** | 60,000 |
| Repayment of bank borrowings | | **(72,487)** | (26,827) |
| Decrease in restricted bank deposit | | **23,400** | – |
| Receipt of amounts due from shareholders | | **–** | 20,028 |
| Interest paid | | **(3,967)** | (2,215) |
| Dividends paid | 10 | **(12,000)** | (85,228) |
| Net cash used in financing activities | | **(45,054)** | (34,242) |
| **Decrease in cash and cash equivalents** | | **(68,372)** | (33,976) |
| Cash and cash equivalents at beginning of the period | | **217,502** | 132,012 |
| Currency translation differences | | **1,752** | (1,972) |
| **Cash and cash equivalents at end of the period** | | **150,882** | 96,064 |

The notes on pages 36 to 60 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 2013

| | Note | Six month ended 30 September 2013 HK$'000 (Unaudited) | 2012 HK$'000 (Unaudited) |
|---|---|---|---|
| **Analysis of balances of cash and cash equivalents:** | | | |
| Cash at bank and on hand | | **112,904** | 92,567 |
| Short-term bank deposits with original maturity within three months | | **39,157** | 4,960 |
| Bank overdrafts | 19 | **(1,179)** | (1,463) |
| | | **150,882** | 96,064 |

The notes on pages 36 to 60 form an integral part of this interim condensed consolidated financial information.

# Notes to the Interim Condensed Consolidated Financial Information

## 1. General information

KFM Kingdom Holdings Limited (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's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("the Stock Exchange") since 15 October 2012 (the "Listing").

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 Dollars ("HK$"), unless otherwise stated.

This interim condensed consolidated financial information was approved by the Board (the "Board") for issue on 26 November 2013.

This interim condensed consolidated financial information has not been audited.

## 2. Basis of preparation

This interim condensed consolidated financial information for the six months ended 30 September 2013 have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The interim condensed consolidated financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

Certain comparative figures have been reclassified to conform with the financial information presentation adopted for the current period as below:

(a) The product assembly service fee income for the six months ended 30 September 2012 of HK$4,185,000 was reclassified from other income to revenue; and

(b) The segment information as mentioned in Note 6.

## 3. Accounting policies

(a) New standards and amendments, revisions and interpretation to existing standards effective in 2013.

The following new standards and amendments, revisions and interpretation to existing standards are mandatory for the first time for the financial year beginning 1 April 2013:

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements |
| HKAS 19 (Amendment) | Employee Benefits |
| HKAS 27 (Revised 2011) | Separate Financial Statements |
| HKAS 28 (Revised 2011) | Investment in Associates and Joint Ventures |
| HKFRS 1 (Amendment) | First Time Adoption – Government Loans |
| HKFRS 7 (Amendment) | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| HKFRS 10 | Consolidated Financial Statements |
| HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments) | Consolidated Financial Statements, Joint Arrangements, Disclosures of Interest in Other Entities: Transition Guidance |
| HKFRS 11 | Joint Arrangements |
| HKFRS 12 | Disclosures of Interests in Other Entities |
| HKFRS 13 | Fair Value Measurements |
| HK(IFRIC) – Int 20 | Stripping Costs in the Production Phase of a Surface Mine |
| Annual Improvement Project | Annual Improvements 2009–2011 Cycle |

The amendment to HKAS 1 introduce a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified. The adoption of this amendment affected presentation of other comprehensive income only and had no impact on the Group's results of operations or financial position.

As a result, the adoption of above new standards and amendments, revisions and interpretation to existing standards does not have material impact on the results and financial position of the Group.

## 3. Accounting policies (continued)

(b) The following new standard, amendments and interpretation to standards have been issued but are not effective for the financial year beginning 1 April 2013 and have not been early adopted:

| | | **Effective for accounting periods beginning on or after** |
|---|---|---|
| HKAS 32 (Amendment) | Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities | 1 January 2014 |
| HKAS 36 (Amendment) | Recoverable Amount Disclosures for Non-Financial Assets | 1 January 2014 |
| HKFRS 7 and HKFRS 9 (Amendments) | Mandatory Effective Date and Transition Disclosures | 1 January 2015 |
| HKFRS 9 | Financial Instruments | 1 January 2015 |
| HKFRS 10, HKFRS 12 and HKAS 27 (Revised 2011) (Amendments) | Consolidated Financial Statements, Disclosure of Interests in Other Entities and Separate Financial Statements | 1 January 2014 |
| HK (IFRIC) – Int 21 | Levies | 1 January 2014 |

The Group has already commenced an assessment of the related impact of adopting the above new standard, amendments and interpretation to existing standards to the Group. The Group does not expect substantial changes to the Group's accounting policies and presentation of the financial statements will be resulted.

## 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 consolidated financial statements for the year ended 31 March 2013 as described in those consolidated financial statements.

## 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 information does 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 annual financial statements as at 31 March 2013.

There have been no changes in the risk management policies of the Group since 31 March 2013.

### (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.

Specifically, for bank loans containing a repayment on demand clause which can be exercised at the banks' sole discretions, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the loans with immediate effect.

| | On demand HK$'000 (Unaudited) | Less than 1 year HK$'000 (Unaudited) | Total HK$'000 (Unaudited) |
|---|---|---|---|
| **At 30 September 2013** | | | |
| Bank borrowings | **165,511** | **–** | **165,511** |
| Trade payables | **–** | **138,654** | **138,654** |
| Other payables | **–** | **46,395** | **46,395** |
| | **165,511** | **185,049** | **350,560** |

## 5. Financial risk management (continued)

### (b) Liquidity risk (continued)

| | On demand HK$'000 (Audited) | Less than 1 year HK$'000 (Audited) | Total HK$'000 (Audited) |
|---|---|---|---|
| **At 31 March 2013** | | | |
| Bank borrowings | 220,837 | – | 220,837 |
| Trade payables | – | 101,080 | 101,080 |
| Other payables | – | 43,222 | 43,222 |
| | 220,837 | 144,302 | 365,139 |

### (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 were 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.

As at 30 September 2013 and 2012, the Group did not hold any instruments which are classified as level 1 and level 3.

## 5. Financial risk management (continued)

### (c) Fair value estimation (continued)

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-makers ("CODM") are identified as the executive directors and senior management.

In prior years, the CODM have determined the business segments by product type, namely "Office automation", "Medical and test equipment", "Finance equipment", "Consumer electronics" and "Network and data storage".

During the six months ended 30 September 2013, the CODM have reassessed the nature of the Group's businesses and determined that business segments by manufacturing processes are more relevant. This new segment information is more comparable with information reported by other similar industry peers. Accordingly, the newly defined reportable segments are presented as follows:

(i) Manufacturing and sale of precision metal products involving metal stamping and computer numerical control ("CNC") sheet metal processing ("Metal stamping"); and

(ii) Manufacturing and sale of precision metal products involving lathing, machining and turning processes ("Metal lathing").

The CODM assess the performance of the operating segments based on segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the CODM are measured in a manner consistent with that in the interim condensed consolidated financial information.

Segment assets exclude deferred income tax assets, restricted bank deposit, cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a Group basis.

Intersegment sales are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

## 6. Segment information (continued)

### (a) The segment results are as follows:

*(i) Six months ended 30 September 2013*

| | Metal stamping HK$'000 (Unaudited) | Metal lathing HK$'000 (Unaudited) | Total HK$'000 (Unaudited) |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales | 352,034 | 136,591 | 488,625 |
| Intersegment sales | (122) | (7) | (129) |
| Sales to external customers | 351,912 | 136,584 | 488,496 |
| Cost of sales | (294,880) | (79,197) | (374,077) |
| Gross profit | 57,032 | 57,387 | 114,419 |
| Gross profit % | 16.2% | 42.0% | 23.4% |
| Other losses, net | | | (590) |
| Distribution and selling expenses | | | (9,982) |
| General and administrative expenses | | | (66,743) |
| **Operating profit** | | | 37,104 |
| Finance income | | | 367 |
| Finance costs | | | (3,967) |
| **Profit before income tax** | | | 33,504 |
| Income tax expenses | | | (8,186) |
| **Profit for the period** | | | 25,318 |

## 6. Segment information (continued)

### (a) The segment results are as follows: (continued)

*(ii) Six months ended 30 September 2012*

| | Metal stamping HK$'000 (Unaudited) | Metal lathing HK$'000 (Unaudited) | Total HK$'000 (Unaudited) |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales | 326,950 | 97,194 | 424,144 |
| Intersegment sales | (15) | (10) | (25) |
| Sales to external customers | 326,935 | 97,184 | 424,119 |
| Cost of sales | (267,717) | (58,462) | (326,179) |
| Gross profit | 59,218 | 38,722 | 97,940 |
| Gross profit % | 18.1% | 39.8% | 23.1% |
| 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 expenses | | | (3,668) |
| **Profit for the period** | | | 12,738 |

## 6. Segment information (continued)

### (b) The segment assets are as follows:

*(i) As at 30 September 2013*

| | Metal stamping HK$'000 (Unaudited) | Metal lathing HK$'000 (Unaudited) | Total HK$'000 (Unaudited) |
|---|---|---|---|
| **Segment assets** | **386,865** | **217,300** | **604,165** |
| *Reconciliation* | | | |
| Corporate and other unallocated assets | | | |
| Deferred income tax assets | | | **5,537** |
| Restricted bank deposit | | | **23,400** |
| Cash and cash equivalents | | | **152,061** |
| Other unallocated head office and corporate assets | | | **104,211** |
| Total assets | | | **889,374** |

*(ii) As at 31 March 2013*

| | Metal stamping HK$'000 (Unaudited) | Metal lathing HK$'000 (Unaudited) | Total HK$'000 (Unaudited) |
|---|---|---|---|
| **Segment assets** | 357,728 | 201,076 | 558,804 |
| *Reconciliation* | | | |
| Corporate and other unallocated assets | | | |
| Deferred income tax assets | | | 5,565 |
| Restricted bank deposit | | | 46,800 |
| Cash and cash equivalents | | | 218,678 |
| Other unallocated head office and corporate assets | | | 41,188 |
| Total assets | | | 871,035 |

## 6. Segment information (continued)

(c) Revenue from external customers in the People's Republic of China ("The PRC"), North America, Europe, Japan, Singapore, Oceania, South America and other Asian countries is as follows:

| | Six months ended 30 September | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| The PRC | **323,934** | 287,116 |
| North America | **74,648** | 52,701 |
| Europe | **43,206** | 30,603 |
| Japan | **30,320** | 29,082 |
| Singapore | **9,621** | 16,207 |
| Oceania | **988** | 827 |
| South America | **719** | 335 |
| Other Asian countries excluding the PRC, Japan and Singapore | **5,060** | 7,248 |
| | **488,496** | 424,119 |

(d) The total of non-current assets, other than intangible assets, goodwill and deferred income tax assets of the Group as at 30 September and 31 March 2013 are as follows:

| | As at | |
|---|---|---|
| | **30 September** | 31 March |
| | **2013** | 2013 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Audited) |
| The PRC | **250,382** | 217,696 |
| Hong Kong | **65,427** | 6,390 |
| | **315,809** | 224,086 |

## 7. Expenses by nature

| | Six months ended 30 September | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Raw materials and consumables used | **206,580** | 185,893 |
| Changes in inventory of finished goods and work in progress | **(7,862)** | (532) |
| Employee benefit expenses | **118,890** | 99,509 |
| Processing fees | **39,931** | 31,022 |
| Depreciation of property, plant and equipment (Note 11) | **17,206** | 13,722 |
| Amortisation of intangible asset (Note 12) | **1,884** | 1,884 |
| Operating lease rental in respect of buildings | **15,193** | 12,828 |
| Research and development costs | **11,168** | 10,569 |
| Utilities expenses | **10,092** | 8,461 |
| Transportation, postage and courier expenses | **6,123** | 5,870 |
| Legal and professional fees | | |
| – incurred for initial public offerings | **–** | 14,542 |
| – others | **2,302** | 859 |
| Auditors' remuneration | **478** | 400 |
| Others | **28,817** | 20,918 |
| Total cost of sales, distribution and selling expenses and general and administrative expenses | **450,802** | 405,945 |
| Represented by: | | |
| Cost of sales | **374,077** | 326,179 |
| Distribution and selling expenses | **9,982** | 9,627 |
| General and administrative expenses | **66,743** | 70,139 |
| | **450,802** | 405,945 |

## 8. Income tax expenses

| | Six months ended 30 September | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| Current income tax | | |
| – Hong Kong | **4,212** | 2,669 |
| – The PRC | **3,908** | 1,351 |
| | **8,120** | 4,020 |
| Deferred income tax (Note 17) | **66** | (352) |
| Total | **8,186** | 3,668 |

Income tax of the Group's entities has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the entities operate.

Below are the major tax jurisdictions that the Group operates in for the six months ended 30 September 2013 and 2012.

(a) **Hong Kong profits tax**

Hong Kong profits tax had been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profit for the period.

(b) **The PRC enterprise income tax (the "PRC EIT")**

The PRC EIT is provided on the assessable income of the Group's PRC subsidiaries, adjusted for items which are not taxable or deductible for the PRC EIT purpose. The PRC EIT tax rates for the six months ended 30 September 2013 and 2012 were 15% to 25% and 12.5% to 25% respectively.

## 9. Earnings per share

Basic and diluted earnings per share

| | Six months ended 30 September | |
|---|---|---|
| | **2013** | 2012 |
| | **(Unaudited)** | (Unaudited) |
| Profit attributable to the equity holders of the Company (HK$'000) | **26,211** | 12,738 |
| Weighted average number of shares in issue ('000) | **600,000** | 450,000 |
| Basic and diluted earnings per share (HK cents per share) | **4.37** | 2.83 |

Basic earnings per share for the six months ended 30 September 2013 is calculated by dividing the profit attributable to equity holders of the Company by 600,000,000 ordinary shares in issue during the period.

Basic earnings per share for the six months ended 30 September 2012 was calculated based on the profit attributable to equity holders of the Company, and on the assumption that capitalisation issue of 449,000,000 ordinary shares have been in issue throughout the period.

The Group had no potentially dilutive ordinary share (i.e. share options and warrants) in issue during the six months ended 30 September 2013 and 2012.

## 10. Dividends

The Board proposed an interim dividend of HK1.3 cents per share for the six months ended 30 September 2013. This proposed dividend, amounting to HK$7,800,000, is not reflected as dividend payable in this interim condensed consolidated financial information, but will be reflected as an appropriation of retained profits for the year ending 31 March 2014.

The final dividend of HK$12,000,000 for the year ended 31 March 2013 was paid in September 2013.

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 had been fully paid by the Group.

## 11. Property, plant and equipment

| | **2013 HK$'000 (Unaudited)** | 2012 HK$'000 (Unaudited) |
|---|---|---|
| At 1 April | **224,086** | 181,873 |
| Additions | **106,866** | 59,027 |
| Disposals | **(1,026)** | (527) |
| Depreciation | **(17,206)** | (13,722) |
| Currency translation differences | **3,089** | 766 |
| At 30 September | **315,809** | 227,417 |

## 12. Intangible assets

| | 2013 | | |
|---|---|---|---|
| | **Contractual customer relationship HK$'000 (Unaudited)** (Note a) | **Design and prototype HK$'000 (Unaudited)** (Note b) | **Total HK$'000 (Unaudited)** |
| At 1 April | **11,305** | **–** | **11,305** |
| Addition | **–** | **4,704** | **4,704** |
| Amortisation | **(1,884)** | **–** | **(1,884)** |
| At 30 September | **9,421** | **4,704** | **14,125** |

| | 2012 |
|---|---|
| | Contractual customer relationship HK$'000 (Unaudited) (Note a) |
| At 1 April | 15,074 |
| Amortisation | (1,884) |
| At 30 September | 13,190 |

Note:

(a) 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.

(b) During the six months ended 30 September 2013, the Group has formed a subsidiary, Kingdom Majorlink Kiosk Systems Limited, which is engaged in the design and manufacturing of customised kiosks products.

The intangible asset represents the product design of certain kiosks which was brought in by the minority shareholder.

## 13. Inventories

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Raw materials | **33,532** | 31,527 |
| Work in progress | **33,883** | 29,824 |
| Finished goods | **52,979** | 49,176 |
| | **120,394** | 110,527 |

## 14. Trade and other receivables

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Trade receivables (Note (a)) | **208,303** | 183,502 |
| Prepayments, deposits and other receivables | **25,205** | 45,713 |
| | **233,508** | 229,215 |

Note:

(a) The Group normally grants credit periods of 30 to 90 days (As at 31 March 2013: 30 to 90 days). The ageing analysis of trade receivables (including trade receivables from related companies) is as follows:

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Up to 3 months | **199,760** | 174,529 |
| 3 to 6 months | **7,207** | 6,854 |
| 6 months to 1 year | **1,336** | 1,151 |
| 1 to 2 years | **–** | 968 |
| | **208,303** | 183,502 |

## 15. 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 HK$'000 |
|---|---|---|
| **The Company** | | |
| At 1 April 2012 | 1 | – |
| Issue of new shares (Note (a)) | 999,999 | 100 |
| At 30 September 2012 | 1,000,000 | 100 |
| Issue of new shares pursuant to the global offering (Note (b)) | 150,000,000 | 15,000 |
| Capitalisation of shares (Note (b)) | 449,000,000 | 44,900 |
| At 31 March and 30 September 2013 | 600,000,000 | 60,000 |

Notes:

(a) On 13 September 2012, the Company acquired the entire equity interest in KFM Group Limited 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.

(b) 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 150,000,000 ordinary shares issued pursuant to the global offering were issued at HK$0.68 per share. The ordinary shares newly issued ranked pari passu in all respects with the issued shares then existing.

## 16. Reserves

| | Capital reserve HK$'000 | Statutory reserve HK$'000 | Exchange reserve HK$'000 | Retained profits HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **At 1 April 2013** | **3,445** | **21,074** | **40,849** | **342,020** | **–** | **407,388** |
| Profit/(loss) for the period | **–** | **–** | **–** | **26,211** | **(893)** | **25,318** |
| Currency translation differences | **–** | **–** | **6,581** | **–** | **–** | **6,581** |
| Transfer of retained profits to statutory reserve (note b) | **–** | **2,015** | **–** | **(2,015)** | **–** | **–** |
| Dividends paid | **–** | **–** | **–** | **(12,000)** | **–** | **(12,000)** |
| Non-controlling interests from formation of a subsidiary (Note c) | **–** | **–** | **–** | **–** | **6,117** | **6,117** |
| **At 30 September 2013 (unaudited)** | **3,445** | **23,089** | **47,430** | **354,216** | **5,224** | **433,404** |
| Representing: | | | | | | |
| – Proposed dividends | | | | **7,800** | | |
| – Others | | | | **346,416** | | |
| | | | | **354,216** | | |

| | Capital reserve HK$'000 | Statutory reserve HK$'000 | Exchange reserve HK$'000 | Retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **At 1 April 2012** | 3,545 | 17,735 | 36,459 | 390,432 | 448,171 |
| Profit for the period | – | – | – | 12,738 | 12,738 |
| Currency translation differences | – | – | 424 | – | 424 |
| Issue of share capital (Note a) | (100) | – | – | – | (100) |
| Dividends paid | – | – | – | (85,228) | (85,228) |
| **At 30 September 2012 (unaudited)** | 3,445 | 17,735 | 36,883 | 317,942 | 376,005 |

## 16. Reserves (continued)

Notes:

(a) During the year ended 31 March 2012, as part of the Re-organisation, KFM Group Limited ("KFM-BVI") acquired 100% of the issued share capital of Kingdom Fine Metal Limited ("KFM-HK") on 11 October 2011 and KFM-HK acquired the issued share capital of 49% and 10% of Kingdom (Reliance) Precision Parts Manufactory Limited ("KRP-HK") and Kingdom Precision Product Limited ("KPP-HK") on 29 November 2011 and 29 December 2011 respectively, by allotting shares of KFM-BVI to each of the respective companies' then shareholders and gains 100% control of the companies. The subscription of new shares of KFM-BVI was accounted for by the Group using merger method and approximately HK$3.5 million was recognised in capital reserve which mainly represented 100%, 49% and 10% of the aggregated issued share capital of KFM-HK, KRP-HK and KPP-HK respectively.

On 13 September 2012, the Company acquired the entire equity interest in KFM-BVI by (a) issuing and allotting 999,999 new shares of the Company 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. As result of the subscription of new shares of the Company, approximately HK$100,000 was charged to capital reserve.

(b) In accordance with the PRC laws and regulations, the PRC subsidiaries are required to transfer not less than 10% of their net profit as stated in the financial statements prepared under PRC accounting regulations to statutory reserves before the corresponding PRC subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reaches 50% of the corresponding subsidiaries' registered capital. In addition, the PRC subsidiaries may make further contribution to the statutory reserve using its post-tax profits in accordance with resolutions of the Board of Directors.

The statutory reserve shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries' production operations, or to increase the capital of the corresponding subsidiaries. Upon approval of the corresponding subsidiaries' shareholders in general meetings, the subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to the existing owners in proportion to the existing ownership structure.

(c) During the six months ended 30 September 2013, the Group formed a subsidiary, Kingdom Majorlink Kiosk Systems Limited, with 56.67% shareholding. The non-controlling interests represent the interests in the subsidiary which is owned by two minority shareholders.

## 17. Deferred income tax

Deferred income tax assets:

| | 2013<br>HK$'000<br>(Unaudited) | 2012<br>HK$'000<br>(Unaudited) |
|---|---|---|
| At 1 April | **5,565** | – |
| Charged to the consolidated statement of comprehensive income (Note 8) | **(28)** | – |
| At 30 September | **5,537** | – |

Deferred income tax liabilities:

| | 2013<br>HK$'000<br>(Unaudited) | 2012<br>HK$'000<br>(Unaudited) |
|---|---|---|
| At 1 April | **(14,716)** | (12,751) |
| (Charged)/credited to the consolidated statement of comprehensive income (Note 8) | **(38)** | 352 |
| At 30 September | **(14,754)** | (12,399) |

## 18. Trade and other payables

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Trade payables (Note (a)) | | |
| – third parties | **137,244** | 100,279 |
| – related companies (Note 22(c)) | **1,410** | 801 |
| | **138,654** | 101,080 |
| Accrual, deposits and other payables | **44,845** | 30,434 |
| Considerations payable for acquisition of business (Note (b)) | **1,550** | 12,788 |
| | **185,049** | 144,302 |

Notes:

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

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Up to 3 months | **135,960** | 97,915 |
| 3 to 6 months | **2,024** | 2,700 |
| 6 months to 1 year | **643** | 358 |
| 1 to 2 years | **27** | 107 |
| | **138,654** | 101,080 |

(b) On 29 March 2012, the Group acquired the product assembly business from a third party customer. The amount represents the remaining balance of consideration to be paid and had been settled after the period end.

## 19. Bank borrowings

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Bank overdrafts | **1,179** | 1,176 |
| Short-term bank borrowings | **60,000** | 70,000 |
| Portion of long-term bank borrowings due for repayment within one year | **47,956** | 66,742 |
| Portion of long-term bank borrowings due for repayment after one year which contain a repayment on demand clause | **49,405** | 73,106 |
| | **158,540** | 211,024 |

The interest-bearing bank borrowings, including the bank borrowings repayable on demand, are carried at amortised cost. None of the portion of bank borrowings 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.

The Group's bank borrowings and bank overdrafts 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 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Within 1 year | **109,134** | 137,918 |
| Between 1 and 2 years | **49,206** | 47,400 |
| Between 2 and 5 years | **200** | 25,706 |
| | **158,540** | 211,024 |

## 20. Commitments

### (a) Capital commitments

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Authorised but not contracted for | | |
| – Construction costs | **134,747** | – |
| Contracted but not provided for | | |
| – Leasehold land and buildings | **13,731** | 63,426 |
| – Capital investment | **–** | 7,235 |
| | **13,731** | 70,661 |

### (b) Operating lease commitments

| | As at 30 September 2013 HK$'000 (Unaudited) | 31 March 2013 HK$'000 (Audited) |
|---|---|---|
| Within 1 year | **27,421** | 25,655 |
| Later than 1 year and not later than 5 years | **94,956** | 84,676 |
| Later than 5 years | **2,218** | 11,773 |
| | **124,595** | 122,104 |

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.

## 21. Contingent liabilities

As at 30 September and 31 March 2013, the Group had no material contingent liabilities.

## 22. 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 |
|---|---|
| Kingdom International Group Limited | The ultimate holding company of the Group. |
| Peter Sun | One of the underlying controlling shareholders of the Group. |
| 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. |
| Dongguan Tech-in Electrical & Mechanical Products Limited | A subsidiary of Innotech Advanced Products Limited. |

## 22. Significant related party transactions (continued)

### (b) Sales and purchase of products

During the six months ended 30 September 2013 and 2012, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

| | Six months ended 30 September | |
|---|---|---|
| | **2013** | 2012 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Unaudited) |
| **Sales of products to a related company:** | | |
| Innotech Advanced Products Limited | **–** | 29 |
| **Purchase of products from related companies:** | | |
| Innotech Advanced Products Limited | **1,686** | 1,448 |
| Dongguan Tech-in Electrical & Mechanical Products Limited | **1,298** | 1,030 |
| | **2,984** | 2,507 |

### (c) Balances with related companies

| | As at | |
|---|---|---|
| | **30 September** | 31 March |
| | **2013** | 2013 |
| | **HK$'000** | HK$'000 |
| | **(Unaudited)** | (Audited) |
| **Trade payables to related companies** | | |
| Innotech Advanced Product Limited | **(677)** | (458) |
| Dongguan Tech-in Electrical & Mechanical Products Limited | **(733)** | (343) |
| | **(1,410)** | (801) |

### (d) Key management compensation

Key management personnel comprise the chairman, directors and senior managements. Key management compensation amounted to HK$6,479,000 for the six months ended 30 September 2013 (2012: HK$4,764,000).

## 23. Subsequent event

The Group has no material subsequent events up to the date of this interim report.