

KFM KINGDOM



KFM KINGDOM HOLDINGS LIMITED

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

INTERIM REPORT 2015



Our goals are far and high
We cultivate for **TOMORROW**



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Corporate Information

Executive directors

Mr. Sun Kwok Wah Peter (*Chairman*)

Mr. Wong Chi Kwok

Mr. Lam Kin Shun

Mrs. Chow Suen Christina

Independent non-executive directors and audit committee

Mr. Wan Kam To (*Chairman*)

Mr. Lam Hon Keung Keith

Prof. Chung Chi Ping Roy

(Retired on 27 August 2015)

Mr. Yeung Chi Tat

(Appointed on 7 September 2015)

Remuneration committee

Mr. Lam Hon Keung Keith (*Chairman*)

Mr. Sun Kwok Wah Peter

Mr. Wan Kam To

Prof. Chung Chi Ping Roy

(Retired on 27 August 2015)

Nomination committee

Mr. Sun Kwok Wah Peter (*Chairman*)

Mr. Lam Hon Keung Keith

Prof. Chung Chi Ping Roy

(Retired on 27 August 2015)

Mr. Yeung Chi Tat

(Appointed on 7 September 2015)

Headquarters and principal place of business in Hong Kong

Workshop C, 31/F, TML Tower

3 Hoi Shing Road, Tsuen Wan

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

Legal adviser as to Hong Kong law

Chiu & Partners

Auditor

PricewaterhouseCoopers

Principal bankers

DBS Bank (Hong Kong) Limited

Standard Chartered Bank (Hong Kong) Limited

The Hongkong and Shanghai Banking

Corporation Limited

**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 22, 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” and together with its subsidiaries collectively referred to as the “Group”) is pleased to present the interim results of the Group for the six months ended 30 September 2015 (the “Reporting Period”) prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”), together with the comparative figures for the corresponding period of 2014.

The interim results and the interim condensed consolidated financial information of the Group for the Reporting Period, after being reviewed 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 19 November 2015.

Business review

During the Reporting Period, the macroeconomic economic environment remained challenging to the Group. The slowing down of the economic growth in China, tapering of the quantitative easing measures in the United States of America, fragile recovery in Europe and Japan have set a difficult landscape for manufacturers.

The Group recorded revenue amounted to approximately HK\$444.6 million for the six months ended 30 September 2015, with a decline by approximately 21.1% as compared to the corresponding period in 2014. The drop of revenue occurred in both metal stamping and metal lathing business segments of the Group. The revenue to external customers generated by metal stamping business decreased by approximately 13.1% to approximately HK\$368.9 million during the Reporting Period, as compared to the corresponding period last year. The metal stamping business continued to be affected by the sustaining relocation of the Group’s customers from China to other lower cost regions in South East Asia. In addition, the automotive toolings business (part of metal stamping business), due to its project-by-project nature, also generated less revenue than the same period last year.

Management Discussion and Analysis

The Group's revenue to external customers of metal lathing segment also recorded a decline by approximately 45.5% as to approximately HK\$75.7 million during the Reporting Period, as compared to the corresponding period last year. This was mainly attributable to the weakened demand from the Group's customers engaged in consumer electronic industry.

As a result of the decline in revenue, particularly in the metal lathing segment which yielded a relatively higher gross margin, the overall gross profit of the Group during the Reporting Period decreased to approximately HK\$91.3 million by approximately 32.8% from the same period last year.

Apart from the decline in revenue and gross profit, the performance was further hindered with the increase in general and administration expenses by some non-recurring factors such as the increase in the professional fees attributable to the corporation action occurred during the Reporting Period. As a result, the Group recorded a loss during the Reporting Period of approximately HK\$4.0 million.

Management Discussion and Analysis

Financial review

Revenue

For the six months ended 30 September 2015, revenue of the Group reached approximately HK\$444.6 million, representing a decrease of approximately HK\$118.8 million or 21.1% from approximately HK\$563.4 million for the corresponding period last year. Set out below is a breakdown of the Group's revenue by business segments:

	Six months ended 30 September			
	2015 HK\$'000 (Unaudited)	%	2014 HK\$'000 (Unaudited)	%
Metal Stamping	368,900	83.0	424,630	75.4
Metal Lathing	75,692	17.0	138,765	24.6
	444,592	100.0	563,395	100.0

Revenue from the metal stamping segment decreased by approximately HK\$55.7 million or 13.1% from approximately HK\$424.6 million for the six months ended 30 September 2014 to approximately HK\$368.9 million for the six months ended 30 September 2015. The drop was mainly due to a decrease in revenue from customers who are engaged in the office automation, medical and test equipment, automotive toolings and finance equipment industries during the Reporting Period.

Revenue from the metal lathing segment decreased by approximately HK\$63.1 million or 45.5% from approximately HK\$138.8 million for the six months ended 30 September 2014 to approximately HK\$75.7 million for the six months ended 30 September 2015. The downturn was mainly attributed by a decrease in revenue from subcontractors of consumer electronics manufacturers.

Management Discussion and Analysis

Geographically, the People's Republic of China (the "PRC"), North America, Europe and Japan continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 64.1%, 21.2%, 7.8% and 3.3% of the Group's revenue respectively for the six months ended 30 September 2015. Details of revenue generated by different geographical location are set out in Note 6(c) of this interim condensed consolidated financial information.

Cost of sales

Cost of sales primarily comprises of the direct costs associated with the manufacturing of the Group's products. It consists mainly of direct materials, direct labour, processing fee and other direct overheads. Set out below is the breakdown of the Group's cost of sales:

	Six months ended 30 September			
	2015 HK\$'000 (Unaudited)	%	2014 HK\$'000 (Unaudited)	%
Direct materials	192,278	54.4	221,046	51.7
Direct labour	85,195	24.1	93,388	21.8
Processing fee	47,895	13.6	49,902	11.7
Change in inventory of finished goods and work in progress	(9,554)	(2.7)	15,806	3.7
Other direct overheads	37,458	10.6	47,336	11.1
	353,272	100.0	427,478	100.0

During the six months ended 30 September 2015, cost of sales of the Group decreased by approximately 17.4% or HK\$74.2 million as compared to the corresponding period last year. The decrease was primarily due to the drop in the Group's total revenue. The percentage of cost of sales to the total revenue during the Reporting Period was approximately 79.5%, representing an increase of 3.6%, as compared to approximately 75.9% in the corresponding period of last year. This was primarily due to the increase in the percentage of the revenue contributed from the relatively lower profit margin metal stamping segment to the Group's total revenue.

Management Discussion and Analysis

Gross profit and gross profit margin

During the six months ended 30 September 2015, the Group's gross profit was approximately HK\$91.3 million, representing a decrease of approximately 32.8% as compared to the corresponding period in 2014. It was mainly due to the decrease in the Group's total revenue by approximately 21.1%.

For the Reporting Period, the gross profit margin of the Group was approximately 20.5% which decreased by 3.6% as compared to approximately 24.1% in the corresponding period in 2014. This was primarily due to a couple of factors. Firstly, the revenue of the Group has experienced an approximately 21.1% drop as compared to the same period last year. The production efficiency was lowered as the production volume was reduced. Moreover, there was a decrease in revenue contributed from the high profit margin metal parts from the metal lathing segment. The change of product mix also reduced the overall 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 gains, net

During the six months ended 30 September 2015, the Group recorded other gains, net which amounted to approximately HK\$10.5 million. In the corresponding period of 2014, the Group recorded other gains, net of approximately HK\$1.0 million. The increase was mainly due to the increase in net foreign exchange gains of approximately HK\$8.7 million and a one-off gain of approximately HK\$1.2 million from the disposal of certain leasehold land and buildings in Hong Kong during the Reporting Period.

Distribution and selling expenses

Distribution and selling expenses relate to the expenses incurred for the promotion and selling of the Group's 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\$14.0 million and HK\$15.8 million for the six months ended 30 September 2015 and 2014, respectively. The decrease in distribution and selling expenses was mainly attributed to the decrease in the Group's total revenue.

General and administrative expenses

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

The general and administrative expenses of the Group increased from approximately HK\$77.6 million for the six months ended 30 September 2014 to approximately HK\$84.6 million for the six months ended 30 September 2015.

The increase was primarily due to an increase in legal and professional fees in respect of (i) the Group's corporate action, and (ii) consultancy fee incurred for the Group's newly established businesses, and an increase in research and development costs.

Finance costs

The Group's finance costs of approximately HK\$2.0 million during the Reporting Period (for the six months ended 30 September 2014: approximately HK\$2.3 million) represented interest expenses on bank borrowings. Decrease in finance costs were mainly due to an increase of capitalisation of finance cost, which was related to bank borrowing used to fund the construction of new Suzhou production base. Before such capitalisation, increase in interest expenses were mainly due to the increase in average balances of bank borrowings during the Reporting Period as compared to corresponding period last year.

Income tax expenses

The Group's income tax expenses amounted to approximately HK\$5.4 million and HK\$11.3 million, for the six months period ended 30 September 2015 and 2014, respectively. The decrease was attributable primarily to the lower taxable profit recorded for the Reporting Period.

During the Reporting Period, the effective tax rate of the Group was approximately 382.2%. The exceptionally high effective tax rate was mainly caused by the fact that the Group did not recognise deferred tax effect on tax loss arising from the Group's loss making companies. Excluding the effect of such tax loss arising from the loss making companies, and the effect of over-provision for taxation in respect of prior year, the adjusted effective tax rate during the Reporting Period would have been approximately 20.7%, while the same for the corresponding period last year would have been approximately 16.1%.

(Loss)/profit attributable to equity holders of the Company

For the six months ended 30 September 2015, loss attributable to equity holders of the Company amounted to approximately HK\$2.9 million, as compared with the profit attributable to equity holders of the Company of approximately HK\$30.8 million for the corresponding period in 2014. The decrease of net profit was mainly attributable to the decrease in revenue and gross profit margin during the Reporting Period.

Management Discussion and Analysis

Liquidity, financial and capital resources

Financial resources and liquidity

The Group's current assets comprise mainly of cash and cash equivalents, trade and other receivables and inventories. The Group's total current assets amounted to approximately HK\$517.4 million and HK\$497.9 million as at 30 September 2015 and 31 March 2015 respectively, which represented approximately 53.4% and 52.6% of the Group's total assets as at 30 September 2015 and 31 March 2015, respectively.

Capital structure

The Group's capital structure is summarised as follows:

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Bank borrowings	223,825	197,782
Total debts	223,825	197,782
Less: Cash and cash equivalents	(135,893)	(158,627)
Net debt	87,932	39,155
Shareholders' equity	519,350	535,957
Total capitalisation*	607,282	575,112
Gearing ratio		
– Total debt to shareholders' equity ratio [#]	43.1%	36.9%
– Net debt to shareholders' equity ratio ^{##}	16.9%	7.3%

* 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

For the six months ended 30 September 2015 and 2014, the Group generally financed its operation primarily with internally generated cash flow and bank borrowing.

Details of the Group's bank loans and other borrowings as at 30 September 2015 are set out in Note 20 in this interim condensed consolidated financial information.

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 2015, the Group acquired property, plant and equipment of approximately HK\$35.8 million as compared to the six months ended 30 September 2014 of approximately HK\$72.6 million.

Approximately HK\$15.1 million was incurred for the construction of the new production base in Suzhou, while other property, plant and equipment of approximately HK\$20.7 million were acquired during the normal and ordinary course of the Group's business.

The Group financed its capital expenditure through cash flows generated from operating activities, IPO proceeds and bank borrowings.

Charges on the Group's assets

As at 30 September 2015, the Group's bank borrowings of HK\$14,902,000 were secured by the leasehold land and buildings with a carrying amount of HK\$44,386,000. As at 31 March 2015, the Group's bank borrowings of HK\$15,730,000 were secured by the leasehold land and buildings with a carrying value of HK\$45,091,000.

Management Discussion and Analysis

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. During the six months ended 30 September 2015, the Group had two foreign exchange derivative contracts to manage part of the foreign currency exposure between United States dollars and Renminbi. These contracts were accounted for on the Group's consolidated balance sheet at fair value.

Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 30 September 2015 are set out in Note 21(a) and Note 21(b) in this interim condensed consolidated financial information.

Contingent liabilities

As at 30 September 2015, the Group had no material contingent liabilities.

Outlook and strategy

In light of the continual and challenging circumstances in the wider economic and business environment, the Group is cautious on the outlook of the business.

The Group foresees that the customers' cessation of operations in the PRC is expected to continue. The ever-increasing operation costs in the PRC have been driving the relocation of the production plants to the lower cost regions in South East Asia. The Group is facing the tightening demand from the customers and the soaring production cost arising from the rising statutory minimum wages and the rising material cost. This trend continues to exert pressures on the metal manufacturing business, especially the thin margin segment of metal stamping.

The metal lathing segment, which historically had higher profit margin, will be in comparatively better position to cope with the challenges. Although there was a temporary decline in the metal lathing business, the Group has taken measures and expects the business will improve in the second half of the year ending 31 March 2016. To improve the lathing product portfolio, the Group is seeking to diversify its product portfolio and spanning the product spectrum to include metal parts for lap top computers, camera units and household electronics, in addition to the existing products. The Group is also expanding new product lines, such as sensor business during the Reporting Period to further diversify its business.

In the metal stamping segment, the Group will focus on the products which offer relatively higher profit margin, and continue its effort in enhancing cost efficiency, in order to improve the overall profit margin.

The Group is also taking more aggressive marketing strategies to strengthen the customer relationship and to build wider customer network. It aims to take stronger effort in exploring more business opportunities with new customers. The Group consistently attaches importance to its expertise in precision metal processing technologies and is also taking steps to reduce reliance on labour in the production process and to use more automations to increase the production efficiency.

With the continuous effort to broaden business opportunities and the dedication to top product quality at high production efficiency, the Group believes that the existing difficulties would be temporary, and that the measures and efforts will fruit with sustaining profitability.

Employees and remuneration policy

As at 30 September 2015, the Group had a total number of 2,610 full-time employees (as at 30 September 2014: 2,852). 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 its 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 its employees. The Group had not have any labour strikes or other labour disturbances that would have interfered with its 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.

Management Discussion and Analysis

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 disclosed in the announcement of the Company published on 25 June 2015, in order to increase the Company's flexibility in its financial and treasury management and to cope with the continuing development of the Group's business in the near future, the Board resolved to change the proposed use of net proceeds. The unused net proceeds of approximately HK\$24.4 million, which was originally designated for purchasing land use rights, was reallocated for construction of the production facilities in Suzhou. As at 30 September 2015, the proceeds was utilised in full for construction of the production facilities in Suzhou.

As at 30 September 2015, the net proceeds had been utilised as follows:

	Actual utilisation up to Actual net proceeds HK\$ million	30 September 2015 HK\$ million	Balance as at 30 September 2015 HK\$ million
For the purchase of a piece of land in Suzhou	33.6	33.6	–
For the construction of production facilities in Suzhou	52.0	52.0	–
	85.6	85.6	–

Updates on compliance and regulatory matters as disclosed in the prospectus

Long term relocation plan

As disclosed in the prospectus of the Company dated 28 September 2012 (the "Prospectus"), one of the Group's four production bases, namely the Group's 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 the Company's 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, the 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**”). The Directors intend to lease a new factory site for the Long Term Relocation Plan. As disclosed in the Prospectus, the Group 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 the Group 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 metres (the “**Contingency Lease Property**”). The Group have entered into an agreement (“**Contingency Lease Property Agreement**”) with the landlord of the Contingent Lease Property to secure the Group’s right but not obligation to lease the Contingent Lease Property should the contingency plan be triggered. Please refer to page 190 to 191 of the Prospectus for further details.

Because the Group’s newly established indirect wholly owned subsidiary, namely Dongguan Conform Metal Limited, has leased a factory with total gross area of approximately 6,203 square metres in Dongguan, which provides sufficient space to accommodate the production facilities of Xili leased property, the Company will not renew the Contingency Lease Property Agreement upon its expiry. In the event that the Group receive notice for relocation prior to the completion of the Long Term Relocation Plan, the production facilities and production lines at the Xili Leased Properties will be relocated to KFM-Shenzhen and Dongguan Conform Metal Limited.

As at the date of this report, the Directors confirm that both the lessor and the Group have not received any order from the relevant authorities to vacate the Xili Leased Properties.

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.

Management Discussion and Analysis

During the Reporting Period, the Group's senior management and local management of KRP-Shenzhen have continued the process of locating an appropriate premises for relocation. The factors to consider for locating the appropriate premises include (but not limited to) the size of the factory, availability of work force, proximity to customers, suppliers and the Group's headquarters, standard of life for staff, costs of the relocation, etc. As at the date of this report, no appropriate premises have been located. The Group shall disclose the status of the Long Term Relocation Plan in future interim and annual reports.

Non-competition

As disclosed in the Prospectus, to further delineate the respective business of Innotech Advanced Products Limited (匯德產品發展有限公司) and its wholly-owned subsidiary Dongguan Tech-in Electrical & Mechanical Products Limited (東莞德鎂精密機電產品有限公司) (together, "**Innotech Group**"), Kingdom Innovative Storage Systems Limited and its wholly-owned subsidiary Innotech Advanced Creative Metal Products (Shenzhen) Limited (匯德創意金屬產品(深圳)有限公司) (together, "**Kingdom Innovative Group**") and the Group from any potential competition from them, Innotech Group and Kingdom Innovative Group 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 the Group 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) 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 the Group 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, Kingdom Innovative Group was dissolved. The deed of non-competition entered into between Kingdom Innovative Group and the Group has become inapplicable.

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.

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 Reporting Period, no option was granted, exercised, cancelled, lapsed or outstanding under the Share Option Scheme. As at the date of this Interim Report, the total number of shares available for issue under the Share Option Scheme was 60,000,000, representing 10% of the issued share capital of the Company.

Management Discussion and Analysis

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 2015, 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)	447,500,000 Shares (L) (Notes 2, 4 & 5)	74.58%
Mr. Wong Chi Kwok ("David Wong")	Company	Interests of Concert Party (Note 3)	447,500,000 Shares (L) (Notes 2, 4 & 5)	74.58%
Mr. Lam Kin Shun ("Banson Lam")	Company	Interests of Concert Party (Note 3)	447,500,000 Shares (L) (Notes 2, 4 & 5)	74.58%
Ms. Chung Sin Ling	Company	Interest of controlled corporation	1,575,000 Shares (L) (Note 6)	0.26%

Management Discussion and Analysis

Name of Director	Name of Group member/ associated corporation	Capacity/ Nature of Interest	Number and class of securities (Note 1)	Approximate shareholding percentage
Peter Sun	Kingdom International Group Limited (“KIG”)	Beneficial owner	4,154 Shares	42.04%
David Wong	KIG	Beneficial owner	1,244 Shares	12.59%
Banson Lam	KIG	Beneficial owner	867 Shares	8.78%

Notes:

- The letter “L” denotes our Directors’ long position in the shares of our Company or the relevant associated corporation.
- These shares were held by KIG, which is owned as to 42.04% by Mr. Peter Sun, among the 4,154 shares (representing 42.04% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 50 shares (representing 0.51% 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 12.59% by Mr. David Wong, as to 12.59% by Mr. Yau Lam Chuen, as to 9.23% by Mr. Yung Ching Tak, as to 8.78% by Mr. Banson Lam, as to 6.24% by Mr. Chan Lin On and as to 3.13% by Mr. Yeung Man Chiu.
- 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, Kingdom Reliance Mechatronic Components (Shanghai) Manufactory Limited (“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.
- Mr. Yung Ching Tak purchased 2,900,000 Shares in the market on 14 April 2015. As a result, the parties acting in concert holds 447,500,000 Shares or 74.58% of the issued Shares as at the date of this report.
- On 28 August 2015, KIG, the current beneficially owner of 444,600,000 Shares of the Company, and an independent third party (the “Offeror”) entered into a sale and purchase agreement to which the Offeror has conditionally agreed to purchase and the KIG has conditionally agreed to sell 444,600,000 Sale Shares, representing 74.10% of the entire issued share capital of the Company as at the date of this report.
- 2S Concept Link Limited, a company wholly-owned by Ms. Chung Sin Ling held 1,575,000 Shares, representing approximately 0.26% of the issued share capital of the Company.

Management Discussion and Analysis

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

As at 30 September 2015, 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 (notes 1, 11 & 12)	Approximate shareholding percentage (notes 11 & 12)
KIG	Company	Beneficial owner	444,600,000 Shares (L)	74.10%
Ms. Kwok Wing Yi (note 4)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%
Ms. Mak Kam Fung (note 5)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%
Ms. Lo Ka Wai (note 6)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%
Mr. Yau Lam Chuen	Company	Interest of Concert Party (notes 2 & 3)	447,500,000 Shares (L)	74.58%
Ms. Tsang Mo Jan (note 7)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%
Mr. Yung Ching Tak	Company	Interest of Concert Party (notes 2 & 3)	447,500,000 Shares (L)	74.58%
Ms. Wen Shi Fang (note 8)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%

Management Discussion and Analysis

Name of Shareholder	Name of group member/ associated corporation	Capacity/ Nature of Interest	Number and class of securities (notes 1, 11 & 12)	Approximate shareholding percentage (notes 11 & 12)
Mr. Chan Lin On	Company	Interest of Concert Party (notes 2 & 3)	447,500,000 Shares (L)	74.58%
Ms. Pang Sau Ying (note 9)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%
Mr. Yeung Man Chiu	Company	Interest of Concert Party (notes 2 & 3)	447,500,000 Shares (L)	74.58%
Ms. Wan Wing Sze (note 10)	Company	Interest of spouse	447,500,000 Shares (L)	74.58%

Notes:

- The letter "L" denotes the corporation/person's long position in our Shares.
- These shares were held by KIG, which is owned as to 42.04% by Mr. Peter Sun, among the 4,154 shares (representing 42.04% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 50 shares (representing 0.51% 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 12.59% by Mr. David Wong, as to 12.59% by Mr. Yau Lam Chuen, as to 9.23% by Mr. Yung Ching Tak, as to 8.78% by Mr. Banson Lam, as to 6.24% by Mr. Chan Lin On and as to 3.13% by Mr. Yeung Man Chiu.
- 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.
- Ms. Kwok Wing Yi is the spouse of Mr. Peter Sun.
- Ms. Mak Kam Fung is the spouse of Mr. David Wong.

Management Discussion and Analysis

- 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 Mr. Yung Ching Tak purchased 2,900,000 Shares in the market on 14 April 2015. As a result, the parties acting in concert holds 447,500,000 Shares or 74.58% of the issued Shares as at the date of this report.
- 12 On 28 August 2015, KIG, the current beneficially owner of 444,600,000 Shares of the Company, and an independent third party (the "Offeror") entered into a sale and purchase agreement to which the Offeror has conditionally agreed to purchase and the KIG has conditionally agreed to sell 444,600,000 Sale Shares, representing 74.10% of the entire issued share capital of the Company as at the date of this report.

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 Listing Rules during the six months ended 30 September 2015.

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 Listing Rules.

The Board confirmed that, having made specific enquiry, the Directors have complied in full with the required standards as set out in the Model Code and its code of conduct during the six months ended 30 September 2015.

Interim dividend

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2015.

Subsequent event after the reporting period

Details of the Group's subsequent event after the Reporting period and up to the date of this interim report are set out in Note 24 in this interim condensed consolidated financial information.

Audit committee

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

The Audit Committee has reviewed the Group's interim condensed consolidated financial information for the six months ended 30 September 2015 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 2015, 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 2015.

By order of the Board
Sun Kwok Wah Peter
Chairman

Hong Kong, 19 November 2015

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 condensed consolidated financial information set out on pages 26 to 56, which comprises the interim condensed consolidated balance sheet of KFM Kingdom Holdings Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 September 2015 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 Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 19 November 2015

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2015

	Note	Six months ended 30 September	
		2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Revenue	6	444,592	563,395
Cost of sales	7	(353,272)	(427,478)
Gross profit		91,320	135,917
Other gains, net		10,463	969
Distribution and selling expenses	7	(14,019)	(15,816)
General and administrative expenses	7	(84,580)	(77,592)
Operating profit		3,184	43,478
Finance income		267	595
Finance costs		(2,045)	(2,341)
Profit before income tax		1,406	41,732
Income tax expenses	8	(5,371)	(11,254)
(Loss)/profit for the period		(3,965)	30,478
Other comprehensive (loss)/income for the period, net of tax			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		(12,604)	2,440
Total comprehensive (loss)/income for the period		(16,569)	32,918
(Loss)/profit for the period attributable to:			
– Equity holders of the Company		(2,922)	30,802
– Non-controlling interests		(1,043)	(324)
		(3,965)	30,478
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		(15,526)	33,242
– Non-controlling interests		(1,043)	(324)
		(16,569)	32,918
(Loss)/earning per share for (loss)/profit attributable to equity holders of the Company			
– Basic and diluted (HK cents)	9	(0.49)	5.13
Dividends	10	–	9,000

The notes on pages 33 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet

As at 30 September 2015

		As at	
		30 September 2015	31 March 2015
	Note	HK\$'000 (Unaudited)	HK\$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	11	394,199	387,900
Leasehold land and land use rights	12	24,701	25,546
Intangible assets	13	4,899	7,273
Goodwill		22,502	22,502
Deferred income tax assets	18	5,228	5,502
Total non-current assets		451,529	448,723
Current assets			
Inventories	14	123,299	118,066
Trade and other receivables	15	257,472	220,504
Current income tax recoverable		770	676
Cash and cash equivalents		135,893	158,627
Total current assets		517,434	497,873
Total assets		968,963	946,596

The notes on pages 33 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Balance Sheet

As at 30 September 2015

		As at	
	Note	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
EQUITY			
Capital and reserves			
Share capital	16	60,000	60,000
Share premium	16	26,135	26,135
Reserves		427,867	442,824
Capital and reserves attributable to equity holders of the Company		514,002	528,959
Non-controlling interests		5,348	6,998
Total equity		519,350	535,957
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	18	10,899	12,746
Current liabilities			
Trade and other payables	19	204,490	188,818
Bank borrowings	20	223,825	197,782
Derivative financial liabilities		3,611	3,922
Current income tax liabilities		6,788	7,371
Total current liabilities		438,714	397,893
Total liabilities		449,613	410,639
Total equity and liabilities		968,963	946,596
Net current assets		78,720	99,980
Total assets less current liabilities		530,249	548,703

The notes on pages 33 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2015

	Attributable to equity holders of the Company							Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	Non-controlling interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2015	60,000	26,135	3,445	28,615	40,229	370,535	6,998	535,957
Comprehensive income								
Loss for the period	-	-	-	-	-	(2,922)	(1,043)	(3,965)
Other comprehensive loss								
Currency translation differences	-	-	-	-	(12,604)	-	-	(12,604)
Total comprehensive loss for the period	-	-	-	-	(12,604)	(2,922)	(1,043)	(16,569)
Transaction with equity holders								
Transfer of retained profits to statutory reserve	-	-	-	3,334	-	(3,334)	-	-
Acquisition of additional interests in subsidiaries	-	-	-	-	-	569	(669)	(100)
Contribution from non-controlling interests upon the formation of a subsidiary	-	-	-	-	-	-	62	62
Balance at 30 September 2015 (Unaudited)	60,000	26,135	3,445	31,949	27,625	364,848	5,348	519,350

The notes on pages 33 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2014

	Attributable to equity holders of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Retained profits			
	Note	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Balance at 1 April 2014		60,000	26,135	3,445	24,009	41,203	355,668	4,746	515,206
Comprehensive income									
Profit/(loss) for the period		-	-	-	-	-	30,802	(324)	30,478
Other comprehensive income									
Currency translation differences		-	-	-	-	2,440	-	-	2,440
Total comprehensive income/(loss) for the period		-	-	-	-	2,440	30,802	(324)	32,918
Transaction with equity holders									
Dividends paid	10	-	-	-	-	-	(3,000)	-	(3,000)
Transfer of retained profits to statutory reserve		-	-	-	3,670	-	(3,670)	-	-
Contribution from non-controlling interests upon the formation of a subsidiary		-	-	-	-	-	-	300	300
Balance at 30 September 2014 (Unaudited)		60,000	26,135	3,445	27,679	43,643	379,800	4,722	545,424

The notes on pages 33 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2015

Six months ended 30 September

Note	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Cash flows from operating activities		
Net cash generated from operations	1,554	38,839
Income tax paid	(7,047)	(6,791)
Income tax refunded	1,389	3,953
Interest received	267	595
Net cash (used in)/generated from operating activities	(3,837)	36,596
Cash flows from investing activities		
Proceeds from sale of property, plant and equipment	3,161	1,714
Purchase of property, plant and equipment	(41,953)	(48,982)
Acquisition of interest in subsidiaries	(100)	–
Acquisition of available-for-sale financial assets	–	(11,970)
Proceeds of available-for-sale financial assets	–	24,570
Net cash used in investing activities	(38,892)	(34,668)
Cash flows from financing activities		
Proceeds from bank borrowings	135,880	80,000
Repayment of bank borrowings	(109,837)	(72,827)
Decrease in restricted bank deposit	–	23,400
Capital injection by non-controlling interest	–	300
Interest paid	(3,773)	(3,008)
Dividends paid	–	(3,000)
Net cash generated from financing activities	22,270	24,865
(Decrease)/increase in cash and cash equivalents		
Cash and cash equivalents at beginning of the period	158,627	105,206
Currency translation differences	(2,275)	(566)
Cash and cash equivalents at end of the period	135,893	131,433

The notes on pages 33 to 56 form an integral part of this interim condensed consolidated financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2015

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Analysis of balances of cash and cash equivalents:		
Cash at bank and on hand	135,893	131,433
	135,893	131,433

The notes on pages 33 to 56 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 and lathing services, and the 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 19 November 2015.

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 2015 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 2015, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. Accounting policies

(a) Amendments and interpretation to existing standards effective in 2015.

The following amendments and interpretation to existing standards are mandatory for the first time for the financial year beginning 1 April 2015:

Amendment to HKAS19	Defined Benefit Plans
Annual Improvements Project	Annual Improvements 2010–2012 Cycle
Annual Improvements Project	Annual Improvements 2011–2013 Cycle

The adoption of the above amendments and interpretation to existing standards does not have material impact on the results and financial position of the Group.

Notes to the Interim Condensed Consolidated Financial Information

3. Accounting policies (continued)

- (b) The following new and amended standards and interpretations to existing standards have been issued but are not effective for the financial year beginning 1 April 2015 and have not been early adopted:

		Effective for accounting periods beginning on or after
HKFRS 9	Financial Instruments	1 January 2018
HKFRS 10, HKFRS 12 and HKAS 28 Amendments	Investment entities: applying the consolidation exception	1 January 2016
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture	1 January 2016
HKFRS 11 Amendment	Accounting for acquisitions of interests in joint operation	1 January 2016
HKFRS 14	Regulatory deferral accounts	1 January 2016
HKFRS 15	Revenue from contracts with customers	1 January 2018
HKAS 1 Amendment	Disclosure initiative	1 January 2016
HKAS 16 and HKAS 38 Amendments	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKAS 16 and HKAS 41 Amendments	Agriculture: bearer plants	1 January 2016
HKAS 27 Amendment	Equity method in separate financial statements	1 January 2016
Annual Improvements Project	Annual Improvements 2012–2014 cycle	1 January 2016

The Group has already commenced an assessment of the related impact of adopting the above new and amended standards and interpretations to existing standards but is not yet in a position to state whether they will have a significant impact on its reported results of operations and financial position. The Group intends to adopt these new and amended standards and interpretations to existing standards when they become effective.

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 2015 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 2015.

There have been no changes in the risk management policies of the Group since 31 March 2015.

(b) Liquidity risk

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the interim condensed consolidated 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 borrowings 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 borrowings with immediate effect.

Notes to the Interim Condensed Consolidated Financial Information

5. Financial risk management (continued)

(b) Liquidity risk (continued)

	On demand HK\$'000 (Unaudited)	Less than 1 year HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 30 September 2015			
Bank borrowings	242,814	–	242,814
Trade payables	–	125,833	125,833
Other payables	–	78,657	78,657
	242,814	204,490	447,304

	On demand HK\$'000 (Audited)	Less than 1 year HK\$'000 (Audited)	Total HK\$'000 (Audited)
At 31 March 2015			
Bank borrowings	205,630	–	205,630
Trade payables	–	113,733	113,733
Other payables	–	75,085	75,085
	205,630	188,818	394,448

(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).

5. Financial risk management (continued)

(c) Fair value estimation (continued)

As at 30 September and 31 March 2015, the Group held two RMB/US\$ forward foreign exchange contracts.

The fair values of trade and other receivables, cash and cash equivalents, trade and other payables 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.

The CODM have assessed the nature of the Group’s businesses and determined that the Group has two business segments which are defined by manufacturing processes 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.

Segment assets exclude deferred income tax assets, cash and cash equivalents, current income tax recoverable 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.

Notes to the Interim Condensed Consolidated Financial Information

6. Segment information (continued)

(a) The segment results are as follows:

(i) Six months ended 30 September 2015

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue			
Sales	369,000	75,763	444,763
Intersegment sales	(100)	(71)	(171)
Sales to external customers	368,900	75,692	444,592
Cost of sales	(291,818)	(61,454)	(353,272)
Gross Profit	77,082	14,238	91,320
Unallocated expenses, net			(88,136)
Operating profit			3,184
Finance income			267
Finance costs			(2,045)
Profit before income tax			1,406
Income tax expenses			(5,371)
Loss for the period			(3,965)

Notes to the Interim Condensed Consolidated Financial Information

6. Segment information (continued)

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

(ii) Six months ended 30 September 2014

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment revenue			
Sales	424,636	138,768	563,404
Intersegment sales	(6)	(3)	(9)
Sales to external customers	424,630	138,765	563,395
Cost of sales	(341,672)	(85,806)	(427,478)
Gross profit	82,958	52,959	135,917
Unallocated expenses, net			(92,439)
Operating profit			43,478
Finance income			595
Finance costs			(2,341)
Profit before income tax			41,732
Income tax expenses			(11,254)
Profit for the period			30,478

Notes to the Interim Condensed Consolidated Financial Information

6. Segment information (continued)

(b) The segment assets are as follows:

(i) As at 30 September 2015

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
Segment assets	534,909	193,594	728,503
<i>Reconciliation</i>			
Corporate and other unallocated assets			
Deferred income tax assets			5,228
Current income tax recoverable			770
Cash and cash equivalents			135,893
Other unallocated head office and corporate assets			98,569
Total assets			968,963

(ii) As at 31 March 2015

	Metal stamping HK\$'000 (Audited)	Metal lathing HK\$'000 (Audited)	Total HK\$'000 (Audited)
Segment assets	503,520	174,875	678,395
<i>Reconciliation</i>			
Corporate and other unallocated assets			
Deferred income tax assets			5,502
Current income tax recoverable			676
Cash and cash equivalents			158,627
Other unallocated head office and corporate assets			103,396
Total assets			946,596

Notes to the Interim Condensed Consolidated Financial Information

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	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
The PRC	285,136	360,536
North America	94,167	116,443
Europe	34,850	43,647
Japan	14,649	20,313
Singapore	9,171	4,647
Oceania	776	1,835
South America	72	478
Other Asian countries excluding the PRC, Japan and Singapore	5,771	15,496
	444,592	563,395

- (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 2015 are as follows:

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
The PRC	347,495	340,462
Hong Kong	71,405	72,984
	418,900	413,446

Notes to the Interim Condensed Consolidated Financial Information

7. Expenses by nature

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Raw materials and consumables used	192,278	221,046
Changes in inventory of finished goods and work in progress	(9,554)	15,806
Employee benefit expenses	121,434	131,885
Processing fees	47,895	49,902
Depreciation of property, plant and equipment (Note 11)	19,946	18,573
Amortisation of leasehold land and land use rights (Note 12)	236	238
Amortisation of intangible assets (Note 13)	2,374	2,354
Operating lease rental in respect of buildings	16,032	14,779
Research and development costs	15,972	10,292
Utilities expenses	8,242	9,524
Transportation, postage and courier expenses	7,193	9,945
Legal and professional fees	6,720	2,035
Auditor's remuneration	400	400
Others	22,703	34,107
Total cost of sales, distribution and selling expenses and general and administrative expenses	451,871	520,886
Represented by:		
Cost of sales	353,272	427,478
Distribution and selling expenses	14,019	15,816
General and administrative expenses	84,580	77,592
	451,871	520,886

Notes to the Interim Condensed Consolidated Financial Information

8. Income tax expenses

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Current income tax		
– Hong Kong	–	3,708
– The PRC	9,947	6,845
Adjustments in respect of prior years		
– Over-provision in respect of prior year	(3,003)	–
	6,944	10,553
Deferred income tax (Note 18)	(1,573)	701
Total	5,371	11,254

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 2015 and 2014.

(a) Hong Kong profits tax

No Hong Kong profits tax had been provided at the rate of 16.5% (2014: 16.5%) as there is no 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 2015 and 2014 were 15% to 25%.

Notes to the Interim Condensed Consolidated Financial Information

9. (Loss)/earning per share

Basic and diluted (loss)/earning per share

	Six months ended 30 September	
	2015 (Unaudited)	2014 (Unaudited)
(Loss)/profit attributable to the equity holders of the Company (HK\$'000)	(2,922)	30,802
Weighted average number of shares in issue ('000)	600,000	600,000
Basic and diluted (loss)/earning per share (HK cents per share)	(0.49)	5.13

Basic (loss)/earning per share for the six months ended 30 September 2015 and 2014 is calculated by dividing the (loss)/profit attributable to equity holders of the Company by 600,000,000 ordinary shares in issue during 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 2015 and 2014.

10. Dividends

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2015.

The Board did not recommend payment of any final dividend for the year ended 31 March 2015.

The final dividend of HK\$3,000,000 for the year ended 31 March 2014 was paid in September 2014.

Notes to the Interim Condensed Consolidated Financial Information

11. Property, plant and equipment

	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
At 1 April	387,900	300,841
Additions	35,792	72,649
Disposals	(2,146)	(1,545)
Depreciation	(19,946)	(18,573)
Currency translation differences	(7,401)	1,914
At 30 September	394,199	355,286

12. Leasehold land and land use rights

	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
At 1 April	25,546	26,023
Amortisation	(236)	(238)
Currency translation differences	(609)	206
At 30 September	24,701	25,991

Notes to the Interim Condensed Consolidated Financial Information

13. Intangible assets

	2015		
	Contractual customer relationship HK\$'000 (Unaudited)	Design and prototype HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 April	3,768	3,505	7,273
Amortisation	(1,884)	(490)	(2,374)
At 30 September	1,884	3,015	4,899

	2014		
	Contractual customer relationship HK\$'000 (Unaudited)	Design and prototype HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 1 April	7,536	4,235	11,771
Amortisation	(1,884)	(470)	(2,354)
As at 30 September	5,652	3,765	9,417

Notes to the Interim Condensed Consolidated Financial Information

14. Inventories

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Raw materials	26,602	30,923
Work in progress	33,108	36,271
Finished goods	63,589	50,872
	123,299	118,066

15. Trade and other receivables

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Trade receivables (Note (a))	196,187	164,061
Prepayments, deposits and other receivables	56,923	52,143
Amounts due from non-controlling interests shareholders	4,362	4,300
	257,472	220,504

Note:

- (a) The Group normally grants credit periods of 30 to 90 days (As at 31 March 2015: 30 to 90 days). The ageing analysis of trade receivables based on invoice dates is as follows:

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Up to 3 months	186,203	158,082
3 to 6 months	8,996	5,212
6 months to 1 year	957	740
1 to 2 years	31	27
	196,187	164,061

Notes to the Interim Condensed Consolidated Financial Information

16. Share capital

Issued share capital

	Number of shares	Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
At 30 September 2015 and 31 March 2015	600,000,000	60,000	26,135	86,135

17. 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 2015	3,445	28,615	40,229	370,535	6,998	449,822
Loss for the period	–	–	–	(2,922)	(1,043)	(3,965)
Currency translation differences	–	–	(12,604)	–	–	(12,604)
Transfer of retained profits to statutory reserve (Note a)	–	3,334	–	(3,334)	–	–
Acquisition of additional interests in subsidiaries	–	–	–	569	(669)	(100)
Contribution from non-controlling interests upon the formation of a subsidiary	–	–	–	–	62	62
At 30 September 2015 (Unaudited)	3,445	31,949	27,625	364,848	5,348	433,215
Representing:						
– Others				364,848		364,848

Notes to the Interim Condensed Consolidated Financial Information

17. Reserves (continued)

	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 2014	3,445	24,009	41,203	355,668	4,746	429,071
Profit/(loss) for the period	–	–	–	30,802	(324)	30,478
Currency translation differences	–	–	2,440	–	–	2,440
Transfer of retained profits to statutory reserve (Note a)	–	3,670	–	(3,670)	–	–
Dividends paid	–	–	–	(3,000)	–	(3,000)
Contribution from non- controlling interests upon the formation of a subsidiary (Note b)	–	–	–	–	300	300
At 30 September 2014 (Unaudited)	3,445	27,679	43,643	379,800	4,722	459,289
Representing:						
– Proposed dividends				9,000		
– Others				370,800		
				<u>379,800</u>		

Notes:

- (a) 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.

- (b) During the six months ended 30 September 2014, the Group formed a subsidiary, iSolution (KFM) Limited, with 90.01% shareholding. The non-controlling interest represent the interest in the subsidiary which is owned by a minority shareholder.

Notes to the Interim Condensed Consolidated Financial Information

18. Deferred income tax

The movements in deferred income tax assets and liabilities during the Reporting Period, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred income tax assets:

	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
At 1 April	7,683	6,396
Charged to the consolidated statement of comprehensive income (Note 8)	(239)	(111)
At 30 September	7,444	6,285

Deferred income tax liabilities:

	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
At 1 April	(14,927)	(12,394)
Charged to the consolidated statement of comprehensive income (Note 8)	1,812	(590)
At 30 September	(13,115)	(12,984)

Notes to the Interim Condensed Consolidated Financial Information

19. Trade and other payables

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Trade payables (Note (a))		
– third parties	125,224	112,868
– related companies (Note 23(c))	609	865
	125,833	113,733
Accrual, deposits and other payables	78,657	75,085
	204,490	188,818

Note:

- (a) The ageing analysis of trade payables at the respective balance sheet dates (including trade payables from related companies) is as follows:

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Up to 3 months	122,366	110,645
3 to 6 months	2,608	2,397
6 months to 1 year	623	613
1 to 2 years	236	78
	125,833	113,733

Notes to the Interim Condensed Consolidated Financial Information

20. Bank borrowings

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Short-term bank borrowings	20,000	37,013
Portion of long-term bank borrowings due for repayment within one year	88,109	74,704
Portion of long-term bank borrowings due for repayment after one year which contain a repayment on demand clause	115,716	86,065
	223,825	197,782

The interest-bearing bank borrowings, including the bank borrowings repayable on demand, are carried at amortised cost. Certain portion of bank borrowings due for repayment after one year which contain a repayment on demand clause (As at 30 September 2015: HK\$115,716,000, 31 March 2015: HK\$86,065,000) and that is classified as current liability, and is expected to be settled within one year.

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

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Within 1 year	108,109	111,717
Between 1 and 2 years	74,063	49,042
Between 2 and 5 years	35,617	30,050
Over 5 years	6,036	6,973
	223,825	197,782

Notes to the Interim Condensed Consolidated Financial Information

21. Commitments

(a) Capital commitments

	As at	
	30 September	31 March
	2015	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Authorised but not contracted for		
– Construction cost	9,295	14,373
Contracted but not provided for		
– Leasehold land and buildings	11,346	11,625
– Construction cost	3,989	24,822
– Plant and machinery	5,548	1,563
– Capital investment	11,470	16,430
	32,353	54,440

(b) Operating lease commitments

	As at	
	30 September	31 March
	2015	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Audited)
Within 1 year	30,764	30,583
Later than 1 year and not later than 5 years	59,935	73,119
Later than 5 years	3,217	5,580
	93,916	109,282

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.

Notes to the Interim Condensed Consolidated Financial Information

22. Contingent liabilities

As at 30 September and 31 March 2015, the Group had no material contingent liabilities.

23. Significant related party transactions

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

(a) Name and relationship with related parties

Name	Relationship
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.

Notes to the Interim Condensed Consolidated Financial Information

23. Significant related party transactions (continued)

(b) Sales and purchase of products

During the six months ended 30 September 2015 and 2014, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

	Six months ended 30 September	
	2015 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)
Purchase of products from related companies:		
Innotech Advanced Products Limited	740	1,937
Dongguan Tech-in Electrical & Mechanical Products Limited	878	968
	1,618	2,905

(c) Balances with related companies

	As at	
	30 September 2015 HK\$'000 (Unaudited)	31 March 2015 HK\$'000 (Audited)
Trade payables to related companies		
Innotech Advanced Product Limited	(113)	(321)
Dongguan Tech-in Electrical & Mechanical Products Limited	(496)	(544)
	(609)	(865)

(d) Key management compensation

Key management personnel comprise the chairman, directors and senior managements. Key management compensation amounted to HK\$6,180,000 for the six months ended 30 September 2015 (2014: HK\$6,077,000).

Notes to the Interim Condensed Consolidated Financial Information

24. Subsequent event

Potential change of controlling shareholder

Reference is made to the announcements of the Company dated 30 April 2015, 26 May 2015, 24 June 2015, 29 June 2015, 29 July 2015, 8 September 2015, 11 September 2015, 16 October 2015 and 17 November 2015 (the "Announcements"). Unless otherwise stated, capitalised terms used in this section have the same meanings as defined in the Announcements.

On 28 August 2015, the Vendor and the Offeror entered into the Sale and Purchase Agreement to which the Offeror has conditionally agreed to purchase and the Vendor has conditionally agreed to sell 444,600,000 Sale Shares, representing 74.1% of the entire issued share capital of the Company as at the date of this report. Pursuant to the Sale and Purchase Agreement, the Group will undergo an asset reorganisation, which involves the Distribution in Specie. Subject to completion of the Distribution in Specie and Completion, the Vendor will make the Privateco Offer to the holders of the Privateco Shares to acquire all Privateco Shares other than those as may be held by the Vendor and parties acting in concert with it. However, the Distribution in Specie and Completion are conditional upon fulfillment of a number of conditions. Details of the said conditions and further details on, among other things, the Distribution in Specie and the Privateco Offer will be disclosed in an announcement to be published by the Company with the Offeror and other party(ies), if necessary, jointly.