

# KFM KINGDOM

KFM KINGDOM HOLDINGS LIMITED

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

INTERIM REPORT 2016



Our goals are  
**FAR AND HIGH**  
We cultivate for **TOMORROW**




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# Corporate Information

## Non-executive directors

Mr. Zhang Haifeng (*Chairman*)  
(appointed on 13 October 2016)  
Mr. Zhang Yongdong (*Chairman*)  
(resigned on 15 July 2016)

## Executive directors

Mr. Sun Kwok Wah Peter (*CEO*)  
Mr. Wong Chi Kwok

## Independent non-executive directors and audit committee

Mr. Wan Kam To (*Chairman*)  
Ms. Zhao Yue  
Mr. Shen Zheqing

## Remuneration committee

Ms. Zhao Yue (*Chairman*)  
Mr. Zhang Haifeng  
(appointed on 13 October 2016)  
Mr. Zhang Yongdong  
(resigned on 15 July 2016)  
Mr. Wan Kam To

## Nomination committee

Mr. Zhang Haifeng (*Chairman*)  
(appointed on 13 October 2016)  
Mr. Zhang Yongdong (*Chairman*)  
(resigned on 15 July 2016)  
Mr. Sun Kwok Wah Peter  
Mr. Wan Kam To  
Ms. Zhao Yue  
Mr. Shen Zheqing

## 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

SHINEWING (HK) CPA Limited  
(appointed on 14 September 2016)  
PricewaterhouseCoopers  
(resigned on 14 September 2016)

**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](http://www.kingdom.com.hk)

**Stock code**

3816

## Review of Interim Results

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**”) herewith present the interim results of the Group for the six months ended 30 September 2016 (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 2015.

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 24 November 2016.

### Business Review

During the Reporting Period, the global and regional economic and operation environment surrounding the Group’s operation remained challenging. In the PRC, the gross domestic product (“**GDP**”) during the first six months of 2016 was further slowed down to approximately 6.7%. As consumption and investment demand weakened, the deceleration in the GDP of the PRC had a significant effect on the Group’s key customers, and in turn, exerted pressure to the Group’s business performance.

The Group recorded revenue amounted to approximately HK\$438.1 million for the six months ended 30 September 2016, with a mild decline by approximately 1.5% as compared to the corresponding period in 2015.

During the Reporting Period, revenue generated from external customers of the Group's metal stamping segment was approximately HK\$344.4 million. As compared to the corresponding period last year, it decreased by approximately 6.6% or HK\$24.5 million. The metal stamping segment had continued to be affected by the sustaining relocation of the Group's customers, especially those engaged in the office automation industry, from China to other lower cost regions in South East Asia. In addition, due to unfavourable market sentiment, the Group received less orders from certain customers engaged in medical and testing industry and the finance equipment industry, which resulted in a lower revenue amount.

Regarding the metal lathing segment, revenue generated from external customers was approximately HK\$93.7 million. As compared to approximately HK\$75.7 million recorded in the corresponding period last year, revenue derived from the metal lathing segment during the Reporting Period showed an increase by approximately HK\$18.0 million or 23.8%. Such improvement was mainly contributed from increased orders from customers engaged in the consumer electronics industry.

Due to the change in product portfolio, the overall gross profit margin of the Group during the Reporting Period improved from approximately 20.5% in the corresponding period last year to approximately 24.2%. During the Reporting Period, the total gross profit of the Group was approximately HK\$106.2 million, and had increased by approximately HK\$14.9 million from HK\$91.3 million during corresponding period last year.

After deducting distribution and selling expenses, general and administrative expenses, finance costs, and income tax expenses, the Group's net loss was approximately HK\$4.0 million during Reporting Period, which was roughly comparable to the net loss recorded during the corresponding period last year of approximately HK\$4.0 million.

## Review of Interim Results

### Financial Review

#### Revenue

For the six months ended 30 September 2016, revenue of the Group was approximately HK\$438.1 million, representing a decrease of approximately HK\$6.5 million or 1.5% from approximately HK\$444.6 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			
	2016		2015	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Metal Stamping	344,359	78.6	368,900	83.0
Metal Lathing	93,691	21.4	75,692	17.0
	438,050	100.0	444,592	100.0

Revenue derived from the metal stamping segment decreased by approximately HK\$24.5 million or 6.6% from approximately HK\$368.9 million for the six months ended 30 September 2015 to approximately HK\$344.4 million for the six months ended 30 September 2016. The drop was mainly due to a decrease in revenue from customers who engaged in the office automation, medical and test equipment, and finance equipment industries during the Reporting Period.

Revenue derived from the metal lathing segment increased by approximately HK\$18.0 million or 23.8% from approximately HK\$75.7 million for the six months ended 30 September 2015 to approximately HK\$93.7 million for the six months ended 30 September 2016. The increase was mainly attributed by an increase in revenue from the Group's customers engaged in the consumer electronics industry.

Geographically, 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 65.6%, 19.4%, 9.5% and 2.5% of the Group's revenue, respectively, for the six months ended 30 September 2016. 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 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			
	2016		2015	
	HK\$'000 (Unaudited)	%	HK\$'000 (Unaudited)	%
Direct materials	162,431	49.0	192,278	54.4
Direct labour	81,476	24.6	85,195	24.1
Processing fee	45,231	13.6	47,895	13.6
Change in inventory of finished goods and work in progress	12,675	3.8	(9,554)	(2.7)
Other direct overheads	30,025	9.0	37,458	10.6
	<b>331,838</b>	<b>100.0</b>	<b>353,272</b>	<b>100.0</b>

During the six months ended 30 September 2016, cost of sales of the Group decreased by approximately 6.1% or HK\$21.5 million as compared to the corresponding period last year. The decrease was primarily due to the drop in the Group's total revenue, as well as the change in product mix. Due to improvement in gross profit margins of the Group's metal stamping and metal lathing segments, the percentage of cost of sales to the total revenue during the Reporting Period was approximately 75.8%, representing a decrease of approximately 3.7%, as compared to approximately 79.5% in the corresponding period last year.



## Review of Interim Results

### Gross profit and gross profit margin

During the Reporting Period, the gross profit margin of the Group was approximately 24.2%, and improved by approximately 3.7% as compared to approximately 20.5% in the corresponding period last year. The improvement in gross profit margin was mainly attributable to the change in product mix and an improvement in gross profit margin from products of the Group's two segments.

In the Group's metal lathing segment, gross profit margin has improved from approximately 18.8% for the six months ended 30 September 2015 to approximately 22.9% during the Reporting Period. Such increase was due to the increase in revenue derived from customers who engaged in the consumer electronics industry during the Reporting Period, which lead to an improvement in the overall production efficiency.

In the Group's metal stamping segment, gross profit margin has also improved from approximately 20.9% in the correspondent period last year to approximately 24.6% during the Reporting Period. Such increases were mainly the result of a reduced operating lease expense incurred by the Group, as the Group's self-own Suzhou production facilities had come into full operation, as well as a reduced payroll cost during the Reporting Period.

For details of the gross profit margin of the Group's two segments, please refer to Note 6(a) of this interim condensed consolidated financial information.

### Other gains, net

During the six months ended 30 September 2016, the Group recorded other gains, net which amounted to approximately HK\$8.3 million. In the corresponding period last year, the Group recorded other gains, net of approximately HK\$10.5 million. The lower amount of other gains, net was mainly due to the decrease in net foreign exchange gains of approximately HK\$0.9 million; and the fact that the Group recorded loss from disposal of property, plant and equipment amounted to approximately HK\$0.2 million during the six months ended 30 September 2016. During the six months ended 30 September 2015, the Group recorded gains from disposal of property, plant and equipment amounted to approximately HK\$1.0 million.

### **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, 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\$9.7 million and HK\$14.0 million for the six months ended 30 September 2016 and 2015, respectively. The decrease in distribution and selling expenses was mainly attributed to the change of product mix, and the reduction in headcount and warehouse space during the Reporting Period.

### **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\$84.6 million for the six months ended 30 September 2015 to approximately HK\$95.7 million for the six months ended 30 September 2016. The increase was primarily due to an increase in research and development costs and impairment of certain obsolete or non-performing fixed and intangible assets. In arriving at the amount of impairment loss, the Group had considered the recoverable amount of those assets.

### **Finance costs**

The Group's finance costs represented interest expenses on bank borrowings and unsecured borrowings from a related company. During the Reporting Period, the Group's finance costs was approximately HK\$8.0 million, as compared to approximately HK\$2.0 million for the corresponding period of 2015. Increase in finance costs were mainly due to an increase in average balances of borrowings and the weighted average interest rate as compared to corresponding period last year, and the fact that the Group ceased capitalizing the relevant portion of interest expense after the completion of the construction of our Suzhou production facilities.

## Review of Interim Results

### Income tax expenses

The Group's income tax expenses amounted to approximately HK\$5.2 million for the six months period ended 30 September 2016, the Group's income tax expenses for the six months ended 30 September 2015 was approximately HK\$5.4 million.

During the Reporting Period, the effective tax rate of the Group was approximately 427.4%. 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, the provision for deferred taxation on the undistributed profits earned by the Group's PRC entities, 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 20.6%, while the same for the corresponding period last year would have been approximately 20.7%.

### Loss attributable to equity holders of the Company

For the six months ended 30 September 2016, loss attributable to equity holders of the Company amounted to approximately HK\$2.4 million, which is similar to the loss attributable to equity holders of the Company of approximately HK\$2.9 million for the corresponding period last year.

## Liquidity, Financial and Capital Resources

### Financial resources and liquidity

The Group's current assets comprise mainly cash and cash equivalents, trade and other receivables and inventories. As at 30 September 2016 and 31 March 2016, the Group's total current assets amounted to approximately HK\$582.3 million and HK\$414.9 million respectively, which represented approximately 58.9% and 48.7% of the Group's total assets as at 30 September 2016 and 31 March 2016, respectively.

## Capital structure

The Group's capital structure is summarised as follows:

	<b>As at</b>	
	<b>30 September 2016 HK\$'000 (Unaudited)</b>	31 March 2016 HK\$'000 (Audited)
Bank borrowings	100,304	216,895
Unsecured borrowings from a related company	270,000	–
Total debts	370,304	216,895
Less: Cash and cash equivalent	(265,528)	(106,360)
Net debt	104,776	110,535
Shareholders' equity	439,036	461,754
Total capitalisation*	543,812	572,289
Gearing ratio		
– Total debt to shareholders' equity ratio <sup>#</sup>	84.3%	47.0%
– Net debt to shareholders' equity ratio <sup>##</sup>	23.9%	23.9%

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

<sup>#</sup> Total debt to shareholders' equity ratio is calculated based on total debts divided by shareholders' equity at the end of the respective periods

<sup>##</sup> 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 2016, the Group generally financed its operation primarily with internally generated cash flow, bank borrowings and unsecured borrowings from a related company.

Details of the Group's bank borrowings and unsecured borrowings from a related company as at 30 September 2016 are set out in Note 22 and 23, respectively, in this interim condensed consolidated financial information.

## Review of Interim Results

As at 30 September 2016, the Group's bank borrowings were denominated in Hong Kong dollars and Renminbi, where as the unsecured borrowings from a related company were denominated in Hong Kong dollars.

The capital structure of the Group consists of equity attributable to the equity holders of the Company (comprising issued share capital and reserves), bank borrowings and unsecured borrowings from a related company. 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 2016, the Group acquired property, plant and equipment of approximately HK\$13.3 million, as compared to the six months ended 30 September 2015 of approximately HK\$35.8 million.

During the Reporting Period, property, plant and equipment of approximately HK\$12.6 million were acquired during the normal and ordinary course of the Group's business, while approximately HK\$0.7 million was incurred for the construction of the new production base in Suzhou.

The Group financed its capital expenditure through cash flows generated from operating activities, and unsecured borrowings from a related company.

### Charges on the Group's assets

As at 30 September 2016, the Group's bank borrowings of approximately HK\$13.2 million were secured by the leasehold land and buildings with a carrying amount of approximately HK\$43.0 million. As at 31 March 2016, the Group's bank borrowings of approximately HK\$14.1 million were secured by the leasehold land and buildings with a carrying value of approximately HK\$43.7 million.

### 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 2016, the Group had one foreign exchange derivative contract to manage part of the foreign currency exposure between United States dollars and Renminbi. This contract was accounted for on the Group's interim condensed 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 2016 are set out in Note 24(a) and 24(b), respectively, in this interim condensed consolidated financial information.

### **Contingent liabilities**

As at 30 September 2016, the Group had no material contingent liabilities.

### **Outlook and Strategy**

In spite of the improved operating margins recorded by the Group during the Reporting Period, it is expected that the precision metal manufacturing industry in the PRC will remain difficult in the foreseeable future. The Group note with cautions the continued trend of reduced demand of precision metal products and the growing competition due to shifting of the Group's customers' manufacturing activities out of the PRC continues. Also, like most of the manufacturing businesses that have operations in the PRC, the high operating costs remained a key factor and will continuously affect our profitability.

In response to these challenges, the Group will continue to improve its business and product portfolio in order to maximise shareholders' return. The Group's new production base located at Suzhou, which has been put into use, shall provide new business opportunities for the Group to tap into the high-valued adding product markets. Besides, in order to counter the effect of surging cost of operation, the Group will further invest to improve the operational efficiency and continue to take steps to streamline its cost structure.

On the corporate level, the Group is in the process of conducting a detailed review of its existing operations. The Group shall formulate feasible business strategies with a view to developing a sustainable corporate strategy to broaden the Group's income stream, and may rebalance the resources of the Group should appropriate opportunities arise.

## Review of Interim Results

### Employees and Remuneration Policy

As at 30 September 2016, the Group had a total number of 2,469 full-time employees (as at 30 September 2015: 2,610). 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 has not had any labour strikes or other labour disturbances that would interfere 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.

### 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 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 (the “**Long Term Relocation Plan**”). During the Reporting Period, the Group’s senior management and local management of KRP-Shenzhen have continued the process of locating the 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 has renewed the lease agreement of the Xili Leased Properties on 31 October 2016 for a period of five years to ensure that no disruption of the operation in Xili. The Group will continue to seek suitable premises for the Long Term Relocation Plan.

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 Kingdom Technology (Shenzhen) Company Limited and Dongguan Conform Metal Limited.





## Review of Interim Results

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.

### 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.

## Review of Interim Results

### 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 2016, no Directors or chief executive of the Company had any interest or short position 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.

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

As at 30 September 2016, 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
Massive Force Limited ("MFL")	Company	Beneficial owner	449,999,012 Shares (L) (Note 2)	75%

Notes:

- 1 The letter "L" denotes the corporation/person's long position in our Shares.
- 2 These shares were held by MFL, which is owned as to 40% by Mr. Zhang Yongdong.

### **Corporate governance**

Save as disclosed below, 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 2016.

#### **CG Code provision A.2.1**

CG Code provision A.2.1 of the Code provides that, amongst others, the roles of chairman and chief executive should be separate and should not be performed by the same individual. On 15 July 2016, the chairman of the Board, Mr. Zhang Yongdong, submitted resignation to the Board of the Company. After resignation, he would no longer hold any other position in the Company. Whereas the Company was in the course of identifying a suitable candidate to fill the vacancy, all Directors recommended Mr. Sun Kwok Wah, an executive Director and the chief executive officer of the Company, to chair meeting(s) of the Board during such period till the new chairman is elected. As Mr. Zhang Haifeng was subsequently appointed as a non-executive Director and the chairman of the Board on 13 October 2016 in order to replace the vacancy, such deviation from CG code provision A.2.1 was rectified.


#### **CG Code provision A.5.1**

CG Code provision A.5.1 stipulates that the Company should establish a nomination committee which is chaired by the chairman of the Board or an independent non-executive director. During the period between 15 July 2016 and 12 October 2016, due to the resignation of a non-executive Director and chairman of the nomination committee, namely Mr. Zhang Yongdong, on 15 July 2016, the nomination committee of the Company then no long had a chairman. As Mr. Zhang Haifeng was subsequently appointed as a non-executive Director and the chairman of the nomination committee on 13 October 2016 in order to replace the vacancy, such deviation from CG Code provision A.5.1 was rectified.

### **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 2016.



## **Review of Interim Results**

### **Interim dividend**

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2016.

### **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 2016 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 2016, 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 2016.

By order of the Board

**Zhang Haifeng**

*Chairman*

Hong Kong, 24 November 2016



# Report on Review of Interim Condensed Consolidated Financial Information




SHINEWING (HK) CPA Limited  
43/F., Lee Garden One  
33 Hysan Avenue  
Causeway Bay, Hong Kong

## 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 of KFM Kingdom Holdings Limited (the “**Company**”) and its subsidiaries set out on pages 23 to 56, which comprise the interim condensed consolidated balance sheet as at 30 September 2016 and the related interim condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) 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” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated 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 HKICPA. A review of these interim condensed consolidated 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 condensed consolidated financial information are not prepared, in all material respects, in accordance with HKAS 34.

### **SHINEWING (HK) CPA Limited**

*Certified Public Accountants*

#### **Tang Kwan Lai**

Practising Certificate Number: P05299

Hong Kong

24 November 2016

# Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 September 2016

## Six month ended 30 September

	Notes	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Revenue</b>	6	438,050	444,592
Cost of sales	7	(331,838)	(353,272)
<b>Gross profit</b>		106,212	91,320
Other gains, net	8	8,341	10,463
Distribution and selling expenses	7	(9,735)	(14,019)
General and administrative expenses	7	(95,710)	(84,580)
<b>Operating profit</b>		9,108	3,184
Finance income		107	267
Finance costs	9	(8,005)	(2,045)
<b>Profit before income tax</b>		1,210	1,406
Income tax expenses	10	(5,171)	(5,371)
<b>Loss for the period</b>		(3,961)	(3,965)
<b>Other comprehensive income for the period, net of tax</b>			
<i>Item that may be reclassified to profit or loss</i>			
Currency translation differences		(18,757)	(12,604)
<b>Total comprehensive loss for the period</b>		(22,718)	(16,569)
<b>Loss for the period attributable to:</b>			
– Equity holders of the Company		(2,435)	(2,922)
– Non-controlling interests		(1,526)	(1,043)
		(3,961)	(3,965)
<b>Total comprehensive loss attributable to:</b>			
– Equity holders of the Company		(21,192)	(15,526)
– Non-controlling interests		(1,526)	(1,043)
		(22,718)	(16,569)
<b>Loss per share for loss attributable to equity holders of the Company</b>			
– Basic and diluted (HK cents)	11	(0.41)	(0.49)
<b>Dividends</b>	12	–	–

The notes on pages 29 to 56 form an integral part of this interim condensed consolidated financial information.



# Interim Condensed Consolidated Balance Sheet

As at 30 September 2016

		As at	
	Notes	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	13	367,521	396,324
Leasehold land and land use rights	14	23,044	24,067
Intangible assets	15	–	2,525
Goodwill		10,362	10,362
Interest in an associated entity		–	–
Deferred income tax assets	20	5,052	4,355
<b>Total non-current assets</b>		<b>405,979</b>	<b>437,633</b>
<b>Current assets</b>			
Inventories	16	89,610	102,303
Trade and other receivables	17	226,040	205,033
Current income tax recoverable		1,165	1,223
Cash and cash equivalents		265,528	106,360
<b>Total current assets</b>		<b>582,343</b>	<b>414,919</b>
<b>Total assets</b>		<b>988,322</b>	<b>852,552</b>

The notes on pages 29 to 56 form an integral part of this interim condensed consolidated financial information.

## Interim Condensed Consolidated Balance Sheet (continued)

As at 30 September 2016

		As at	
	Notes	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	18	60,000	60,000
Share premium	18	26,135	26,135
Reserves	19	351,043	373,232
<b>Capital and reserves attributable to equity holders of the Company</b>		<b>437,178</b>	459,367
Non-controlling interests	19	1,858	2,387
<b>Total equity</b>		<b>439,036</b>	461,754
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax liabilities	20	10,219	12,003
<b>Current liabilities</b>			
Trade and other payables	21	163,796	155,748
Bank borrowings	22	100,304	216,895
Unsecured borrowings from a related company	23	270,000	–
Derivative financial liabilities		500	2,113
Current income tax liabilities		4,467	4,039
<b>Total current liabilities</b>		<b>539,067</b>	378,795
<b>Total liabilities</b>		<b>549,286</b>	390,798
<b>Total equity and liabilities</b>		<b>988,322</b>	852,552
<b>Net current assets</b>		<b>43,276</b>	36,124
<b>Total assets less current liabilities</b>		<b>449,255</b>	473,757

The notes on pages 29 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 2016

	Attributable to equity holders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Retained profits		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Balance at 1 April 2016 (audited)</b>	60,000	26,135	3,445	33,720	15,895	320,172	2,387	461,754
<b>Comprehensive loss</b>								
Loss for the period	-	-	-	-	-	(2,435)	(1,526)	(3,961)
<b>Other comprehensive loss</b>								
Currency translation differences	-	-	-	-	(18,757)	-	-	(18,757)
<b>Total comprehensive loss for the period</b>	-	-	-	-	(18,757)	(2,435)	(1,526)	(22,718)
<b>Transactions with equity holders</b>								
Transfer of retained profits to statutory reserve	-	-	-	2,875	-	(2,875)	-	-
Acquisition of additional interest in a subsidiary	-	-	-	-	-	(997)	997	-
<b>Balance at 30 September 2016 (unaudited)</b>	60,000	26,135	3,445	36,595	(2,862)	313,865	1,858	439,036

The notes on pages 29 to 56 form an integral part of this interim condensed consolidated financial information.

## Interim Condensed Consolidated Statement of Changes in Equity (continued)

For the six months ended 30 September 2015

	Attributable to equity holders of the Company							Non- controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	HK\$ '000		
	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000	HK\$ '000		
<b>Balance at 1 April 2015 (audited)</b>	60,000	26,135	3,445	28,615	40,229	370,535	6,998	535,957	
<b>Comprehensive loss</b>									
Loss for the period	-	-	-	-	-	(2,922)	(1,043)	(3,965)	
<b>Other comprehensive loss</b>									
Currency translation differences	-	-	-	-	(12,604)	-	-	(12,604)	
<b>Total comprehensive loss for the period</b>	-	-	-	-	(12,604)	(2,922)	(1,043)	(16,569)	
<b>Transactions with equity holders</b>									
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	
<b>Balance at 30 September 2015 (unaudited)</b>	60,000	26,135	3,445	31,949	27,625	364,848	5,348	519,350	

The notes on pages 29 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 2016

	Note	Six months ended 30 September	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Cash flows from operating activities</b>			
Net cash generated from operations		33,764	1,554
Income tax paid, net		(7,010)	(5,658)
Interest received		107	267
Net cash generated from/(used in) operating activities		26,861	(3,837)
<b>Cash flows from investing activities</b>			
Proceeds from sale of property, plant and equipment		788	3,161
Purchase of property, plant and equipment	13	(13,298)	(41,953)
Acquisition of additional interests in subsidiaries		–	(100)
Net cash used in investing activities		(12,510)	(38,892)
<b>Cash flows from financing activities</b>			
Proceeds from bank borrowings		47,200	135,880
Proceeds from unsecured borrowings		270,000	–
Repayments of bank borrowings		(162,991)	(109,837)
Interest paid		(8,005)	(3,773)
Others		796	–
Net cash generated from financing activities		147,000	22,270
<b>Increase/(decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the period		106,360	158,627
Currency translation differences		(2,183)	(2,275)
<b>Cash and cash equivalents at end of the period</b>		<b>265,528</b>	<b>135,893</b>
<b>Analysis of balances of cash and cash equivalents:</b>			
Cash at bank and on hand		265,528	135,893
		265,528	135,893

The notes on pages 29 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 24 November 2016.

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 2016 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard (“**HKAS**”) 34, “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). This interim condensed consolidated financial information should be read in conjunction with the Group’s annual financial statements for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the “**HKFRSs**”) issued by the HKICPA.

## Notes to the Interim Condensed Consolidated Financial Information

### 3. Principal accounting policies

The interim condensed consolidated financial information have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair values.

The accounting policies used in the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2016, except as described below.

In the current period, the Group has applied, for the first time, the following new amendments issued by the HKICPA which are effective for the Group's financial year beginning 1 April 2016.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRSs 10, HKFRSs 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRSs 11	Accounting for Acquisitions of Interest in Joint Operations

The application of the new and revised HKFRSs in the current period has had no material effect on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these interim condensed consolidated financial information.

The Group has not early applied any new or revised HKFRSs that have been issued but not yet effective for the current period.

### 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 2016 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 2016.

There have been no changes in the risk management policies of the Group since 31 March 2016.

#### (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 and unsecured borrowings from a related company containing a repayment on demand clause which can be exercised at the sole discretions of banks or the related company, 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)
<b>At 30 September 2016</b>			
Bank borrowings	103,746	–	103,746
Unsecured borrowings from a related company	284,175	–	284,175
Trade and other payables	–	163,796	163,796
	<b>387,921</b>	<b>163,796</b>	<b>551,717</b>
	On demand HK\$'000 (Audited)	Less than 1 year HK\$'000 (Audited)	Total HK\$'000 (Audited)
<b>At 31 March 2016</b>			
Bank borrowings	225,735	–	225,735
Trade and other payables	–	155,748	155,748
	<b>225,735</b>	<b>155,748</b>	<b>381,483</b>

## Notes to the Interim Condensed Consolidated Financial Information

### 5. Financial risk management (continued)

#### (c) Fair value estimation

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

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

As at 30 September and 31 March 2016, the Group held one Renminbi/United States dollar forward foreign exchange contract.

The following table provides the fair value measurement hierarchy of the Group's financial liabilities as at 30 September and 31 March 2016:

	<b>Level 2 HK\$'000 (Unaudited)</b>	<b>Total HK\$'000 (Unaudited)</b>
<b>As at 30 September 2016</b>		
Financial liabilities at fair value through profit or loss		
Forward foreign exchange contract classified as derivative financial liabilities	500	500
	Level 2 HK\$'000 (Audited)	Total HK\$'000 (Audited)
<b>As at 31 March 2016</b>		
Financial liabilities at fair value through profit or loss		
Forward foreign exchange contract classified as derivative financial liabilities	2,113	2,113

## Notes to the Interim Condensed Consolidated Financial Information

### 5. Financial risk management (continued)

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

During the six months ended 30 September 2016, there was no transfer between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

*Fair value of financial liabilities that are measured at fair value on a recurring basis*

The valuation techniques and inputs used in the fair value measurements of forward foreign exchange contract classified as derivative financial liabilities on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)	
Forward foreign exchange contract	Level 2	500	2,113	Quoted price by reference to statement issued by the financial institution based on the difference of strike rate and the forward rates

The fair values of trade and other receivables, cash and cash equivalents and trade and other payables 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 and unsecured borrowings from a related company 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 of the Group.

The CODM have assessed the nature of the Group’s Businesses and determined that the Group has two operating and reporting segments which are defined by manufacturing processes as follows:

- (i) Manufacturing and sale of precision metal products involving metal stamping and computer numerical control 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, current income tax recoverable, 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.

## 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 2016

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment revenue</b>			
Sales	344,452	93,953	438,405
Intersegment sales	(93)	(262)	(355)
Sales to external customers	344,359	93,691	438,050
Cost of sales	(259,574)	(72,264)	(331,838)
<b>Gross profit</b>	84,785	21,427	106,212
Unallocated expenses, net			(97,104)
<b>Operating profit</b>			9,108
Finance income			107
Finance costs			(8,005)
<b>Profit before income tax</b>			1,210
Income tax expenses			(5,171)
<b>Loss for the period</b>			(3,961)

## 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 2015

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment revenue</b>			
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)
<b>Gross profit</b>	77,082	14,238	91,320
Unallocated expenses, net			(88,136)
<b>Operating profit</b>			3,184
Finance income			267
Finance costs			(2,045)
<b>Profit before income tax</b>			1,406
Income tax expenses			(5,371)
<b>Loss for the period</b>			(3,965)

## Notes to the Interim Condensed Consolidated Financial Information

### 6. Segment information (continued)

(b) The segment assets are as follows:

(i) As at 30 September 2016

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment assets</b>	461,110	177,277	638,387
<i>Reconciliation</i>			
Corporate and other unallocated assets			
Deferred income tax assets			5,052
Current income tax recoverable			1,165
Cash and cash equivalents			265,528
Other unallocated head office and corporate assets (Note)			78,190
<b>Total assets</b>			<b>988,322</b>

(ii) As at 31 March 2016

	Metal stamping HK\$'000 (Audited)	Metal lathing HK\$'000 (Audited)	Total HK\$'000 (Audited)
<b>Segment assets</b>	484,746	168,525	653,271
<i>Reconciliation</i>			
Corporate and other unallocated assets			
Deferred income tax assets			4,355
Current income tax recoverable			1,223
Cash and cash equivalents			106,360
Other unallocated head office and corporate assets (Note)			87,343
<b>Total assets</b>			<b>852,552</b>

Note: Other unallocated head office and corporate assets include certain property, plant and equipment, goodwill, and certain deposits, prepayments and other receivables, which are managed on a group basis.

## 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	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
The PRC	287,212	285,136
North America	84,995	94,167
Europe	41,748	34,850
Japan	11,040	14,649
Singapore	6,588	9,171
Oceania	1,229	776
South America	279	72
Other Asian countries excluding the PRC, Japan and Singapore	4,959	5,771
	<b>438,050</b>	<b>444,592</b>

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

	As at	
	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
The PRC	318,698	346,241
Hong Kong	71,867	74,150
	<b>390,565</b>	<b>420,391</b>



## Notes to the Interim Condensed Consolidated Financial Information

### 7. Expenses by nature

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Raw materials and consumables used	162,431	192,278
Changes in inventory of finished goods and work in progress	12,675	(9,554)
Employee benefit expenses	114,821	121,434
Processing fees	45,231	47,895
Depreciation of property, plant and equipment (Note 13)	23,358	19,946
Amortisation of leasehold land and land use rights (Note 14)	225	236
Amortisation of intangible assets (Note 15)	480	2,374
Operating lease rental in respect of buildings	10,699	16,032
Research and development costs	23,231	15,972
Utilities expenses	8,445	8,242
Transportation, postage and courier expenses	6,436	7,193
Legal and professional fees	3,182	6,720
Auditors' remuneration	200	400
Impairment loss recognised on property, plant and equipment (Note 13)	7,710	–
Impairment loss recognised on intangible assets (Note 15)	2,045	–
Others	16,114	22,703
<b>Total cost of sales, distribution and selling expenses and general and administrative expenses</b>	<b>437,283</b>	<b>451,871</b>
Represented by:		
Cost of sales	331,838	353,272
Distribution and selling expenses	9,735	14,019
General and administrative expenses	95,710	84,580
	<b>437,283</b>	<b>451,871</b>

## Notes to the Interim Condensed Consolidated Financial Information

### 8. Other gains, net

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
(Loss)/gain on disposal of property, plant and equipment	(178)	1,015
Exchange gain, net	8,304	9,237
Others	215	211
	<b>8,341</b>	<b>10,463</b>

### 9. Finance costs

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Interest expense on bank borrowings wholly repayable within five years	1,894	3,585
Interest expense on bank borrowings not wholly repayable within five years	161	188
Interest expense on unsecured borrowings from a related company	5,950	–
	<b>8,005</b>	<b>3,773</b>
Total interest expense capitalised into properties under development	–	(1,728)
	<b>8,005</b>	<b>2,045</b>

## Notes to the Interim Condensed Consolidated Financial Information

### 10. Income tax expenses

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Current income tax		
– Hong Kong	366	–
– The PRC	9,250	9,947
Adjustments in respect of prior years		
– Over-provision in respect of prior year	(1,964)	(3,003)
	7,652	6,944
Deferred income tax (Note 20)	(2,481)	(1,573)
<b>Total</b>	<b>5,171</b>	<b>5,371</b>

Income tax of the Group's entities has been calculated on the estimated assessable profits 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 2016 and 2015.

**(a) Hong Kong profits tax**

Hong Kong profits tax had been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits for the period of the Group's Hong Kong entities.

**(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 2016 and 2015 were either 15% or 25%.

## Notes to the Interim Condensed Consolidated Financial Information

### 11. Loss per share

Basic and diluted loss per share

	Six months ended 30 September	
	2016 (Unaudited)	2015 (Unaudited)
Loss attributable to equity holders of the Company (HK\$'000)	(2,435)	(2,922)
Weighted average number of shares in issue ('000)	600,000	600,000
Basic and diluted loss per share (HK cents per share)	(0.41)	(0.49)

Basic loss per share for the six months ended 30 September 2016 and 2015 is calculated by dividing the loss 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 2016 and 2015.

### 12. Dividends

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2016.

The Board did not recommend payment of any final dividend for the year ended 31 March 2016, nor any interim dividend for the six months ended 30 September 2015.

## Notes to the Interim Condensed Consolidated Financial Information

### 13. Property, plant and equipment

	<b>2016</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2015 HK\$'000 (Unaudited)
At 1 April	396,324	387,900
Additions	13,298	35,792
Disposals	(966)	(2,146)
Depreciation	(23,358)	(19,946)
Impairment loss recognised (Note (a) and Note 7)	(7,710)	–
Currency translation differences	(10,067)	(7,401)
At 30 September	<b>367,521</b>	394,199

Note:

- (a) During the six months ended 30 September 2016, the Group conducted an impairment review of its property, plant and equipment and determined that certain machinery related to the metal stamping and metal lathing segment were impaired due to adversely affected by the unfavourable market conditions. Accordingly, an impairment loss of approximately HK\$7,710,000 (2015: nil) have been recognised.

The recoverable amounts of these items were determined based on its value-in-use.

### 14. Leasehold land and land use rights

	<b>2016</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2015 HK\$'000 (Unaudited)
At 1 April	24,067	25,546
Amortisation (Note 7)	(225)	(236)
Currency translation differences	(798)	(609)
At 30 September	<b>23,044</b>	24,701

## Notes to the Interim Condensed Consolidated Financial Information

### 15. Intangible assets

	Six months ended 30 September 2016		
	Contractual customer relationship HK\$'000 (Unaudited)	Design and prototype HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
As at 1 April	–	2,525	2,525
Amortisation	–	(480)	(480)
Impairment loss recognised (Note (a) and Note 7)	–	(2,045)	(2,045)
As at 30 September	–	–	–

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

Note:

- (a) During the six months ended 30 September 2016, the directors of the Company conducted an impairment review on the Group's intangible assets and determined that the intangible assets related to design and prototype of metal stamping segment were impaired due to adversely effected by the unfavourable market conditions. Accordingly, an impairment of approximately HK\$2,045,000 (2015: nil) have been recognised.

The recoverable amounts of these items were determined based on its value-in-use.

### 16. Inventories

	As at	
	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Raw materials	21,732	21,750
Work in progress	22,051	23,853
Finished goods	45,827	56,700
	<b>89,610</b>	<b>102,303</b>

## Notes to the Interim Condensed Consolidated Financial Information

### 17. Trade and other receivables

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Trade receivables (Note (a))	184,416	162,975
Prepayments, deposits and other receivables	41,624	41,784
Amount due from an associated entity	432	706
Amounts due from non-controlling interests shareholders	4,362	4,362
	<b>230,834</b>	209,827
Less: Impairment loss recognised	<b>(4,794)</b>	(4,794)
	<b>226,040</b>	205,033

Note:

- (a) The Group normally grants credit periods of 30 to 90 days (As at 31 March 2016: 30 to 90 days). The ageing analysis of trade receivables based on invoice dates is as follows:

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Up to 3 months	179,397	157,582
3 to 6 months	4,124	3,859
6 months to 1 year	887	1,154
1 to 2 years	8	380
	<b>184,416</b>	162,975

## Notes to the Interim Condensed Consolidated Financial Information

### 18. Share capital and share premium

Issued share capital

	Number of share	Share capital HK\$'000	Share premium HK\$'000	Total HK\$'000
<b>Ordinary share of HK\$0.1 each</b>				
At 30 September 2016 and 31 March 2016	600,000,000	60,000	26,135	86,135

### 19. Reserves and non-controlling interests


	Capital reserve HK\$'000 (Note (a))	Statutory reserve HK\$'000 (Note (b))	Exchange reserve HK\$'000	Retained profits HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
<b>At 1 April 2016</b>	3,445	33,720	15,895	320,172	2,387	375,619
Loss for the period	–	–	–	(2,435)	(1,526)	(3,961)
Currency translation differences	–	–	(18,757)	–	–	(18,757)
Transfer of retained profits to statutory reserve (Note (b))	–	2,875	–	(2,875)	–	–
Acquisition of additional interest in a subsidiary	–	–	–	(997)	997	–
<b>At 30 September 2016 (Unaudited)</b>	3,445	36,595	(2,862)	313,865	1,858	352,901



## Notes to the Interim Condensed Consolidated Financial Information

### 19. Reserves (continued)

	Capital reserve HK\$'000 (Note (a))	Statutory reserve HK\$'000 (Note (b))	Exchange reserve HK\$'000	Retained profits HK\$'000	Non- controlling interests HK\$'000	Total HK\$'000
<b>At 1 April 2015</b>	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 (b))	–	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
<b>At 30 September 2015 (Unaudited)</b>	3,445	31,949	27,625	364,848	5,348	433,215



## Notes to the Interim Condensed Consolidated Financial Information

### 19. Reserves (continued)

Notes:

- (a) During the year ended 31 March 2012, as part of the re-organisation, KFM Group Limited (“**KFM-BVI**”) acquired the entire equity interest in Kingdom Fine Metal Limited (“**KFM-HK**”) on 11 October 2011 and KFM-HK acquired 49% equity interest and 10% equity interest in 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\$3,545,000 was recognised in capital reserve which mainly represented equity interest of 100%, 49% and 10% in 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 a 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.

## Notes to the Interim Condensed Consolidated Financial Information

### 20. Deferred income tax

The analysis of deferred income tax assets (liabilities) is as follows:

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Deferred income tax assets	5,052	5,228
Deferred income tax liabilities	(10,219)	(10,899)
	<b>(5,167)</b>	<b>(5,671)</b>

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:

	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
At 1 April	8,658	7,683
Charged to the consolidated statement of Comprehensive income (Note 10)	698	(239)
At 30 September	<b>9,356</b>	<b>7,444</b>

Deferred income tax liabilities:

	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
At 1 April	(16,306)	(14,927)
Charged to the consolidated statement of Comprehensive income (Note 10)	1,783	1,812
At 30 September	<b>(14,523)</b>	<b>(13,115)</b>

## Notes to the Interim Condensed Consolidated Financial Information

### 20. Deferred income tax (continued)

As at 30 September 2016, deferred tax liabilities of approximately HK\$4,304,000 (30 September 2015: HK\$2,216,000) have been presented as an offset to the deferred tax assets of the same taxable entity in the interim condensed consolidated financial information.

### 21. Trade and other payables

	As at	
	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Trade payables (Note (a))		
– third parties	96,422	86,174
– related companies (Note 25(c))	3,107	3,114
	99,529	89,288
Accruals, deposits and other payables	64,267	66,460
	163,796	155,748

Note:

- (a) The ageing analysis of trade payables at the respective balance sheet dates (included trade payables from related companies) based on invoice date is as follows:

	As at	
	30 September 2016 HK\$'000 (Unaudited)	31 March 2016 HK\$'000 (Audited)
Up to 3 months	95,493	85,950
3 to 6 months	915	2,631
6 months to 1 year	2,987	500
1 to 2 years	134	207
	99,529	89,288

## Notes to the Interim Condensed Consolidated Financial Information

### 22. Bank borrowings

	As at	
	<b>30 September 2016 HK\$'000 (Unaudited)</b>	31 March 2016 HK\$'000 (Audited)
Short-term bank borrowings	46,400	60,000
Portion of long-term bank borrowings due for repayment within one year	41,381	82,333
Portion of long-term bank borrowings due for repayment after one year which contain a repayment on demand clause	12,523	74,562
	<b>100,304</b>	216,895

The interest-bearing bank borrowings, including the bank borrowings repayable on demand, are carried at amortised cost. At 30 September 2016, bank borrowings of approximately HK\$12,523,000 (31 March 2016: HK\$74,562,000) are due for repayment after one year which contain a repayment on demand clause and is classified as current liabilities.

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

	As at	
	<b>30 September 2016 HK\$'000 (Unaudited)</b>	31 March 2016 HK\$'000 (Audited)
Within 1 year	87,781	142,333
Between 1 and 2 years	2,730	59,708
Between 2 and 5 years	5,427	9,550
Over 5 years	4,366	5,304
	<b>100,304</b>	216,895

## Notes to the Interim Condensed Consolidated Financial Information

### 23. Unsecured borrowings from a related company

	As at	
	<b>30 September 2016 HK\$'000 (Unaudited)</b>	31 March 2016 HK\$'000 (Audited)
Unsecured, interest-bearing of 5.25% per annum and due for repayment after one year which contains a repayable on demand clause	<b>270,000</b>	–

During the six months ended 30 September 2016, unsecured borrowings of HK\$270,000,000 (31 March 2016: nil) has been advanced from KIG, a company in which two of the directors of the Company has beneficial interest in, and are due for repayment after two years from its respective drawdown dates. The unsecured borrowings of HK\$270,000,000 (31 March 2016: nil) contains a repayable on demand clause and is classified as current liabilities. The interest rate was determined based on normal commercial term and no less favourable to the Group than terms available to or from independent third parties.

The Group's unsecured borrowings from a related company are repayable after 1 year but within 2 years after the end of the Reporting Period based on the scheduled repayment dates set out in the loan agreements.

### 24. Commitments

#### (a) Capital commitments

	As at	
	<b>30 September 2016 HK\$'000 (Unaudited)</b>	31 March 2016 HK\$'000 (Audited)
Contracted but not provided for		
– Leasehold land and buildings	–	11,160
– Plant and machinery	<b>7,741</b>	5,143
– Capital investment	<b>9,533</b>	10,695
	<b>17,274</b>	26,998

## Notes to the Interim Condensed Consolidated Financial Information

### 24. Commitments (continued)

#### (b) Operating lease commitments

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
Within 1 year	<b>19,591</b>	24,526
Later than 1 year and not later than 5 years	<b>24,402</b>	32,690
Later than 5 years	<b>1,672</b>	2,421
	<b>45,665</b>	59,637

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.

### 25. 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.

## Notes to the Interim Condensed Consolidated Financial Information

### 25. Significant related party transactions (continued)

(a) Name and relationship with related parties

Name	Relationship
KIG	A related company in which Mr. Sun Kwok Wah Peter (“ <b>Mr. Sun</b> ”) and Mr. Wong Chi Kwok, the executive directors of the Company, have beneficial interest in
Innotech Advance Products Limited (“ <b>Innotech</b> ”)	A subsidiary of Gold Joy (HK) Industrial Limited which owned by a connected party of Mr. Sun
Dongguan Tech-in Technical Electrical and Mechanical Products Limited (“ <b>Dongguan Tech-in</b> ”)	A subsidiary of Innotech

深圳市固泰科自動化裝備有限公司 An associate in which Mr. Sun is a director

(b) Material related party transactions

During the six months ended 30 September 2016 and 2015, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

	Six months ended 30 September	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
<b>Sales of products from related companies:</b>		
Innotech	2	–
<b>Purchase of products from related companies:</b>		
Innotech	178	740
Dongguan Tech-in	1,158	878
	<b>1,336</b>	1,618
<b>Finance costs – interest expense on unsecured borrowings from a related company</b>		
KIG	5,950	–



## Notes to the Interim Condensed Consolidated Financial Information

### 25. Significant related party transactions (continued)

#### (c) Balances with related companies

	<b>As at</b>	
	<b>30 September</b>	31 March
	<b>2016</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Audited)
<b>Other receivables from a related company</b>		
深圳市固泰科自動化裝備有限公司	–	274
<b>Trade payables to related companies</b>		
Innotech	(3)	(12)
Dongguan Tech-in	(3,104)	(3,102)
	<b>(3,107)</b>	<b>(3,114)</b>
<b>Unsecured borrowings from a related company</b>		
KIG	<b>270,000</b>	–

#### (d) Key management compensation

Key management personnel comprises directors and senior managements. Key management compensation amounted to approximately HK\$3,791,000 for the six months ended 30 September 2016 (2015: HK\$6,180,000).