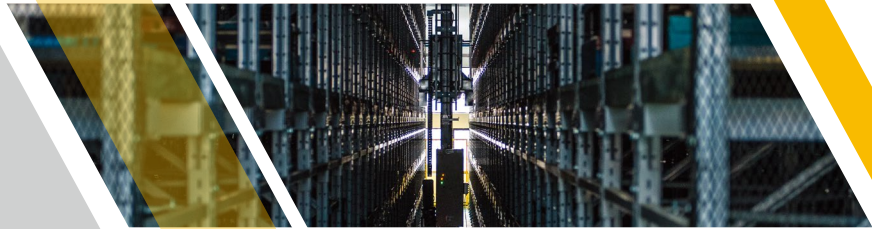
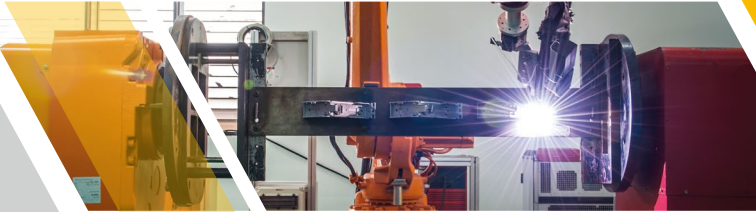


# KFM KINGDOM

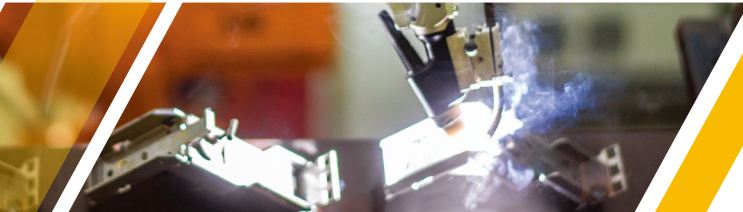


KFM KINGDOM HOLDINGS LIMITED

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



INTERIM REPORT 2017



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Our GOALS are **FAR AND HIGH**  
We CULTIVATE for **TOMORROW**

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## Corporate Information

### Non-executive Director

Mr. Zhang Haifeng (*Chairman*)

### Executive Directors

Mr. Sun Kwok Wah Peter  
(*Chief Executive Officer*)

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

Mr. Wan Kam To

### Nomination committee

Mr. Zhang Haifeng (*Chairman*)

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

Conyers 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

SHINIEWING (HK) CPA Limited

### 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**

SMP Partners (Cayman) Limited  
Royal Bank House — 3rd Floor,  
24 Shedden Road, P.O. Box 1586,  
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  
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 2017 (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 2016.

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 23 November 2017.

### Business Review

During the Reporting Period, the macro-economic environment in the global and the region related to the Group’s operation had shown a sign of recovery but remained challenging. In the PRC, the gross domestic product growth rate had become more stable than the previous year. The market demands in the manufacturing industries of the PRC remained unfavourable, whereas the increasing production costs and operating costs in the PRC continued to affect the Group and its key customers, as a result, the Group operated in a difficult situation.

The management of the Group exerted efforts in seeking a boarder customer base and product portfolios, meanwhile they took a series of measures to optimize the operating costs. The Group recorded revenue amounted to approximately HK\$503.2 million for the six months ended 30 September 2017, with an increase by approximately 14.9% as compared to the corresponding period last year.

During the Reporting Period, revenue generated from external customers of the Group's metal stamping segment was approximately HK\$344.0 million. As compared to the corresponding period last year, it decreased by approximately 0.1% or HK\$0.4 million. The metal stamping segment had continued to be affected by the trend of relocation of its customers' production activities, especially those engaged in the office automation industry, from China to other lower cost regions in Southeast Asia. However, such impact was partially offset by an increase in number of orders from certain customers engaged in medical and test equipment and finance equipment industries.

Regarding the metal lathing segment, revenue generated from external customers during the Reporting Period was approximately HK\$159.2 million. As compared to approximately HK\$93.7 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\$65.5 million or 69.9%. Such improvement was mainly contributed from an increase in number of orders from customers engaged in the consumer electronics industry.

Due to the changes in product portfolio and higher operating efficiency, the overall gross profit margin of the Group during the Reporting Period improved from approximately 24.2% in the corresponding period last year to approximately 32.2%. As such, the total gross profit of the Group increased by approximately HK\$55.9 million from approximately HK\$106.2 million during the corresponding period last year to approximately HK\$162.1 million.

As a result of the above, the Group recorded net profit of approximately HK\$26.5 million during the Reporting Period, which improved significantly as compared with the net loss of approximately HK\$4.0 million of the same period last year.



## Review of Interim Results

### Financial Review

#### Revenue

For the six months ended 30 September 2017, revenue of the Group was approximately HK\$503.2 million, representing an increase of approximately HK\$65.1 million or 14.9% from approximately HK\$438.1 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			
	2017		2016	
	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)	
Metal Stamping	343,998	68.4	344,359	78.6
Metal Lathing	159,166	31.6	93,691	21.4
	503,164	100.0	438,050	100.0

Revenue derived from the metal stamping segment decreased by approximately HK\$0.4 million or 0.1% from approximately HK\$344.4 million for the six months ended 30 September 2016 to approximately HK\$344.0 million for the six months ended 30 September 2017. During the Report Period, the Group experienced a decrease in revenue from customers who engaged in the office automation industry which was offset by an increase in orders from certain customers engaged in medical and test equipment and finance equipment industries.

Revenue derived from the metal lathing segment increased by approximately HK\$65.5 million or 69.9% from approximately HK\$93.7 million for the six months ended 30 September 2016 to approximately HK\$159.2 million for the six months ended 30 September 2017. 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 68.9%, 20.4%, 6.6% and 2.0% of the Group's revenue, respectively, for the six months ended 30 September 2017. Details of a breakdown of revenue generated by different geographical locations are set out in Note 7(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 (including the write-down for inventories as disclosed in Note 10 in this interim condensed consolidated financial information after regular review of the Group's inventory provision policy). Set out below is the breakdown of the Group's cost of sales:

	Six months ended 30 September			
	2017		2016	
	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited)	
Direct materials	181,332	53.2	175,106	52.8
Direct labour	75,931	22.3	81,476	24.6
Processing fee	51,530	15.1	45,231	13.6
Other direct overheads	32,229	9.4	30,025	9.0
	341,022	100.0	331,838	100.0





## Review of Interim Results

During the six months ended 30 September 2017, cost of sales of the Group increased by approximately HK\$9.2 million or 2.8% as compared to the corresponding period last year. The increase was primarily due to the increase in the Group's total revenue, as well as the change in product mix and cost control measures implemented by the Group during the Reporting Period. Due to the 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 67.8%, representing a decrease of approximately 8.0%, as compared to approximately 75.8% in the corresponding period last year.

### **Gross profit and gross profit margin**

During the Reporting Period, the gross profit margin of the Group was approximately 32.2%, with an increase by approximately 8.0% as compared to approximately 24.2% in the corresponding period last year. The improvement in gross profit margin was mainly attributable to the increase in sales of high-margin consumer electronics products and cost control measures in respect of two segments implemented by the Group.

In respect of the Group's metal stamping segment, gross profit margin has improved from approximately 24.6% in the corresponding period last year to approximately 32.3% during the Reporting Period. Such increase was mainly the result of cost control and streamlining of the operation during the Reporting Period.

In respect of the Group's metal lathing segment, gross profit margin has improved from approximately 22.9% for the six months ended 30 September 2016 to approximately 32.0% during the Reporting Period. Such increase was due to the increase in revenue of more profitable products derived from customers who engaged in the consumer electronics industry during the Reporting Period, which led to an improvement in the overall gross profit margin.

For details of the gross profit of the Group's two segments, please refer to Note 7(a) of this interim condensed consolidated financial information.

### **Other (loss)/gains, net**

During the six months ended 30 September 2017, the Group recorded other loss, net which amounted to approximately HK\$13.0 million. In the corresponding period last year, the Group recorded other gains, net of approximately HK\$8.3 million. Upon the appreciation of Renminbi against United States dollars during the Reporting Period, the Group recorded net exchange loss of approximately HK\$11.4 million, while during the same period last year the Group recorded net exchange gain of approximately HK\$8.3 million. In addition, the Group recorded loss from disposal of property, plant and equipment amounted to approximately HK\$2.9 million during the six months ended 30 September 2017, but during the six months ended 30 September 2016, the Group only recorded loss from disposal of property, plant and equipment amounted to approximately HK\$0.2 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\$9.9 million and HK\$9.7 million for the six months ended 30 September 2017 and 2016, respectively. The slight increase in distribution and selling expenses was mainly attributed to the increase in revenue during the Reporting Period.

### **General and administrative expenses**

General and administrative expenses comprised primarily 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\$95.7 million for the six months ended 30 September 2016 to approximately HK\$102.6 million for the six months ended 30 September 2017. The increase was mainly due to an increase in additional costs paid during streamlining of the Group's operation and performance bonus paid to the Group's staff upon improvement of the Group's performance and impairment on property, plant and equipment after the Group re-assessed the recoverable amount of a cash generating unit.

## Review of Interim Results

### 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\$9.4 million, as compared to approximately HK\$8.0 million for the corresponding period last year. Increase in finance costs was mainly due to an increase in average balances of borrowings as compared to corresponding period last year.

### Income tax expenses

The Group's income tax expenses amounted to approximately HK\$0.8 million for the six months ended 30 September 2017, while the Group's income tax expenses for the six months ended 30 September 2016 amounted to approximately HK\$5.2 million. During the Reporting Period, the Group's effective tax rate was approximately 3.0% and was lower than the same during the corresponding period last year. This is mainly caused by the reversal of certain deferred tax provision and taken into consideration of other tax effects. Excluding such factors, the adjusted effective tax rate would have been 20.0% during the Reporting Period, while the same for the corresponding period last year would have been 20.6%. Please refer to Note 11 in this interim condensed consolidated financial information for details of the Group's income tax expenses for the Reporting Period.

### Profit attributable to owners of the Company

For the six months ended 30 September 2017, profit attributable to owners of the Company amounted to approximately HK\$26.7 million, while there was loss attributable to owners of the Company of approximately HK\$2.4 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 and 31 March 2017, the Group's total current assets amounted to approximately HK\$691.7 million and HK\$522.1 million respectively, which represented approximately 63.8% and 57.9% of the Group's total assets as at 30 September and 31 March 2017, respectively.

**Capital structure**

The Group's capital structure is summarised as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Bank borrowings	<b>35,700</b>	45,200
Unsecured borrowings from a related company	<b>370,000</b>	270,000
<b>Total debts</b>	<b>405,700</b>	315,200
Shareholders' equity	<b>466,917</b>	414,412
Gearing ratio		
— Total debt to shareholders' equity ratio <sup>#</sup>	<b>86.9%</b>	76.1%

<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.

For the six months ended 30 September 2017, the Group generally financed its operation primarily with internal generated cash flows, 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 2017 are set out in Notes 23 and 25, respectively, in this interim condensed consolidated financial information.

As at 30 September 2017, the Group's bank borrowings were denominated in Renminbi, where as the unsecured borrowings from a related company were denominated in Hong Kong dollars.

## Review of Interim Results

The capital structure of the Group consists of equity attributable to the owners 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 owners of the Company.

### Capital expenditure

During the six months ended 30 September 2017, the Group acquired property, plant and equipment of approximately HK\$31.5 million, as compared to the six months ended 30 September 2016 of approximately HK\$13.3 million.

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

### Charges on the Group's assets

As at 30 September and 31 March 2017, no bank borrowings of the Group were secured by leasehold land and buildings of the Group.

### 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.

### Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 30 September 2017 are set out in Notes 26(a) and 26(b), respectively, in this interim condensed consolidated financial information.

### Contingent liabilities

As at 30 September 2017, the Group had no material contingent liabilities.

### **Outlook and Strategy**

During the six months ended 30 September 2017 the Group recorded a profit as opposed to the loss recorded for the six months ended 30 September 2016. The turnaround from loss to profit was mainly attributable to the increase in total revenue and the improvement in gross profit margin.

Looking forward, the Group remains cautious about the business environment. With the recovery of China economy, there may be significant increase in materials price, such as steel, copper, etc.. Together with the increase in labour cost, the Group expects to face higher cost pressure. Another important factor that will have potential influence on the Group's performance is the exchange rate of Renminbi, as Renminbi continues to appreciate this year and the exchange rate movement remains uncertain in the near future.

In the meantime, the Group will strive to maintain good relationships with its customers and strengthen the principal businesses based on well-grounded judgements. The controlling shareholder is still in the process of conducting a detailed review of the current businesses and searching potential opportunities to streamline the Group's business units and diversify the Group's income streams. The Group will adhere to its belief and cope with the challenges in order to create better value and returns for customers, shareholders and investors.

### **Employees and Remuneration Policy**

As at 30 September 2017, the Group had a total number of 2,224 full-time employees (as at 30 September 2016: 2,469). 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 the Group's staff in order to enhance their technical skills and product knowledge and to provide them with updates with regard to industry quality and work safety.

The Group maintains good relationship with the Group's employees. The Group did not have any labour strikes or other labour disturbances that would have interfered with the Group's 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.

## Review of Interim Results

### 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 (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 receives notice for relocation prior to the completion of the Long Term Relocation Plan, the productions facilities and production lines at the Xili Leased Properties will be relocated to Kingdom Technology (Shenzhen) Company Limited 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.

#### 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 quotation 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 quotation 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.



## Review of Interim Results

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.

### 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 2017, 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 2017, the following person (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**

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 2017.

### **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 2017.

### **Interim dividend**

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2017.

### **Subsequent event**

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

### **Audit Committee**

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

## Review of Interim Results

The Audit Committee has reviewed the Group's interim condensed consolidated financial information for the six months ended 30 September 2017 and had discussed the financial information with management and the independent auditor of the Company. The Audit Committee is of the view 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 2017, 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 2017.

By order of the Board  
**Zhang Haifeng**  
*Chairman*

Hong Kong, 23 November 2017

# 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 21 to 56, which comprise the interim condensed consolidated statement of financial position as at 30 September 2017 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated 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

23 November 2017

# Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2017

	Notes	Six months ended 30 September	
		2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Revenue</b>	6	<b>503,164</b>	438,050
Cost of sales		<b>(341,022)</b>	(331,838)
<b>Gross profit</b>		<b>162,142</b>	106,212
Other (loss)/gains, net	8	<b>(12,983)</b>	8,341
Distribution and selling expenses		<b>(9,904)</b>	(9,735)
General and administrative expenses		<b>(102,594)</b>	(95,710)
Finance income	9	<b>97</b>	107
Finance costs	9	<b>(9,448)</b>	(8,005)
<b>Profit before tax</b>	10	<b>27,310</b>	1,210
Income tax expenses	11	<b>(806)</b>	(5,171)
<b>Profit/(loss) for the period</b>		<b>26,504</b>	(3,961)
<b>Other comprehensive income/(expense) for the period:</b>			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<b>26,001</b>	(18,757)
<b>Total comprehensive income/(expense) for the period</b>		<b>52,505</b>	(22,718)
<b>Profit/(loss) for the period attributable to:</b>			
— Owners of the Company		<b>26,674</b>	(2,435)
— Non-controlling interests		<b>(170)</b>	(1,526)
		<b>26,504</b>	(3,961)
<b>Total comprehensive income/(expense) attributable to:</b>			
— Owners of the Company		<b>52,675</b>	(21,192)
— Non-controlling interests		<b>(170)</b>	(1,526)
		<b>52,505</b>	(22,718)
<b>Earnings/(loss) per share</b>	12		
— Basic and diluted (HK cents)		<b>4.45</b>	(0.41)

# Interim Condensed Consolidated Statement of Financial Position

At 30 September 2017

	Notes	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	14	<b>365,035</b>	351,803
Leasehold land and land use rights	15	<b>23,187</b>	22,233
Intangible assets	16	—	—
Goodwill		—	—
Interest in an associated entity		—	—
Deferred income tax assets	21	<b>4,841</b>	5,083
<b>Total non-current assets</b>		<b>393,063</b>	379,119
<b>Current assets</b>			
Inventories	17	<b>91,367</b>	80,807
Trade and other receivables	18	<b>273,054</b>	220,760
Current income tax recoverable		<b>246</b>	1,515
Cash and cash equivalents		<b>327,061</b>	219,008
<b>Total current assets</b>		<b>691,728</b>	522,090
<b>Total assets</b>		<b>1,084,791</b>	901,209
<b>EQUITY</b>			
<b>Capital and reserves</b>			
Share capital	19	<b>60,000</b>	60,000
Share premium	19	<b>26,135</b>	26,135
Reserves	20	<b>378,475</b>	325,800
<b>Capital and reserves attributable to owners of the Company</b>		<b>464,610</b>	411,935
Non-controlling interests		<b>2,307</b>	2,477
<b>Total equity</b>		<b>466,917</b>	414,412

## Interim Condensed Consolidated Statement of Financial Position

At 30 September 2017

	Notes	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Obligations under finance leases	24	<b>4,363</b>	145
Unsecured borrowings from a related company	25	<b>100,000</b>	—
Deferred income tax liabilities	21	<b>5,976</b>	13,958
<b>Total non-current liabilities</b>		<b>110,339</b>	14,103
<b>Current liabilities</b>			
Trade and other payables	22	<b>194,607</b>	151,937
Bank borrowings	23	<b>35,700</b>	45,200
Obligations under finance leases	24	<b>3,064</b>	436
Unsecured borrowings from a related company	25	<b>270,000</b>	270,000
Current income tax liabilities		<b>4,164</b>	5,121
<b>Total current liabilities</b>		<b>507,535</b>	472,694
<b>Total liabilities</b>		<b>617,874</b>	486,797
<b>Total equity and liabilities</b>		<b>1,084,791</b>	901,209
<b>Net current assets</b>		<b>184,193</b>	49,396
<b>Total assets less current liabilities</b>		<b>577,256</b>	428,515



# Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2017

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 20(a))	Statutory reserve HK\$'000 (Note 20(b))	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
<b>Balance at 1 April 2017 (audited)</b>	60,000	26,135	3,445	38,524	(14,393)	298,224	411,935	2,477	414,412
Profit/(loss) for the period	—	—	—	—	—	26,674	26,674	(170)	26,504
<b>Other comprehensive income for the period:</b>									
Exchange differences on translation of foreign operations	—	—	—	—	26,001	—	26,001	—	26,001
<b>Total comprehensive income/(expense) for the period</b>	—	—	—	—	26,001	26,674	52,675	(170)	52,505
Transfer of retained profits to statutory reserve	—	—	—	3,027	—	(3,027)	—	—	—
<b>Balance at 30 September 2017 (unaudited)</b>	60,000	26,135	3,445	41,551	11,608	321,871	464,610	2,307	466,917

For the six months ended 30 September 2016

	Attributable to owners of the Company							Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (Note 20(a))	Statutory reserve HK\$'000 (Note 20(b))	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
<b>Balance at 1 April 2016 (audited)</b>	60,000	26,135	3,445	33,720	15,895	320,172	459,367	2,387	461,754
Loss for the period	—	—	—	—	—	(2,435)	(2,435)	(1,526)	(3,961)
<b>Other comprehensive expense for the period:</b>									
Exchange differences on translation of foreign operations	—	—	—	—	(18,757)	—	(18,757)	—	(18,757)
<b>Total comprehensive expense for the period</b>	—	—	—	—	(18,757)	(2,435)	(21,192)	(1,526)	(22,718)
Transfer of retained profits to statutory reserve	—	—	—	2,875	—	(2,875)	—	—	—
Acquisition of additional interest in a subsidiary	—	—	—	—	—	(997)	(997)	997	—
<b>Balance at 30 September 2016 (unaudited)</b>	60,000	26,135	3,445	36,595	(2,862)	313,865	437,178	1,858	439,036

# Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2017

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2017</b>	2016
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
<b>Cash flows from operating activities</b>		
Net cash generated from operations	<b>53,241</b>	33,764
Income tax paid, net	<b>(8,199)</b>	(7,010)
Net cash from operating activities	<b>45,042</b>	26,754
<b>Cash flows from investing activities</b>		
Interest received	<b>97</b>	107
Proceeds from disposal of property, plant and equipment	<b>238</b>	788
Purchase of property, plant and equipment	<b>(23,422)</b>	(13,298)
Net cash used in investing activities	<b>(23,087)</b>	(12,403)
<b>Cash flows from financing activities</b>		
New bank borrowings raised	<b>11,500</b>	47,200
Unsecured borrowings raised from a related company	<b>100,000</b>	270,000
Repayment of bank borrowings	<b>(23,000)</b>	(162,991)
Repayment on obligations under finance leases	<b>(1,499)</b>	—
Receipts of government subsidies	<b>656</b>	796
Interest paid	<b>(9,448)</b>	(8,005)
Net cash from financing activities	<b>78,209</b>	147,000
<b>Net increase in cash and cash equivalents</b>	<b>100,164</b>	161,351
Cash and cash equivalents at 1 April	<b>219,008</b>	106,360
Net currency translation differences	<b>7,889</b>	(2,183)
<b>Cash and cash equivalents at 30 September</b>	<b>327,061</b>	265,528

# 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 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 address of the registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company are disclosed in the Corporate Information section to the Company’s interim report. The immediate holding company and controlling shareholder of the Company is Massive Force Limited, a company incorporated in the British Virgin Islands.

The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the manufacture and sales of precision metal stamping and lathing products.

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 of directors of the Company for issue on 23 November 2017.

This interim condensed consolidated financial information has not been audited.

## 2. Basis of preparation

The interim condensed consolidated financial information for the six months ended 30 September 2017 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 34 (“**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 2017, 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 has been prepared on the historical cost basis.

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 2017, except as described below.

In the current interim period, the Group has applied, for the first time, the following amendments (the "**new and revised HKFRSs**") issued by the HKICPA which are effective for the Group's financial year beginning 1 April 2017.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2014 – 2016 Cycle: Amendments to HKFRS 12
Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of new and revised HKFRSs in the current interim 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 this interim condensed consolidated financial information.

### 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 Group's annual financial statements for the year ended 31 March 2017 as described in those consolidated financial statements.



## Notes to the Interim Condensed Consolidated Financial Information

### 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 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 for the year ended 31 March 2017.

There have been no changes in the risk management policies of the Group since 31 March 2017.

#### (b) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The Group is exposed to liquidity risk as at 30 September 2017 as the Group had unsecured borrowings from a related company of HK\$370,000,000, of which HK\$270,000,000 contained a repayment on demand clause. Nevertheless, in the opinion of the directors of the Company, the Group will have sufficient working capital to meet its financial obligations when they fall due for the next twelve months from the end of the reporting period and the Group is expected to generate adequate cash flows to maintain its operation.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, bank borrowings and unsecured borrowings from a related company with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks and a related company choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

## Notes to the Interim Condensed Consolidated Financial Information

### 5. Financial risk management (continued)

#### (b) Liquidity risk (continued)

The table includes both interest and principal cash flows. To the extent that the interest flows of the bank borrowings are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

	On demand HK\$'000	Less than 1 year HK\$'000	1 to 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
<b>At 30 September 2017</b>					
Trade and other payables	—	194,607	—	194,607	194,607
Bank borrowings	36,394	—	—	36,394	35,700
Obligations under finance leases	—	3,468	4,589	8,057	7,427
Unsecured borrowings from a related company	280,185	5,250	103,481	388,916	370,000
	<b>316,579</b>	<b>203,325</b>	<b>108,070</b>	<b>627,974</b>	<b>607,734</b>
<b>At 31 March 2017</b>					
Trade and other payables	—	151,937	—	151,937	151,937
Bank borrowings	46,111	—	—	46,111	45,200
Obligation under a finance lease	—	453	151	604	581
Unsecured borrowings from a related company	284,175	—	—	284,175	270,000
	330,286	152,390	151	482,827	467,718

## Notes to the Interim Condensed Consolidated Financial Information

### 5. Financial risk management (continued)

#### (b) Liquidity risk (continued)

Bank borrowings and unsecured borrowings from a related company with a repayment on demand clause are included in the “on demand” time band in the above maturity analysis with the inclusion of interest repayable with 1 year or up to the date of the maturity. As at 30 September 2017, the aggregate undiscounted principal amount of bank borrowings and unsecured borrowings from a related company with a repayment on demand clause amounted to approximately HK\$305,700,000 (31 March 2017: approximately HK\$315,200,000). Taking into account the Group’s financial position, the directors of the Company believe that it is not probable that the banks or the related company will exercise their discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows of the bank borrowings and unsecured borrowings from a related company with a repayment on demand clause will amount to approximately HK\$305,700,000 (31 March 2017: approximately HK\$315,200,000) and approximately HK\$10,879,000 (31 March 2017: approximately HK\$16,355,000) respectively.

### 6. Revenue

Revenue represents sales of precision metal stamping and lathing products to external parties.

## Notes to the Interim Condensed Consolidated Financial Information

### 7. 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, computer numerical control sheet metal processing and products assembling (“**Metal stamping**”); and
- (ii) Manufacturing and sale of precision metal products involving lathing, machining and turning processes (“**Metal lathing**”).

No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Segment gross profit represents the gross profit from each segment without allocation of other (loss)/gains, net, distribution and selling expenses, general and administrative expenses, finance income and finance costs. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

Segment assets exclude interest in an associated entity, 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

### 7. Segment information (continued)

(a) The segment results are as follows:

(i) For the six months ended 30 September 2017:

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment revenue</b>			
Sales	344,929	159,348	504,277
Intersegment sales	(931)	(182)	(1,113)
Sales to external customers	343,998	159,166	503,164
Cost of sales	(232,808)	(108,214)	(341,022)
<b>Segment gross profit</b>	111,190	50,952	162,142
Unallocated expenses, net			(125,481)
Finance income			97
Finance costs			(9,448)
<b>Profit before tax</b>			27,310
Income tax expenses			(806)
<b>Profit for the period</b>			26,504
Segment depreciation	10,653	7,658	18,311
Unallocated depreciation			2,600
			20,911
Segment amortisation	219	—	219
Provision for impairment of property, plant and equipment	9,313	—	9,313
Write-down of inventories	1,966	1,065	3,031

## Notes to the Interim Condensed Consolidated Financial Information

### 7. Segment information (continued)

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

(ii) For the 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>Segment gross profit</b>			
	84,785	21,427	106,212
Unallocated expenses, net			(97,104)
Finance income			107
Finance costs			(8,005)
<b>Profit before tax</b>			
			1,210
Income tax expenses			(5,171)
<b>Loss for the period</b>			
			(3,961)
Segment depreciation	12,514	8,126	20,640
Unallocated depreciation			2,718
			23,358
Segment amortisation	705	—	705
Provision for impairment of intangible assets	2,045	—	2,045
Provision for impairment of property, plant and equipment	2,739	4,971	7,710

## Notes to the Interim Condensed Consolidated Financial Information

### 7. Segment information (continued)

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

##### (i) As at 30 September 2017:

	Metal stamping HK\$'000 (Unaudited)	Metal lathing HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
<b>Segment assets</b>	<b>437,992</b>	<b>245,562</b>	<b>683,554</b>
<i>Reconciliation</i>			
Corporate and other unallocated assets:			
Deferred income tax assets			<b>4,841</b>
Current income tax recoverable			<b>246</b>
Cash and cash equivalents			<b>327,061</b>
Other unallocated head office and corporate assets (Note)			<b>69,089</b>
<b>Total assets</b>			<b>1,084,791</b>

##### (ii) As at 31 March 2017:

	Metal stamping HK\$'000 (Audited)	Metal lathing HK\$'000 (Audited)	Total HK\$'000 (Audited)
<b>Segment assets</b>	<b>425,212</b>	<b>181,619</b>	<b>606,831</b>
<i>Reconciliation</i>			
Corporate and other unallocated assets:			
Deferred income tax assets			5,083
Current income tax recoverable			1,515
Cash and cash equivalents			219,008
Other unallocated head office and corporate assets (Note)			68,772
<b>Total assets</b>			<b>901,209</b>

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

## Notes to the Interim Condensed Consolidated Financial Information

### 7. Segment information (continued)

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

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
The PRC	<b>346,587</b>	287,212
North America	<b>102,686</b>	84,995
Europe	<b>33,053</b>	41,748
Japan	<b>10,203</b>	11,040
Singapore	<b>5,752</b>	6,588
Others	<b>4,883</b>	6,467
	<b>503,164</b>	438,050

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

	30 September	31 March
	2017 HK\$'000 (Unaudited)	2017 HK\$'000 (Audited)
The PRC	<b>326,604</b>	305,863
Hong Kong	<b>61,618</b>	68,173
	<b>388,222</b>	374,036

## Notes to the Interim Condensed Consolidated Financial Information

### 8. Other (loss)/gains, net

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Loss on disposal of property, plant and equipment	(2,945)	(178)
Exchange (loss)/gains, net	(11,409)	8,304
Loss on derivative financial instrument	—	(1,017)
Government subsidies (Note)	656	796
Others	715	436
	<b>(12,983)</b>	8,341

Note: The amounts represented the government subsidies with no fulfilled conditions or contingencies and recognised as other gains upon receipts during the six months ended 30 September 2017 and 2016.

### 9. Finance income and finance costs

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Finance income</b>		
Interest income on bank balances and deposits	97	107
<b>Finance costs</b>		
Interest expense on bank borrowings	1,123	2,055
Interest expense on unsecured borrowings from a related company	8,104	5,950
Interest expense on obligations under finance leases	221	—
	<b>9,448</b>	8,005

## Notes to the Interim Condensed Consolidated Financial Information

### 10. Profit before tax

Profit before tax has been arrived at after charging:

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Cost of inventories sold	<b>337,991</b>	331,838
Write-down of inventories (included in cost of sales)	<b>3,031</b>	—
Depreciation of property, plant and equipment	<b>20,911</b>	23,358
Provision for impairment of intangible assets	—	2,045
Provision for impairment of property, plant and equipment	<b>9,313</b>	7,710
Amortisation of leasehold land and land use rights	<b>219</b>	225
Amortisation of intangible assets	—	480
Minimum lease payment paid under operating lease rentals in respect of rented premises	<b>12,148</b>	10,699

### 11. Income tax expenses

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Current income tax		
— Hong Kong	<b>919</b>	366
— The PRC	<b>10,982</b>	9,250
— Over-provision in respect of prior years	<b>(3,388)</b>	(1,964)
	<b>8,513</b>	7,652
Deferred income tax (Note 21)	<b>(7,707)</b>	(2,481)
Total	<b>806</b>	5,171

## Notes to the Interim Condensed Consolidated Financial Information

### 11. Income tax expenses (continued)

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 2017 and 2016.

#### (a) Hong Kong profits tax

The Group is subject to Hong Kong profits tax which is provided at the rate of 16.5% on the estimated assessable profits for the six months ended 30 September 2017 and 2016.

#### (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 statutory PRC EIT tax rate for the six months ended 30 September 2017 is provided at the rate of 25% (2016: 25%).

Certain PRC subsidiaries were recognised by the PRC government as "High and New Technology Enterprise" and were eligible to a preferential tax rate of 15% from 1 January 2015 to 31 December 2017 and from 1 January 2016 to 31 December 2018 respectively.

#### (c) PRC dividend withholding tax

According to the Law of the PRC EIT, starting from 1 January 2008, a PRC withholding income tax of 10% will be levied on the immediate holding companies outside the PRC when the PRC subsidiaries declare dividend out of profits earned after 1 January 2008. During the six months ended 30 September 2017, a lower 5% (2016: 10%) PRC withholding income tax rate was adopted since (i) the immediate holding companies of the PRC subsidiaries are incorporated in Hong Kong and fulfil certain requirements under the tax treaty arrangements between the PRC and Hong Kong; and (ii) successful application has been made during the six months ended 30 September 2017.

## Notes to the Interim Condensed Consolidated Financial Information

### 12. Earnings/(loss) per share

#### Basic and diluted earnings/(loss) per share

	Six months ended 30 September	
	2017 (Unaudited)	2016 (Unaudited)
Profit/(loss) attributable to owners of the Company (HK\$'000)	<b>26,674</b>	(2,435)
Weighted average number of shares in issue ('000)	<b>600,000</b>	600,000
Basic and diluted earnings/(loss) per share (HK cents per share)	<b>4.45</b>	(0.41)

Basic earnings/(loss) per share for the six months ended 30 September 2017 and 2016 is calculated by dividing the profit/(loss) attributable to owners of the Company by 600,000,000 ordinary shares in issue during the period.

Diluted earnings/(loss) per share is same as basic earnings/(loss) per share as the Company had no potentially dilutive ordinary share in issue during the six months ended 30 September 2017 and 2016.

### 13. Dividend

No dividend was paid, declared or proposed during the six months ended 30 September 2017, nor has any dividend been proposed since the end of the reporting period (2016: nil).



## Notes to the Interim Condensed Consolidated Financial Information

### 14. Property, plant and equipment

	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
At 1 April	<b>351,803</b>	396,324
Additions	<b>31,530</b>	13,298
Disposals	<b>(3,183)</b>	(966)
Depreciation	<b>(20,911)</b>	(23,358)
Provision for impairment (Note (a))	<b>(9,313)</b>	(7,710)
Exchange differences	<b>15,109</b>	(10,067)
At 30 September	<b>365,035</b>	367,521

Notes:

- (a) During the six months ended 30 September 2017, as a result of the continuously declining performance of manufacture and sale of certain metal stamping product, the directors of the Company conducted a review of the related property, plant and equipment and determined that those assets should be impaired. Accordingly, a provision for impairment of approximately HK\$9,313,000 has been determined on the basis of their value-in-use.

During the six months ended 30 September 2016, as a result of the cessation of production on kiosk products and surgery products and the decline in performance of certain metal lathing products, the directors of the Company conducted a review of the related property, plant and equipment and determined that those assets should be impaired. Accordingly, a provision for impairment of approximately HK\$7,710,000 have been determined on the basis of their value in use.

- (b) At 30 September 2017, the carrying values of motor vehicle and plant and equipment included amounts of approximately HK\$694,000 and HK\$7,970,000 (31 March 2017: HK\$785,000 and nil) in respect of asset held under finance leases respectively.

## Notes to the Interim Condensed Consolidated Financial Information

### 15. Leasehold land and land use rights

	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
At 1 April	22,233	24,067
Amortisation	(219)	(225)
Exchange differences	1,173	(798)
At 30 September	23,187	23,044

### 16. Intangible assets

	Contractual customer relationship HK\$'000 (Unaudited)	Design and prototype HK\$'000 (Unaudited)	Total HK\$'000 (Unaudited)
At 1 April 2016	—	2,525	2,525
Amortisation	—	(480)	(480)
Provision for impairment (Note)	—	(2,045)	(2,045)
At 30 September 2016, 1 April 2017 and 30 September 2017	—	—	—

Note: 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, a provision for impairment of approximately HK\$2,045,000 (2017: nil) has been recognised. The recoverable amounts of these items were determined based on their value-in-use.

## Notes to the Interim Condensed Consolidated Financial Information

### 17. Inventories

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Raw materials	<b>24,887</b>	21,909
Work in progress	<b>25,442</b>	24,753
Finished goods	<b>41,038</b>	34,145
	<b>91,367</b>	80,807

### 18. Trade and other receivables

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Trade receivables (Note)	<b>239,560</b>	184,961
Prepayments, deposits and other receivables	<b>33,794</b>	36,099
Amount due from an associated entity	<b>432</b>	432
Amounts due from non-controlling shareholders	<b>4,062</b>	4,062
	<b>277,848</b>	225,554
Less: Provision for impairment	<b>(4,794)</b>	(4,794)
	<b>273,054</b>	220,760

## Notes to the Interim Condensed Consolidated Financial Information

### 18. Trade and other receivables (continued)

Note: The Group normally grants credit periods of 30 to 90 days (31 March 2017: 30 to 90 days). The ageing analysis of trade receivables based on invoice dates, which approximates the respective revenue recognition dates, is as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Up to 3 months	<b>218,422</b>	178,583
3 to 6 months	<b>17,544</b>	5,650
6 months to 1 year	<b>3,513</b>	693
1 to 2 years	<b>81</b>	35
	<b>239,560</b>	184,961

As at 30 September 2017, the Group's trade receivables of approximately HK\$56,313,000 (31 March 2017: HK\$25,509,000), were past due but not impaired. These trade receivables relate to a number of customers for whom there is no recent history of default.

The ageing analysis of trade receivables that were past due but not impaired is as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
<b>Amounts past due</b>		
Up to 3 months	<b>43,847</b>	23,576
3 to 6 months	<b>9,193</b>	1,654
6 months to 1 year	<b>3,273</b>	279
	<b>56,313</b>	25,509

## Notes to the Interim Condensed Consolidated Financial Information

### 19. Share capital and share premium

Ordinary share of HK\$0.1 each

	<b>Number of shares</b>	<b>Share capital</b>	<b>Share premium</b>	<b>Total</b>
		HK\$'000	HK\$'000	HK\$'000
<b>Authorised</b>				
At 30 September 2017 and 31 March 2017	4,500,000,000	450,000		
<b>Issued and fully paid</b>				
At 30 September 2017 and 31 March 2017	600,000,000	60,000	26,135	86,135

## Notes to the Interim Condensed Consolidated Financial Information

### 20. Reserves

	Capital reserve HK\$'000 (Note (a))	Statutory reserve HK\$'000 (Note (b))	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 April 2017 (Audited)</b>	<b>3,445</b>	<b>38,524</b>	<b>(14,393)</b>	<b>298,224</b>	<b>325,800</b>
Profit for the period	—	—	—	26,674	26,674
Exchange differences on translation of foreign operations	—	—	26,001	—	26,001
Transfer of retained profits to statutory reserve	—	3,027	—	(3,027)	—
<b>At 30 September 2017 (Unaudited)</b>	<b>3,445</b>	<b>41,551</b>	<b>11,608</b>	<b>321,871</b>	<b>378,475</b>
	Capital reserve HK\$'000 (Note (a))	Statutory reserve HK\$'000 (Note (b))	Exchange reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>At 1 April 2016 (Audited)</b>	<b>3,445</b>	<b>33,720</b>	<b>15,895</b>	<b>320,172</b>	<b>373,232</b>
Loss for the period	—	—	—	(2,435)	(2,435)
Exchange differences on translation of foreign operations	—	—	(18,757)	—	(18,757)
Transfer of retained profits to statutory reserve	—	2,875	—	(2,875)	—
Acquisition of additional interest in a subsidiary	—	—	—	(997)	(997)
<b>At 30 September 2016 (Unaudited)</b>	<b>3,445</b>	<b>36,595</b>	<b>(2,862)</b>	<b>313,865</b>	<b>351,043</b>

## Notes to the Interim Condensed Consolidated Financial Information

### 20. Reserves (continued)

Notes:

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

On 13 September 2012, the Company acquired the entire equity interest in KFM-BVI by (a) issuing and allotting 999,999 new shares of the Company to Kingdom International Group Limited (“**KIG**”), credited as fully paid; and (b) crediting as fully paid at par the one nil-paid share which was then registered in the name of KIG. As 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 shareholders of the PRC subsidiaries of the Company.

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

### 21. Deferred income tax

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

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
Deferred income tax assets	4,841	5,052
Deferred income tax liabilities	(5,976)	(10,219)
	<b>(1,135)</b>	(5,167)

The movements in deferred income tax assets and liabilities during the six months ended 30 September 2017 and 2016, without taking into consideration the offsetting of balances within the same tax jurisdictions, are as follows:

Deferred income tax assets:

	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
At 1 April	8,968	8,658
(Charged)/credited to profit or loss (Note 11)	(275)	698
Exchange differences	33	—
At 30 September	<b>8,726</b>	9,356



## Notes to the Interim Condensed Consolidated Financial Information

### 21. Deferred income tax (continued)

Deferred income tax liabilities:

	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
At 1 April	<b>(17,843)</b>	(16,306)
Credited to profit or loss (Note 11)	<b>7,982</b>	1,783
At 30 September	<b>(9,861)</b>	(14,523)
	<b>(1,135)</b>	(5,167)

As at 30 September 2017, deferred tax assets of approximately HK\$3,885,000 (2016: HK\$4,304,000) have been presented as an offset to deferred tax liabilities of the same taxable entity in the interim condensed consolidated financial information.

### 22. Trade and other payables

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Trade payables (Note)		
— third parties	<b>125,620</b>	98,096
— related companies	<b>312</b>	386
	<b>125,932</b>	98,482
Accruals, deposits and other payables	<b>68,675</b>	53,455
	<b>194,607</b>	151,937

## Notes to the Interim Condensed Consolidated Financial Information

### 22. Trade and other payables (continued)

Note: The ageing analysis of trade payables (including trade payables to related companies) based on invoice dates at the end of the reporting period is as follows:

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Up to 3 months	115,722	95,992
3 to 6 months	9,698	2,035
6 months to 1 year	223	188
1 to 2 years	289	267
	<b>125,932</b>	98,482

The average credit period on purchase of goods is from 30 to 90 days (31 March 2017: 30 to 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

### 23. Bank borrowings

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Short-term bank borrowings	<b>35,700</b>	45,200

The interest-bearing bank borrowings as at 30 September and 31 March 2017 were carried at amortised cost, repayable within one year based on scheduled repayment dates and shown under current liabilities.

## Notes to the Interim Condensed Consolidated Financial Information

### 24. Obligations under finance leases

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Analysed for reporting purpose as:		
Current liabilities	<b>3,064</b>	436
Non-current liabilities	<b>4,363</b>	145
	<b>7,427</b>	581

The Group leases its motor vehicle and plant and equipment for its metal lathing business.

## Notes to the Interim Condensed Consolidated Financial Information

### 24. Obligations under finance leases (continued)

At the end of the reporting period, the total future minimum lease payments under finance leases and their present values were as follows:

	Minimum lease payments		Present value of minimum lease payments	
	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
<b>Amounts payable under finance leases:</b>				
Within one year	<b>3,468</b>	453	<b>3,064</b>	436
After one year but within two years	<b>3,090</b>	151	<b>2,892</b>	145
After two years but within five years	<b>1,499</b>	—	<b>1,471</b>	—
	<b>8,057</b>	604	<b>7,427</b>	581
Less: future finance charges	<b>(630)</b>	(23)	<b>N/A</b>	N/A
Present value of lease obligations	<b>7,427</b>	581	<b>7,427</b>	581
Less: amounts due for settlement within one year shown under current liabilities			<b>(3,064)</b>	(436)
Amounts due for settlement after one year			<b>4,363</b>	145

Obligations under finance leases at 30 September 2017 borne interest at fixed interest rates ranging from 3.5% to 5.03% per annum (31 March 2017: 5.03% per annum).

## Notes to the Interim Condensed Consolidated Financial Information

### 25. Unsecured borrowings from a related company

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Unsecured and due for repayment within one year which contains a repayment on demand clause	<b>270,000</b>	—
Unsecured and due for repayment after one year but within two years which contains a repayment on demand clause	—	270,000
Unsecured and due for repayment after one year but within two years	<b>100,000</b>	—
	<b>370,000</b>	270,000
Less: Amount shown under current liabilities	<b>(270,000)</b>	(270,000)
Amount shown under non-current liabilities	<b>100,000</b>	—

During the six months ended 30 September 2017, unsecured borrowings of HK\$370,000,000 (31 March 2017: HK\$270,000,000) has been advanced from KIG, a company in which two directors of the Company have beneficial interest in, of which HK\$270,000,000 (31 March 2017: nil) and HK\$100,000,000 (31 March 2017: HK\$270,000,000) are due for repayment within one year and after one year but within two years respectively, as at 30 September 2017. The unsecured borrowings of HK\$270,000,000 (31 March 2017: HK\$270,000,000) contain a repayment on demand clause and are classified as current liabilities.

The effective interest rate of the unsecured borrowings from a related company is 5.25% per annum (31 March 2017: 5.25% per annum).

On 26 May 2017, certain portion of the unsecured borrowings from a related company of HK\$100,000,000 was renewed with the removal of the repayment on demand clause and extended the maturity date from 26 May 2018 to 26 May 2019. Accordingly, it is classified as non-current liabilities.

## Notes to the Interim Condensed Consolidated Financial Information

### 26. Commitments

#### (a) Capital commitments

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Contracted but not provided for:		
— Plant and machinery	<b>6,539</b>	28,635
— Capital investment	<b>9,533</b>	9,533
	<b>16,072</b>	38,168

#### (b) Operating lease commitments

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

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Within 1 year	<b>27,549</b>	25,812
Later than 1 year and not later than 5 years	<b>87,015</b>	35,501
Later than 5 years	<b>45,157</b>	5,067
	<b>159,721</b>	66,380

The leases typically run for an initial period of two to ten years (31 March 2017: two 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

### 27. Significant related party transactions

#### (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
Innotech Advance Products Limited (“ <b>Innotech</b> ”)	A subsidiary of Gold Joy (HK) Industrial Limited which is owned by a connected party of Mr. Sun
Dongguan Tech-in Technical Electrical & 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 (“ <b>固泰科</b> ”)	An associate entity in which Mr. Sun is a director

## Notes to the Interim Condensed Consolidated Financial Information

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

#### (b) Material related parties transactions

During the six months ended 30 September 2017 and 2016, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

	Six months ended 30 September	
	2017 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)
<b>Sales of products to related party:</b>		
Innotech	—	2
<b>Purchase of products from related parties:</b>		
Innotech	125	178
Dongguan Tech-in	880	1,158
	<b>1,005</b>	1,336
<b>Finance costs — interest expense on unsecured borrowings from a related company</b>		
KIG	<b>8,104</b>	5,950



## Notes to the Interim Condensed Consolidated Financial Information

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

#### (c) Balances with related companies

	30 September 2017 HK\$'000 (Unaudited)	31 March 2017 HK\$'000 (Audited)
Amount due from an associated entity 固泰科	432	432
Amount due from non-controlling shareholders	4,062	4,062
	<b>4,494</b>	4,494
Less: Provision for impairment	<b>(4,494)</b>	(4,494)
	—	—
<b>Trade payables to related companies</b>		
Innotech	<b>(77)</b>	(50)
Dongguan Tech-in	<b>(235)</b>	(336)
	<b>(312)</b>	(386)
<b>Unsecured borrowings from a related company</b>		
KIG	<b>(370,000)</b>	(270,000)

#### (d) Key management compensation

Key management personnel includes directors and senior managements of the Company. The compensation paid or payable to key management personnel amounted to approximately HK\$3,321,000 for the six months ended 30 September 2017 (2016: approximately HK\$3,791,000).

### 28. NON-CASH TRANSACTIONS

During the six months ended 30 September 2017, the Group entered into finance lease arrangements in respect of plant and equipment with capital value at the inception of the lease of approximately HK\$8,108,000.