KFM KINGDOM HOLDINGS LIMITED

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

Interim Report 2018

OUR GOALS ARE FAR AND HIGH
WE CULTIVATE FOR TOMORROW

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Contents

This interim report is printed on environmental paper

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
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3 Hoi Shing Road, Tsuen Wan
New Territories, Hong Kong

Principal place of business in the PRC
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Registered office
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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

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

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Cayman Islands

Hong Kong branch share registrar and transfer office

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Website

www.kingdom.com.hk

Stock code

3816

The board (the "**Board**") of directors (the "**Directors**" and each a "**Director**") of KFM Kingdom Holdings Limited (the "**Company**") is pleased to announce the interim results of the Company and its subsidiaries (together, the "**Group**") for the six months ended 30 September 2018 (the "**Reporting Period**") prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), together with the comparative figures for the corresponding period of 2017.

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 26 November 2018.

Business Review

The trade disputes between the United States of America (the "**US**") and China overshadowed the business environment of the Group during the Reporting Period and the global economy is still full of uncertainties. The market demand in the manufacturing industries has therefore inevitably been affected. Further to the global trade difficulties, the foreign exchange of Renminbi ("**RMB**") was even more volatile than before. Meanwhile, the Group was still under the pressure from increasing material cost, labour cost and operating cost in the PRC.

As such, the Group exerted efforts in broadening customer base and made a revenue growth during the Reporting Period. The Group recorded revenue amounted to approximately HK$521.4 million for the Reporting Period, with an increase by approximately HK$18.2 million or 3.6% as compared to a revenue amounted to approximately HK$503.2 million during the corresponding period last year.

During the Reporting Period, revenue generated from the Group's metal stamping segment was approximately HK$355.5 million with an increase by approximately HK$11.5 million or 3.3% as compared to the same of the corresponding period last year. Although the metal stamping segment continued to be affected by the weakening demand from its customers engaged in office automation industry, finance equipment industry and medical and test equipment industry, the Group sought to increase revenue derived from customers engaged in network and data storage industry.

Regarding the metal lathing segment, the Group recorded revenue of approximately HK$165.9 million during the Reporting Period. As compared to the revenue of approximately HK$159.2 million in the corresponding period last year, revenue derived from the metal lathing segment showed an increase by approximately HK$6.7 million or 4.2%. The increase was mainly attributable to incremental revenue derived from newly developed customers in order to compensate the drop in demand from the customers who engaged in the consumer electronics industry.

Due to the changes in product portfolio and higher production cost, the overall gross profit margin of the Group during the Reporting Period decreased from approximately 32.2% in the corresponding period last year to approximately 26.4% in the Reporting Period. As such, the total gross profit of the Group decreased by approximately HK$24.3 million from approximately HK$162.1 million during the corresponding period last year to approximately HK$137.8 million during the six months ended 30 September 2018.

During the Reporting Period, the volatility in RMB exchange rates resulted in a net exchange gain of approximately HK$25.7 million in contrast with a net exchange loss of approximately HK$11.4 million recorded in the corresponding period last year. As a result of the above, the Group recorded a net profit of approximately HK$32.2 million during the Reporting Period, as compared with a net profit of approximately HK$26.5 million during the corresponding period last year.

Financial Review

Revenue

For the six months ended 30 September 2018, revenue of the Group was approximately HK$521.4 million, representing an increase of approximately HK$18.2 million or 3.6% from approximately HK$503.2 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			
	2018		2017	
	HK$'000	**%**	HK$'000	%
	(Unaudited)		(Unaudited)	
Metal stamping	**355,452**	**68.2**	343,998	68.4
Metal lathing	**165,920**	**31.8**	159,166	31.6
	521,372	**100.0**	503,164	100.0

Revenue derived from the metal stamping segment increased by approximately HK$11.5 million or 3.3% from approximately HK$344.0 million for the six months ended 30 September 2017 to approximately HK$355.5 million for the Reporting Period. During the Reporting Period, the Group experienced an increase in number of orders from customers who engaged in the network and data storage industry, despite the decrease in demand from the customers who engaged in other industries such as office automation, finance equipment, medical and test equipment.

Revenue derived from the metal lathing segment increased by approximately HK$6.7 million or 4.2% from approximately HK$159.2 million for the six months ended 30 September 2017 to approximately HK$165.9 million for the Reporting Period. The increase was mainly attributed by an increase in revenue arising from the Group's effort in developing new customers, while offsetting the decrease in number of orders placed by the customers who engaged in the consumer electronics industry.

Geographically, the PRC, North America, Europe and Singapore continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 67.0%, 17.7%, 6.8% and 5.0% of the Group's revenue, respectively, for the Reporting Period. Details of a breakdown of revenue generated by different geographical locations are set out in Note 8(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 11 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			
	2018		2017	
	HK$'000 (Unaudited)	**%**	HK$'000 (Unaudited)	%
Direct materials	**216,935**	**56.6**	181,332	53.2
Direct labour	**79,048**	**20.6**	75,931	22.3
Processing fee	**53,358**	**13.9**	51,530	15.1
Other direct overheads	**34,228**	**8.9**	32,229	9.4
	383,569	**100.0**	341,022	100.0

During the Reporting Period, cost of sales of the Group increased by approximately HK$42.6 million or 12.5% as compared to the same of the corresponding period last year. The increase was primarily due to the increase in the Group's total revenue, higher production cost and the change in product mix during the Reporting Period. Due to the increase mainly from, among others, the material and labour costs, the percentage of cost of sales to the total revenue during the Reporting Period was approximately 73.6%, representing an increase of approximately 5.8%, as compared to approximately 67.8% 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 26.4%, with a decrease by approximately 5.8% as compared to approximately 32.2% in the corresponding period last year. The drop in gross profit margin was mainly due to the increase in raw material cost, labour cost and other overheads.

In respect of the Group's metal stamping segment, gross profit margin dropped from approximately 32.3% in the corresponding period last year to approximately 27.7% during the Reporting Period. Such decrease was mainly the result of surging production cost and change in product mix during the Reporting Period.

In respect of the Group's metal lathing segment, gross profit margin dropped from approximately 32.0% for the six months ended 30 September 2017 to approximately 23.7% during the Reporting Period. Such decrease was mainly due to the higher material costs and the reduction in revenue derived from the sale of more profitable products to customers who engaged in the consumer electronics industry during the Reporting Period.

For details of the gross profit of the Group's two segments, please refer to Note 8(a) of this interim condensed consolidated financial information.

Other gains/(losses), net

During the Reporting Period, the Group recorded other gains, net which amounted to approximately HK$27.2 million. In the corresponding period last year, the Group recorded other losses, net of approximately HK$13.0 million. Upon the depreciation of RMB against United States dollars during the Reporting Period, the Group recorded net exchange gain of approximately HK$25.7 million, while during the same period last year the Group recorded net exchange loss of approximately HK$11.4 million. In addition, the Group recorded loss from disposal of property, plant and equipment of approximately HK$0.4 million during the Reporting Period, while the Group recorded loss from disposal of property, plant and equipment amounted to approximately HK$2.9 million for the six months ended 30 September 2017.

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$11.4 million and HK$9.9 million for the six months ended 30 September 2018 and 2017, respectively. The 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 comprise 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 decreased from approximately HK$102.6 million for the six months ended 30 September 2017 to approximately HK$99.8 million for the Reporting Period. The decrease was mainly due to a provision for impairment of fixed assets of approximately HK$9.3 million recorded during the six months ended 30 September 2017, whereas no such provision was recorded during the Reporting Period.

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$10.8 million, as compared to approximately HK$9.4 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$10.9 million for the Reporting Period, while the Group's income tax expenses for the six months ended 30 September 2017 amounted to approximately HK$0.8 million. During the same period last year, the Group made a successful application under the tax treaty arrangement between the PRC and Hong Kong, and adopted a lower 5% PRC withholding income tax rate as compared the 10% in the previous years. The Group therefore recorded a reversal of deferred tax provision and took into consideration of the tax effects. As such the effective tax rate was approximately 3.0% for the six months ended 30 September 2017. Excluding such factors, the adjusted effective tax rate for the same period last year would have been approximately 20.0% while the same for the Reporting Period would have been approximately 17.7%.

Profit attributable to owners of the Company

For the Reporting Period, profit attributable to owners of the Company amounted to approximately HK$31.6 million, while there was profit attributable to owners of the Company amounted to approximately HK$26.7 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 2018, the Group's total current assets amounted to approximately HK$931.4 million and HK$686.4 million respectively, which represented approximately 82.7% and 62.6% of the Group's total assets as at 30 September and 31 March 2018, respectively.

Capital structure

The Group's capital structure is summarised as follows:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Secured bank borrowings*	**33,120**	24,800
Unsecured borrowings from a related company	**370,000**	370,000
Total debts	**403,120**	394,800
Shareholders' equity	**488,487**	501,730
Gearing ratio		
— Total debts to shareholders' equity ratio#	**82.5%**	78.7%

* *The secured bank borrowings were classified as liabilities directly associated with the assets held for sale.*

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

For the Reporting Period, 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 secured bank borrowings and unsecured borrowings from a related company as at 30 September 2018 are set out in Notes 24 and 26, respectively, in this interim condensed consolidated financial information.

As at 30 September 2018, the Group's secured bank borrowings were denominated in RMB, 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 holder of the Company (comprising issued share capital and reserves), secured 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.

Capital expenditure

During the Reporting Period, the Group acquired property, plant and equipment of approximately HK$13.4 million, as compared to the six months ended 30 September 2017 of approximately HK$31.5 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 2018, the Group's secured bank borrowings amounted to approximately HK$33,120,000 (31 March 2018: nil), which have been reclassified to liabilities directly associated with assets classified as held for sales, were secured by the leasehold land and buildings classified as held for sales with a carrying value of approximately HK$133,005,000 (31 March 2018: nil). The details are set out in the Notes 19 and 24 of this interim condensed consolidated financial information.

Foreign currency exposure

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates mainly in Hong Kong and the PRC. The Group's Hong Kong entities are exposed to foreign exchange risk arising from RMB, 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 2018 are set out in Notes 27(a) and 27(b), respectively, in this interim condensed consolidated financial information.

Contingent liabilities

As at 30 September 2018, the Group had no material contingent liabilities.

Outlook and Strategy

Looking forward, the China-US trade disputes will continue for a period of time and the world political and economic environment, with factors such as the foreign exchange volatility and interest rate hike, will continue to pose more risks and uncertainties. The deleveraging process in China will put more pressure on the economy. In addition the Group is facing the surging operating costs, in particular the increasing labour cost and material cost in the PRC manufacturing industry. It is also expected that the customers of the Group will continue to relocate their businesses to lower cost regions such as the Southeast Asia.

Following the Disposals (as defined below) as disclosed in the section headed "subsequent event" below in this interim report, the Group will be in a more flexible position to cope with the emerging uncertainties remained in the global political and economic environment.

In the coming year, the Group will put more efforts in broadening customer base and look for more new customers even though this initiative will be more difficult under the current circumstances due to the escalation of the China-US trade disputes. Meanwhile, the Group will strive to maintain good relationships with customers and devote more effort in enhancing the overall operational efficiency. The controlling shareholder of the Company is still in the process of conducting a detailed review of the current businesses and searching for potential opportunities to 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 2018, the Group had a total number of 2,144 full-time employees (as at 30 September 2017: 2,224). 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.

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.

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 2018, 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 2018, 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 2018.

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 2018.

Interim Dividend

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2018.

Subsequent Event

Reference is made to the announcements of the Company dated 7 September 2018 and 1 November 2018 as well as the circular of the Company ("**Circular**") dated 19 October 2018. Capitalised terms used herein the section below shall have the same meanings as those defined in the Circular, unless the context requires otherwise. On 7 September 2018, a subsidiary of the Group, KPP, entered into an agreement with KIG, pursuant to which KIG acquired and KPP sold the entire issued share capital of the Target Company, which indirect wholly-owned the Suzhou Factory, at HK$108,500,000. In addition, another then subsidiary of the Group, KFM, entered into agreements with a subsidiary of KIG namely GECI, pursuant to which GECI acquired and KFM sold the Hong Kong Properties, being one office premises and two car parking spaces in Hong Kong, at the aggregate consideration of HK$61,500,000. Completion of the transactions contemplated under the Disposal Agreements took place on 1 November 2018. The consideration of the Disposals was paid and satisfied by offsetting in full an indebtedness of the same amount owing by the Group to the KIG Group.

The Group and the KIG Group also entered into Leasing Agreements, pursuant to which the Company's subsidiaries namely, KPP(SZ) and KFM, shall respectively lease the Suzhou Factory and Hong Kong Properties from the KIG Group for a term of three years commencing from the completion date of the Disposal Agreements. Upon completion of each of the transactions contemplated under the Disposal Agreements, the transactions contemplated under the Leasing Agreements also constitute continuing connected transactions for the Company. The annual cap were set at HK$21,000,000, HK$21,000,000 and HK$21,000,000 with respect to the transactions contemplated under the Leasing Agreements for the three years ending 31 March 2019, 2020 and 2021 respectively.

Upon completion of the Company Disposal Agreement, the Target Companies have ceased to be subsidiaries of the Company and their financial results, assets and liabilities will no longer be included in the consolidated financial statements of the Group. Upon completion of the Properties Disposal Agreements, the Hong Kong Properties have ceased to be held by the Group. WFOE, an indirect wholly-owned subsidiary of the Target Company, was indebted to KPP(SZ), an indirect wholly-owned subsidiary of the Company, the Existing Loan in aggregated amounts of approximately RMB8.6 million. It was one of the undertakings by KIG under the Company Disposal Agreement that KIG shall procure WFOE to settle in full the Existing Loan within 180 days from completion of the transactions contemplated under the Company Disposal Agreement.

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 2018 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

Save as disclosed in the section headed "subsequent event" in this interim report, during the six months ended 30 September 2018, the Group did not conduct any other disposals or acquisitions for its subsidiaries and 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 2018.

By order of the Board
Zhang Haifeng
Chairman

Hong Kong, 26 November 2018

信永中和
ShineWing

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 22 to 66, which comprise the interim condensed consolidated statement of financial position as at 30 September 2018 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.

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
26 November 2018

For the six months ended 30 September 2018

		Six months ended 30 September	
	Notes	**2018 HK$'000 (Unaudited)**	2017 HK$'000 (Unaudited)
Revenue	7	**521,372**	503,164
Cost of sales		**(383,569)**	(341,022)
Gross profit		**137,803**	162,142
Other gains/(losses), net	9	**27,150**	(12,983)
Distribution and selling expenses		**(11,449)**	(9,904)
General and administrative expenses		**(99,772)**	(102,594)
Finance income	10	**119**	97
Finance costs	10	**(10,825)**	(9,448)
Profit before tax	11	**43,026**	27,310
Income tax expenses	12	**(10,871)**	(806)
Profit for the period		**32,155**	26,504
Other comprehensive (expense)/income for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(45,398)**	26,001
Total comprehensive (expense)/income for the period		**(13,243)**	52,505
Profit/(loss) for the period attributable to:			
— Owners of the Company		**31,578**	26,674
— Non-controlling interests		**577**	(170)
		32,155	26,504
Total comprehensive (expense)/income attributable to:			
— Owners of the Company		**(13,820)**	52,675
— Non-controlling interests		**577**	(170)
		(13,243)	52,505
Earnings per share	13		
— Basic and diluted (HK cents)		**5.26**	4.45

At 30 September 2018

	Notes	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	15	**192,414**	382,247
Leasehold land and land use rights	16	**—**	23,925
Interest in an associated entity		**—**	—
Deferred income tax assets	22	**2,158**	4,503
Total non-current assets		**194,572**	410,675
Current assets			
Inventories	17	**101,717**	103,161
Trade and other receivables	18	**288,720**	235,242
Current income tax recoverable		**1,926**	1,926
Cash and cash equivalents		**352,167**	346,039
		744,530	686,368
Assets classified as held for sale	19	**186,891**	—
Total current assets		**931,421**	686,368
Total assets		**1,125,993**	1,097,043
EQUITY			
Capital and reserves			
Share capital	20	**60,000**	60,000
Share premium	20	**26,135**	26,135
Reserves	21	**399,158**	412,978
Capital and reserves attributable to owners of the Company		**485,293**	499,113
Non-controlling interests		**3,194**	2,617
Total equity		**488,487**	501,730

At 30 September 2018

	Notes	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Obligations under finance leases	25	**8,797**	3,112
Unsecured borrowing from a related company	26	**—**	100,000
Deferred income tax liabilities	22	**7,837**	4,774
Total non-current liabilities		**16,634**	107,886
Current liabilities			
Trade and other payables	23	**202,097**	188,041
Bank borrowings	24	**—**	24,800
Obligations under finance leases	25	**6,976**	3,059
Unsecured borrowings from a related company	26	**370,000**	270,000
Current income tax liabilities		**5,307**	1,527
		584,380	487,427
Liabilities directly associated with the assets classified as held for sale	19	**36,492**	—
Total current liabilities		**620,872**	487,427
Total liabilities		**637,506**	595,313
Total equity and liabilities		**1,125,993**	1,097,043
Net current assets		**310,549**	198,941
Total assets less current liabilities		**505,121**	609,616

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2018

	Attributable to owners of the Company								
	Share capital HK$'000	**Share premium HK$'000**	**Capital reserve HK$'000**	**Statutory reserve HK$'000**	**Exchange reserve HK$'000**	**Retained profits HK$'000**	**Total HK$'000**	**Non-controlling interests HK$'000**	**Total equity HK$'000**
Balance at 1 April 2018 (audited)	**60,000**	**26,135**	**3,445**	**46,321**	**37,721**	**325,491**	**499,113**	**2,617**	**501,730**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**31,578**	**31,578**	**577**	**32,155**
Other comprehensive expense for the period:									
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**(45,398)**	**—**	**(45,398)**	**—**	**(45,398)**
Total comprehensive (expense)/income for the period	**—**	**—**	**—**	**—**	**(45,398)**	**31,578**	**(13,820)**	**577**	**(13,243)**
Transfer of retained profits to statutory reserve	**—**	**—**	**—**	**4,539**	**—**	**(4,539)**	**—**	**—**	**—**
Balance at 30 September 2018 (unaudited)	**60,000**	**26,135**	**3,445**	**50,860**	**(7,677)**	**352,530**	**485,293**	**3,194**	**488,487**

For the six months ended 30 September 2017

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 April 2017 (audited)	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
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	—	—	—	—	26,001	—	26,001	—	26,001
Total comprehensive income/(expense) for the period	—	—	—	—	26,001	26,674	52,675	(170)	52,505
Transfer of retained profits to statutory reserve	—	—	—	3,027	—	(3,027)	—	—	—
Balance at 30 September 2017 (unaudited)	60,000	26,135	3,445	41,551	11,608	321,871	464,610	2,307	466,917

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2018

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Net cash generated from operations	**11,656**	53,241
Income tax paid, net	**(3,521)**	(8,199)
Net cash from operating activities	**8,135**	45,042
Cash flows from investing activities		
Interest received	**119**	97
Proceeds from disposal of property, plant and equipment	**73**	238
Purchase of property, plant and equipment	**(1,979)**	(23,422)
Net cash used in investing activities	**(1,787)**	(23,087)
Cash flows from financing activities		
New bank borrowings raised	**36,000**	11,500
Proceeds from unsecured borrowings from a related company	**—**	100,000
Repayment of bank borrowings	**(25,440)**	(23,000)
Repayment on obligations under finance leases	**(1,393)**	(1,499)
Receipts of government subsidies	**429**	656
Interest paid	**(1,112)**	(9,448)
Net cash from financing activities	**8,484**	78,209
Net increase in cash and cash equivalents	**14,832**	100,164
Cash and cash equivalents at 1 April	**346,039**	219,008
Net currency translation differences	**(6,232)**	7,889
Cash and cash equivalents at 30 September	**354,639**	327,061

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 its 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 ("**MFL**"), a company incorporated in the British Virgins Islands (the "**BVI**").

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the manufacturing and sales of precision metal stamping and metal 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 directors of the Company for issue on 26 November 2018.

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 2018 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 2018, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the HKICPA.

3. Principal accounting policies

The interim condensed consolidated financial information have 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 2018, except as described below.

Non-current assets held for sale

Non-current assets and disposal group are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset or disposal group must be available for immediate sale in its present condition subject to terms that are usual and customary for sales of such asset and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal group classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning 1 April 2018.

3. Principal accounting policies (continued)

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and related Amendments
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 *Financial Instruments* with HKFRS 4 *Insurance Contracts*
Amendments to HKAS 28	As part of Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

The application of these new and revised HKFRSs in the current interim period has had no material effects on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial information. The change in accounting policies of HKFRS 9 and 15 are set out in note 4 below.

HKFRS 9 *Financial instruments*

HKFRS 9 replaced HKAS 39 *Financial Instruments: Recognition and Measurement*, and introduces new requirements for the 1) classification and measurement of financial assets and financial liabilities; 2) impairment of financial assets; and 3) general hedge accounting.

(a) Classification and measurements

At the date of initial application of HKFRS 9, the Group's management has reviewed and assessed all financial assets held by the Group on the basis of the Group's business model for managing these financial assets and their contractual cash flow characteristics, and has classified its financial assets and financial liabilities into the appropriate categories of HKFRS 9, as explained below:

3. Principal accounting policies (continued)

HKFRS 9 *Financial instruments* (continued)

(a) Classification and measurements (continued)

Trade and other receivables previously classified as loan and receivables carried at amortised cost:

They are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, these financial assets continue to be subsequently measured at amortised cost upon application of HKFRS 9.

All other financial assets and financial liabilities continue to be measured on the same bases as are previously measured under HKAS 39.

(b) Impairment of financial assets

The Group has the following type of financial instruments that are subject to the new impairment requirements under HKFRS 9.

Trade and other receivables at amortised cost:

The Group applied the simplified approach to provide for expected credit losses ("**ECL**") under HKFRS 9 and recognised lifetime expected losses for all trade and other receivables. The trade and other receivables are grouped based on shared credit risk characteristics for measuring ECL.

Financial assets with low credit risk/credit risk has not increased significantly:

The Group measured a 12-month ECL in respect of the following financial instruments:

Financial assets including cash and cash equivalents for which credit risk has not increased significantly since initial recognition.

3. Principal accounting policies (continued)

HKFRS 15 *Revenue from contracts with customers*

HKFRS 15 superseded HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard established a five-step model for determining whether, how much and when revenue is recognised.

The Group is principally engaged in the business of manufacture and sales of precision metal stamping and metal lathing products.

The Group concluded that revenue from sale of goods should be recognised at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods, which is consistent with the previous accounting policy. Therefore, the adoption of HKFRS 15 has no material impact on the timing of revenue recognition in this regard.

As required for the interim condensed consolidated financial information, the Group disaggregated revenue recognised from contracts with customers into categories that depict how the nature, amount and timing of the revenue are affected by economic factors. Enhanced disclosures are set out in note 8.

4. Change in accounting policies

HKFRS 9 *Financial instruments*

(a) Classification and measurements

All recognised financial assets that are within the scope of HKFRS 9 are to be subsequently measured at amortised cost or fair value, depending on the entity's business model for managing the financial assets and cash flow characteristics of the asset.

The Group classifies its financial assets:

Financial assets at amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on principal outstanding are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "other gains/(losses), net", together with foreign exchange gains and losses.

(b) Impairment of financial assets

For trade and other receivables, the Group applies the simplified approach permitted by HKFRS 9 and records lifetime ECL that results from all possible default events over the expected life of these financial instruments. In estimating the ECL, the Group has established a provision matrix taking into account the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and economic environment.

For other financial instruments, the ECL is based on the 12-month ECL. The 12-months ECL is the portion of lifetime ECL that results from possible default events within 12 months after the reporting date, unless when there has been a significant increase in credit risk since initial recognition of the financial instrument, the allowance will be based on the lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. Change in accounting policies (continued)

HKFRS 9 *Financial instruments* (continued)

(b) Impairment of financial assets (continued)

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with that assessed at the date of initial recognition. In making the assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort. The Group presumes that the credit risk on a financial asset has increased significantly when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the above requirements, the Group assumes that the credit risk on a financial asset has not increased significantly since initial recognition if the financial asset is determined to have low credit risk at the reporting date. A financial asset is determined to have a low credit risk if (i) it has a low risk of default; (ii) the borrower has a strong capacity to meet it contractual cash flow obligations in the near term; and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The measurement of ECL is a function of the probability of default, loss given default and the exposure at default and is estimated as the difference between all contractual cash flows that are due to the Group under the contract and the cash flows that the Group expects to receive, discounted at the original effective interest rate.

4. Change in accounting policies (continued)

HKFRS 15 *Revenue from contracts with customers*

Revenue is recognised to depict the transfer of promised goods to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods to a customer. Specifically, the Group uses a five-step approach to recognise revenue:

(i) Identify the contract with the customer;

(ii) Identify the performance obligations in the contract;

(iii) Determine the transaction price;

(iv) Allocate the transaction price to the performance obligations; and

(v) Recognise revenue when (or as) the entity satisfies a performance obligation.

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods underlying the particular performance obligations is transferred to customer.

A performance obligation represents a good (or a bundle of goods) that is distinct or a series of distinct goods that are substantially the same. For contracts that contain more than one performance obligation, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

4. Change in accounting policies (continued)

HKFRS 15 *Revenue from contracts with customers* (continued)

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct goods.

Revenue of the Group is recognised at a point in time when the customer obtains control of the distinct goods.

5. 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 2018 as described in those consolidated financial statements.

6. 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 for the year ended 31 March 2018.

There have been no changes in the risk management policies of the Group since 31 March 2018.

6. Financial risk management (continued)

(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 2018 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 six months ended 30 September 2018 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 the related company choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

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 six months ended 30 September 2018.

6. Financial risk management (continued)

(b) Liquidity risk (continued)

	On demand or less than 1 year HK$'000	1 to 2 years HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
At 30 September 2018					
Secured bank borrowings	**33,120**	**—**	**—**	**33,120**	**33,120**
Obligations under finance leases	**7,577**	**6,085**	**3,417**	**17,079**	**15,773**
Unsecured borrowings from a related company	**373,481**	**—**	**—**	**373,481**	**370,000**
Trade and other payables	**202,097**	**—**	**—**	**202,097**	**202,097**
	616,275	**6,085**	**3,417**	**625,777**	**620,990**
At 31 March 2018					
Bank borrowings	24,800	—	—	24,800	24,800
Obligations under finance leases	3,371	3,220	—	6,591	6,171
Unsecured borrowings from a related company	275,250	100,849	—	376,099	370,000
Trade and other payables	188,041	—	—	188,041	188,041
	491,462	104,069	—	595,531	589,012

6. 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 2018, bank borrowings and unsecured borrowings from a related company in aggregate of HK$303,120,000 (31 March 2018: approximately HK$294,800,000) that contain a repayment on demand clause are included in the "on demand or less than 1 year" time band in the above maturity analysis. 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$303,120,000 (31 March 2018: approximately HK$294,800,000) and approximately HK$3,481,000 (31 March 2018: approximately HK$15,978,000) respectively.

7. Revenue

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

8. Segment information

The chief operating decision-makers ("**CODM**") are identified as the executive directors of the Company 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, computer numerical control ("**CNC**") 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 gains/(losses), 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.

8. Segment information (continued)

(a) The segment information provided to the CODM for the reportable segments is as follows:

(i) For the six months ended 30 September 2018

	Metal stamping HK$'000 (Unaudited)	Metal lathing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue			
Sales	355,942	166,301	522,243
Intersegment sales	(490)	(381)	(871)
Sales to external customers	355,452	165,920	521,372
Cost of sales	(256,897)	(126,672)	(383,569)
Segment gross profit	98,555	39,248	137,803
Unallocated expenses, net			(84,071)
Finance income			119
Finance costs			(10,825)
Profit before tax			43,026
Income tax expenses			(10,871)
Profit for the period			32,155
Segment depreciation	10,057	7,989	18,046
Unallocated depreciation			2,720
			20,766
Segment amortisation	230	—	230
Write-down/(reversals) of inventories	2,290	(376)	1,914

8. Segment information (continued)

(a) The segment information provided to the CODM for the reportable segments is as follows: (continued)

(ii) For the six months ended 30 September 2017

	Metal stamping HK$'000 (Unaudited)	Metal lathing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment revenue			
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)
Segment gross profit	111,190	50,952	162,142
Unallocated expenses, net			(125,481)
Finance income			97
Finance costs			(9,448)
Profit before tax			27,310
Income tax expenses			(806)
Profit for the period			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

8. Segment information (continued)

(b) The segment assets are as follows:

(i) As at 30 September 2018

	Metal stamping HK$'000 (Unaudited)	Metal lathing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Segment assets	**441,450**	**261,962**	**703,412**
Reconciliation			
Corporate and other unallocated assets:			
Deferred income tax assets			**4,158**
Current income tax recoverable			**1,926**
Cash and cash equivalents			**354,639**
Other unallocated head office and corporate assets (Note)			**61,858**
Total assets			**1,125,993**

(ii) As at 31 March 2018

	Metal stamping HK$'000 (Audited)	Metal lathing HK$'000 (Audited)	Total HK$'000 (Audited)
Segment assets	429,481	246,662	676,143
Reconciliation			
Corporate and other unallocated assets:			
Deferred income tax assets			4,503
Current income tax recoverable			1,926
Cash and cash equivalents			346,039
Other unallocated head office and corporate assets (Note)			68,432
Total assets			1,097,043

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.

8. Segment information (continued)

(c) Set out below is the disaggregation of the Group's revenue from contracts with customers:

(i) Six months ended 30 September 2018

	Metal stamping HK$'000 (Unaudited)	Metal lathing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Geographical region			
The PRC	**224,356**	**125,114**	**349,470**
North America	**69,257**	**22,823**	**92,080**
Europe	**18,684**	**17,002**	**35,686**
Singapore	**25,902**	**139**	**26,041**
Japan	**9,127**	**—**	**9,127**
Others	**8,126**	**842**	**8,968**
Total	**355,452**	**165,920**	**521,372**

(ii) Six months ended 30 September 2017 (note)

	Metal stamping HK$'000 (Unaudited)	Metal lathing HK$'000 (Unaudited)	Total HK$'000 (Unaudited)
Geographical region			
The PRC	226,123	120,464	346,587
North America	79,307	23,379	102,686
Europe	18,596	14,457	33,053
Singapore	5,667	85	5,752
Japan	10,203	—	10,203
Others	4,102	781	4,883
Total	343,998	159,166	503,164

Note: The Group initially applied HKFRS 15 in the current period and chose not to restate comparative information, therefore, this financial information was prepared using the previous accounting standards.

8. Segment information (continued)

(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 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
The PRC	**178,101**	341,868
Hong Kong	**14,313**	64,304
	192,414	406,172

9. Other gains/(losses), net

	Six months ended 30 September	
	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
Loss on disposal of property, plant and equipment	**(429)**	(2,945)
Exchange gain/(loss), net	**25,683**	(11,409)
Government subsidies (Note)	**429**	656
Others	**1,467**	715
	27,150	(12,983)

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 2018 and 2017.

10. Finance income and finance costs

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Finance income		
Interest income on bank balances and deposits	**119**	97
Finance costs		
Interest expense on bank borrowings	**828**	1,123
Interest expense on unsecured borrowings from a related company	**9,713**	8,104
Interest expense on obligations under finance leases	**284**	221
	10,825	9,448

11. Profit before tax

Profit before tax has been arrived at after charging/(crediting):

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	**381,655**	337,991
Write-down of inventories (included in cost of sales)	**2,290**	3,031
Reversals of inventories (included in cost of sales)	**(376)**	—
Amortisation of leasehold land and land use rights	**230**	219
Depreciation of property, plant and equipment	**20,766**	20,911
Provision for impairment of property, plant and equipment	**—**	9,313
Minimum lease payment paid under operating lease rentals in respect of rented premises	**13,642**	12,148

12. Income tax expenses

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Current income tax		
— Hong Kong	**—**	919
— The PRC	**7,720**	8,791
— Withholding tax	**378**	2,191
Adjustments in respect of		
— Over-provision in respect of prior years	**(501)**	(3,388)
	7,597	8,513
Deferred income tax (Note 22)	**3,274**	(7,707)
Total	**10,871**	806

12. 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 2018 and 2017.

(a) Hong Kong profits tax

No provision of Hong Kong profits tax has been made for the six months ended 30 September 2018 as the Group did not have any assessable profits generated.

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

(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 2018 is provided at the rate of 25% (2017: 25%).

Certain PRC subsidiaries from metal lathing and metal stamping were recognised by the PRC government as "High and New Technology Enterprise" and were eligible to a preferential tax rate of 15% for a period of three calendar years.

(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 2018, a lower 5% (2017: 5%) 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 since the six months ended 30 September 2017.

13. Earnings per share

Basic and diluted earnings per share

	Six months ended 30 September	
	2018	2017
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company (HK$'000)	**31,578**	26,674
Weighted average number of shares in issue ('000)	**600,000**	600,000
Basic and diluted earnings per share (HK cents per share)	**5.26**	4.45

Basic earnings per share for the six months ended 30 September 2018 and 2017 is calculated by dividing the profit attributable to owners of the Company by 600,000,000 ordinary shares in issue during the period.

Diluted earnings per share is same as basic earnings per share as the Company had no potentially dilutive ordinary share in issue during the six months ended 30 September 2018 and 2017.

14. Dividend

No dividend was paid, declared or proposed during the six months ended 30 September 2018 (2017: nil).

15. Property, plant and equipment

	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
At 1 April	**382,247**	351,803
Additions	**13,356**	31,530
Disposals	**(502)**	(3,183)
Depreciation	**(20,766)**	(20,911)
Provision for impairment (Note (b))	**—**	(9,313)
Classified as held for sales (Note 19)	**(159,736)**	—
Exchange differences	**(22,185)**	15,109
At 30 September	**192,414**	365,035

Notes*:*

(a) At 30 September 2018, the carrying values of motor vehicle and plant and machinery included amounts of approximately HK$859,000 and HK$20,499,000 (31 March 2018: HK$628,000 and HK$23,225,000) in respect of asset held under finance leases respectively.

(b) 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. No provision for impairment have been made for the six months ended 30 September 2018.

16. Leasehold land and land use rights

	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
At 1 April	**23,925**	22,233
Amortisation	**(230)**	(219)
Classified as held for sales (Note 19)	**(21,969)**	—
Exchange differences	**(1,726)**	1,173
At 30 September	**—**	23,187

17. Inventories

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Raw materials	**27,341**	25,746
Work in progress	**25,483**	33,098
Finished goods	**48,893**	44,317
	101,717	103,161

During the six months ended 30 September 2018, a reversal of allowance for inventories of approximately HK$376,000 (30 September 2017: nil) has been recognised and included in cost of sales as the corresponding inventories were either sold or used.

18. Trade and other receivables

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Trade receivables (Note)	**241,347**	194,425
Prepayments, deposits and other receivables	**47,673**	41,117
Amount due from an associated entity	**432**	432
Amounts due from non-controlling shareholders	**4,062**	4,062
	293,514	240,036
Less: Provision for impairment	**(4,794)**	(4,794)
	288,720	235,242

18. Trade and other receivables (continued)

Note: The Group normally grants credit periods of 30 to 90 days (31 March 2018: 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 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Up to 3 months	**223,687**	181,116
3 to 6 months	**12,443**	10,998
6 months to 1 year	**4,265**	1,266
1 to 2 years	**952**	1,045
	241,347	194,425

As at 30 September 2018, the Group's trade receivables of approximately HK$48,932,000 (31 March 2018: HK$27,496,000), were past due but not impaired. These trade receivables relate to a number of customers for whom there is no recent history of default, adjusted for forward-looking factors specific to the customers and economic environment.

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

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Amounts past due		
Up to 3 months	**45,525**	24,195
3 to 6 months	**960**	1,688
6 months to 1 year	**1,602**	792
1 to 2 years	**845**	821
	48,932	27,496

19. Non-current assets/liabilities classified as held for sale

On 7 September 2018, Kingdom Precision Product Limited ("**KPP-HK**"), a wholly-owned indirect subsidiary of the Company, entered into a sale agreement with Kingdom International Group Limited ("**KIG**"), a related company of the Group, to dispose of its 100% equity interest in Kingdom Precision Science and Technology Holding Limited ("**KPST BVI**"), which was an investment holding company and in metal stamping segment prior to the disposal, at a consideration of HK$108,500,000. The net assets of KPST BVI and its subsidiaries were mainly property, plant and equipment and leasehold land and land use rights.

On 7 September 2018, Kingdom Fine Metal Limited ("**KFM-HK**"), a wholly-owned indirect subsidiary of the Company, entered into properties disposal agreements with Golden Express Capital Investment Limited ("**GECI**"), an indirect wholly-owned subsidiary of KIG, to dispose of its one office premise and two car parking spaces in Hong Kong ("**Hong Kong Properties**"), which was presented within unallocated head office and corporate assets and used by the Group prior to the disposal, at an aggregated consideration of HK$61,500,000.

The disposal of KPST BVI and the Hong Kong Properties ("**Disposals**") are expected to be sold within twelve months from the end of the current interim reporting period have been classified as non-current assets held for sale and are separately presented in the interim condensed consolidated statement of financial position. The sale proceeds are expected to exceed the net carrying amounts of the relevant assets and liabilities and, accordingly, no impairment has been recognised. The Disposals were negotiated under arm's length basis and approved by the board of directors of the Company.

19. Non-current assets/liabilities classified as held for sale (continued)

The aggregate consideration of the Disposals of HK$170,000,000 in a whole will be used to off-set partial the unsecured borrowings from a related company on a dollar-to-dollar basis.

Major classes of assets and liabilities of the disposal group as at the end of the current interim period are as follows:

	30 September 2018 HK$'000 (Unaudited)
Property, plant and equipment	**159,736**
Leasehold land and land use rights	**21,969**
Deferred income tax assets	**2,000**
Other receivables	**714**
Cash and cash equivalents	**2,472**
Total assets classified as held for sale	**186,891**
Other payables	**3,357**
Secured bank borrowings	**33,120**
Income tax payable	**15**
Total liabilities associated with assets classified as held for sale	**36,492**

The cumulative exchange loss in respect of net assets of KPST BVI is approximately HK$8,516,000.

As at 30 September 2018, the above bank borrowings were secured by leasehold land and land use rights and certain property, plant and equipment with a carrying amount of approximately HK$21,969,000 and HK$111,036,000 (31 March 2018: nil) respectively.

20. Share capital and share premium

Ordinary shares of HK$0.1 each

	Number of shares	Share capital HK$'000	Share premium HK$'000	Total HK$'000
Authorised				
At 30 September 2018 and 31 March 2018	4,500,000,000	450,000		
Issued and fully paid				
At 30 September 2018 and 31 March 2018	600,000,000	60,000	26,135	86,135

21. Reserves

	Capital reserve HK$'000 (Note (a))	Statutory reserve HK$'000 (Note (b))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2018 (Audited)	**3,445**	**46,321**	**37,721**	**325,491**	**412,978**
Profit for the period	—	—	—	**31,578**	**31,578**
Exchange differences on translation of foreign operations	—	—	**(45,398)**	—	**(45,398)**
Transfer of retained profits to statutory reserve	—	**4,539**	—	**(4,539)**	—
At 30 September 2018 (Unaudited)	**3,445**	**50,860**	**(7,677)**	**352,530**	**399,158**

21. Reserves (continued)

	Capital reserve HK$'000 (Note (a))	Statutory reserve HK$'000 (Note (b))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2017 (Audited)	3,445	38,524	(14,393)	298,224	325,800
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)	—
At 30 September 2017 (Unaudited)	3,445	41,551	11,608	321,871	378,475

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 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 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 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.

21. Reserves (continued)

Notes: (continued)

(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.

22. Deferred income tax

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

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Deferred income tax assets	**2,158**	4,841
Deferred income tax liabilities	**(7,837)**	(5,976)
	(5,679)	(1,135)

22. Deferred income tax (continued)

The movements in deferred income tax assets and liabilities during the six months ended 30 September 2018 and 2017, without taking into consideration the offsetting of balances within the same tax jurisdictions, are as follows:

Deferred income tax assets:

	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
At 1 April	**8,388**	8,968
Charged to profit or loss (Note 12)	**(211)**	(275)
Exchange differences	**(134)**	33
Classified as held for sale	**(2,000)**	—
At 30 September	**6,043**	8,726

Deferred income tax liabilities:

	2018 HK$'000 (Unaudited)	2017 HK$'000 (Unaudited)
At 1 April	**(8,659)**	(17,843)
(Charged)/credited to profit or loss (Note 12)	**(3,063)**	7,982
At 30 September	**(11,722)**	(9,861)
	(5,679)	(1,135)

As at 30 September 2018, deferred tax assets of approximately HK$3,885,000 (2017: HK$3,885,000) have been presented as an offset to deferred tax liabilities of the same taxable entity in the interim condensed consolidated financial information.

23. Trade and other payables

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Trade payables (Note)		
— third parties	**126,588**	107,238
— related companies	**505**	595
	127,093	107,833
Accruals, deposits and other payables	**75,004**	80,208
	202,097	188,041

Note: The ageing analysis of trade payables based on invoice dates at the end of the Reporting Period (including trade payables from related companies) is as follows:

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Up to 3 months	**121,917**	101,334
3 to 6 months	**4,223**	4,668
6 months to 1 year	**505**	1,676
1 to 2 years	**448**	155
	127,093	107,833

The average credit period on purchase of goods is from 30 to 90 days (31 March 2018: 30 to 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

24. Bank borrowings

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Short-term bank borrowings	—	24,800

The interest-bearing bank borrowings as at 30 September and 31 March 2018 were carried at amortised cost, repayable within one year based on scheduled repayment dates and shown under current liabilities. As at 30 September 2018, secured bank borrowings of HK$33,120,000 have been reclassified to liabilities directly associated with the assets classified as held for sale.

25. Obligations under finance leases

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Analysed for reporting purpose as:		
Current liabilities	**6,976**	3,059
Non-current liabilities	**8,797**	3,112
	15,773	6,171

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

25. Obligations under finance leases (continued)

At the six months ended 30 September 2018, 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 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)	**30 September 2018 HK$'000 (Unaudited)**	31 March 2018 HK$'000 (Audited)
Amounts payable under finance leases:				
Within 1 year	**7,577**	3,371	**6,976**	3,059
After 1 year but within 2 years	**6,085**	3,220	**5,664**	3,112
After 2 years but within 5 years	**3,417**	—	**3,133**	—
	17,079	6,591	**15,773**	6,171
Less: future finance charges	**(1,306)**	(420)	**N/A**	N/A
Present value of lease obligations	**15,773**	6,171	**15,773**	6,171
Less: amounts due for settlement within 1 year shown under current liabilities			**(6,976)**	(3,059)
Amounts due for settlement after 1 year			**8,797**	3,112

Obligations under finance leases at 30 September 2018 borne interest at fixed interest rates ranging from 2.75% to 3.50% per annum (31 March 2018: 3.50% to 5.03% per annum). The average lease term is three years (31 March 2018: two years).

26. Unsecured borrowings from a related company

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Due for repayment within 1 year which contains a repayment on demand clause	**270,000**	270,000
Due for repayment within 1 year	**100,000**	—
Due for repayment after 1 year but within 2 years	**—**	100,000
	370,000	370,000
Less: Amount shown under current liabilities	**(370,000)**	(270,000)
Amount shown under non-current liabilities	**—**	100,000

During the six months ended 30 September 2018, unsecured borrowings of HK$370,000,000 (31 March 2018: HK$370,000,000) has been advanced from KIG, a company in which two directors of the Company have beneficial interest in, of which HK$370,000,000 (31 March 2018: HK$270,000,000) and nil (31 March 2018: HK$100,000,000) are due for repayment within one year and after one year but within two years respectively. The unsecured borrowings of HK$270,000,000 (31 March 2018: HK$270,000,000) are due for repayment within one year which 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 2018: 5.25% per annum).

27. Commitments

(a) Capital commitments

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Contracted but not provided for		
— Plant and machinery	**6,382**	6,591
— Capital investment	**5,270**	9,533
	11,652	16,124

(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 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Within 1 year	**28,421**	28,748
Later than 1 year and not later than 5 years	**79,725**	87,781
Later than 5 years	**22,373**	35,090
	130,519	151,619

The leases typically run for an initial period of two to ten years (31 March 2018: two to ten years). Certain of the operating leases contain renewal options which allow the Group to renew.

28. Significant related party transactions

(a) Name and relationship with related parties

Name	Relationship
KIG	A related company in which Mr. Sun Kwok Wah Peter ("**Mr. Sun**") and Mr. Wong Chi Kwok, the executive directors of the Company, have beneficial interest
Innotech Advance Products Limited ("**Innotech**")	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 ("**Dongguan Tech-in**")	A subsidiary of Innotech
深圳市固泰科自動化裝備有限公司 ("**固泰科**")	An associate entity in which Mr. Sun is a director

28. Significant related party transactions (continued)

(b) Material related parties transactions

During the six months ended 30 September 2018 and 2017, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

	Six months ended 30 September	
	2018	2017
	HK$'000	HK$'000
	(Unaudited)	(Unaudited)
Purchase of products from related parties:		
Innotech	**241**	125
Dongguan Tech-in	**1,030**	880
	1,271	1,005
Finance costs — interest expense on unsecured borrowings from a related company		
KIG	**9,713**	8,104

28. Significant related party transactions (continued)

(c) Balances with related companies

	30 September 2018 HK$'000 (Unaudited)	31 March 2018 HK$'000 (Audited)
Amount due from an associated entity		
固泰科	**432**	432
Amounts due from non-controlling shareholders	**4,062**	4,062
	4,494	4,494
Less: Provision for impairment	**(4,494)**	(4,494)
	—	—
Trade payables to related companies		
Innotech	**(30)**	—
Dongguan Tech-in	**(475)**	(595)
	(505)	(595)
Unsecured borrowings from a related company		
KIG	**(370,000)**	(370,000)

(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$3,744,000 for the six months ended 30 September 2018 (30 September 2017: approximately HK$3,321,000).

29. Non-cash transactions

During the six months ended 30 September 2018, 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$11,375,000 (31 March 2018: HK$8,249,000).

30. Events after the Reporting Period

On 1 November 2018, the Disposals was completed and resulted in a gain. The aggregate consideration of HK$170,000,000 is used to off-set partial unsecured borrowings from a related company on a dollar-to-dollar basis. Upon the completion of the Disposals, KPST BVI and its subsidiaries have ceased to be subsidiaries of the Group and become connected persons to the Group.

At the same date, an indirect wholly owned subsidiary has entered into a leasing agreement in relation to Suzhou factory with an indirect wholly-owned subsidiary of KPST BVI, for a term of three years. Besides, KFM-HK has entered into three leasing agreements in relation to the Hong Kong Properties with GECI, for a term of three years respectively. Therefore, the transactions under the above mentioned leasing agreements constitute continuing connected transactions for the Group and the rents are determined at arm's length basis.

Further details are set out in the announcements of the Company dated 19 October 2018 and 1 November 2018 respectively.