KFM KINGDOM HOLDINGS LIMITED
KFM金德控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 3816)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

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 2016 (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 2015.

For and on behalf of
KFM Kingdom Holdings Limited
Zhang Haifeng
Chairman

Hong Kong, 24 November 2016

As at the date of this announcement, the executive Directors are Mr. Sun Kwok Wah Peter and Mr. Wong Chi Kwok; the non-executive Director is Mr. Zhang Haifeng (Chairman); and the independent non-executive Directors are Mr. Wan Kam To, Ms. Zhao Yue and Mr. Shen Zheqing.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

		Six months ended 30 September	
		2016	2015
	Notes	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)
Revenue	*4*	**438,050**	444,592
Cost of sales	*5*	**(331,838)**	(353,272)
Gross profit		**106,212**	91,320
Other gains, net		**8,341**	10,463
Distribution and selling expenses	*5*	**(9,735)**	(14,019)
General and administrative expenses	*5*	**(95,710)**	(84,580)
Operating profit		**9,108**	3,184
Finance income		**107**	267
Finance costs		**(8,005)**	(2,045)
Profit before income tax		**1,210**	1,406
Income tax expenses	*6*	**(5,171)**	(5,371)
Loss for the period		**(3,961)**	(3,965)
Other comprehensive loss for the period, net of tax			
Item that may be reclassified to profit or loss			
Currency translation differences		**(18,757)**	(12,604)
Total comprehensive loss for the period		**(22,718)**	(16,569)
Loss for the period attributable to:			
– Equity holders of the Company		**(2,435)**	(2,922)
– Non-controlling interests		**(1,526)**	(1,043)
		(3,961)	(3,965)
Total comprehensive loss attributable to:			
– Equity holders of the Company		**(21,192)**	(15,526)
– Non-controlling interests		**(1,526)**	(1,043)
		(22,718)	(16,569)
Loss per share for loss attributable to equity holders of the Company			
– Basic and diluted *(HK cents)*	*15*	**(0.41)**	(0.49)
Dividends	*16*	**–**	–

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET
AS AT 30 SEPTEMBER 2016

	Notes	As at 30 September 2016 HK$'000 (Unaudited)	31 March 2016 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**367,521**	396,324
Leasehold land and land use rights	*8*	**23,044**	24,067
Intangible assets		**–**	2,525
Goodwill		**10,362**	10,362
Interest in an associated entity		**–**	–
Deferred income tax assets		**5,052**	4,355
Total non-current assets		**405,979**	437,633
Current assets			
Inventories	*9*	**89,610**	102,303
Trade and other receivables	*10*	**226,040**	205,033
Current income tax recoverable		**1,165**	1,223
Cash and cash equivalents		**265,528**	106,360
Total current assets		**582,343**	414,919
Total assets		**988,322**	852,552

INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (continued)
AS AT 30 SEPTEMBER 2016

	Notes	As at 30 September 2016 HK$'000 (Unaudited)	31 March 2016 HK$'000 (Audited)
EQUITY			
Capital and reserves			
Share capital	*11*	**60,000**	60,000
Share premium	*11*	**26,135**	26,135
Reserves		**351,043**	373,232
Capital and reserves attributable to equity holders of the Company		**437,178**	459,367
Non-controlling interests		**1,858**	2,387
Total equity		**439,036**	461,754
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities		**10,219**	12,003
Current liabilities			
Trade and other payables	*12*	**163,796**	155,748
Bank borrowings	*13*	**100,304**	216,895
Unsecured borrowings from a related company	*14*	**270,000**	–
Derivative financial liabilities		**500**	2,113
Current income tax liabilities		**4,467**	4,039
Total current liabilities		**539,067**	378,795
Total liabilities		**549,286**	390,798
Total equity and liabilities		**988,322**	852,552
Net current assets		**43,276**	36,124
Total assets less current liabilities		**449,255**	473,757

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (continued)

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2015

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. GENERAL INFORMATION

KFM Kingdom Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 13 July 2011, as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**the Stock Exchange**") since 15 October 2012 (the "**Listing**").

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the provision of precision metal stamping and lathing services, and the manufacturing and sales of fine metal products (the "**Group's Businesses**").

This interim condensed consolidated financial information is presented in Hong Kong Dollars ("**HK$**"), unless otherwise stated.

This interim condensed consolidated financial information was approved by the Board (the "**Board**") for issue on 24 November 2016.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 September 2016 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 ("**HKAS 34**"), "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This condensed consolidated interim financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

4. SEGMENT INFORMATION

The chief operating decision-makers ("**CODM**") are identified as the executive directors and senior management of the Group.

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

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

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

The CODM assess the performance of the operating segments based on segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs.

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

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

4. **SEGMENT INFORMATION** (continued)

(a) The segment results are as follows:

(i) Six months ended 30 September 2016

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

4. **SEGMENT INFORMATION** (continued)

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

(ii) Six months ended 30 September 2015

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

4. **SEGMENT INFORMATION** (continued)

(b) The segment assets are as follows:

(i) As at 30 September 2016

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

(ii) As at 31 March 2016

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

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

4. **SEGMENT INFORMATION** (continued)

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

	Six months ended 30 September	
	2016	2015
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
The PRC	**287,212**	285,136
North America	**84,995**	94,167
Europe	**41,748**	34,850
Japan	**11,040**	14,649
Singapore	**6,588**	9,171
Oceania	**1,229**	776
South America	**279**	72
Other Asian countries excluding the PRC, Japan and Singapore	**4,959**	5,771
	438,050	444,592

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

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

5. EXPENSES BY NATURE

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

6. INCOME TAX EXPENSES

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

6. INCOME TAX EXPENSES (continued)

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

Below are the major tax jurisdictions that the Group operates in for the six months ended 30 September 2016 and 2015.

(a) Hong Kong profits tax

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

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

The PRC EIT is provided on the assessable income of the Group's PRC subsidiaries, adjusted for items which are not taxable or deductible for the PRC EIT purpose. The PRC EIT tax rates for the six months ended 30 September 2016 and 2015 were either 15% or 25%.

7. PROPERTY, PLANT AND EQUIPMENT

	2016 ***HK$'000*** **(Unaudited)**	2015 *HK$'000* (Unaudited)
At 1 April	**396,324**	387,900
Additions	**13,298**	35,792
Disposals	**(966)**	(2,146)
Depreciation	**(23,358)**	(19,946)
Impairment loss recognised *(Note 5)*	**(7,710)**	–
Currency translation differences	**(10,067)**	(7,401)
At 30 September	**367,521**	394,199

8. LEASEHOLD LAND AND LAND USE RIGHTS

	2016 ***HK$'000*** **(Unaudited)**	2015 *HK$'000* (Unaudited)
At 1 April	**24,067**	25,546
Amortisation *(Note 5)*	**(225)**	(236)
Currency translation differences	**(798)**	(609)
At 30 September	**23,044**	24,701

9. INVENTORIES

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

10. TRADE AND OTHER RECEIVABLES

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

Note:

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

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

11. SHARE CAPITAL AND SHARE PREMIUM

Issued share capital

	Number of shares	**Share capital** *HK$'000*	**Share premium** *HK$'000*	**Total** *HK$'000*
Ordinary shares of HK$0.1 each				
At 30 September 2016 and 31 March 2016	600,000,000	60,000	26,135	86,135

12. TRADE AND OTHER PAYABLES

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

Note:

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

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

13. BANK BORROWINGS

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

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

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

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

14. UNSECURED BORROWINGS FROM A RELATED COMPANY

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

During the six months ended 30 September 2016, unsecured borrowings of HK$270,000,000 (31 March 2016: nil) has been advanced from Kingdom International Group Limited ("**KIG**"), a company in which two of the directors of the Company have beneficial interest in, and is due for repayment after two years from its respective drawdown dates. The unsecured borrowings of HK$270,000,000 (31 March 2016: nil) contains a repayable on demand clause and is classified as current liabilities.

As such, the Group's unsecured borrowings from a related company will be repayable after 1 year but within 2 years after the end of the reporting period based on the scheduled repayment dates set out in the loan agreements.

15. LOSS PER SHARE

Basic and diluted loss per share

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

Basic loss per share for the six months ended 30 September 2016 and 2015 is calculated by dividing the loss attributable to equity holders of the Company by 600,000,000 ordinary shares in issue during the period.

The Group had no potentially dilutive ordinary share (i.e. share options and warrants) in issue during the six months ended 30 September 2016 and 2015.

16. DIVIDENDS

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

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

17. COMMITMENTS

(a) Capital commitments

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

(b) Operating lease commitments

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

These leases typically run for an initial period of one to ten years. Certain of the operating leases contain renewal options which allow the Group to renew.

REVIEW OF INTERIM RESULTS

The interim results and the interim condensed consolidated financial information of the Group for the Reporting Period, after being reviewed by the audit committee of the Company (the "**Audit Committee**") and by the Company's auditor in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants, were approved by the Board on 24 November 2016.

BUSINESS REVIEW

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2016, revenue of the Group was approximately HK$438.1 million, representing a decrease of approximately HK$6.5 million or 1.5% from approximately HK$444.6 million for the corresponding period last year. Set out below is a breakdown of the Group's revenue by business segments:

	Six months ended 30 September			
	2016		2015	
	HK$'000	*%*	*HK$'000*	*%*
	(Unaudited)		(Unaudited)	
Metal Stamping	**344,359**	**78.6**	368,900	83.0
Metal Lathing	**93,691**	**21.4**	75,692	17.0
	438,050	**100.0**	444,592	100.0

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

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

Geographically, the PRC, North America, Europe and Japan continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 65.6%, 19.4%, 9.5% and 2.5% of the Group's revenue, respectively, for the six months ended 30 September 2016. Details of revenue generated by different geographical location are set out in Note 4(c) of this interim results announcement.

Cost of sales

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

	Six months ended 30 September			
	2016		2015	
	HK$'000	*%*	*HK$'000*	*%*
	(Unaudited)		(Unaudited)	
Direct materials	**162,431**	**49.0**	192,278	54.4
Direct labour	**81,476**	**24.6**	85,195	24.1
Processing fee	**45,231**	**13.6**	47,895	13.6
Change in inventory of finished goods and work in progress	**12,675**	**3.8**	(9,554)	(2.7)
Other direct overheads	**30,025**	**9.0**	37,458	10.6
	331,838	**100.0**	353,272	100.0

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

Gross profit and gross profit margin

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

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

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

For details of the gross profit margin of the Group's two segments, please refer to Note 4(a) of this interim results announcement.

Other gains, net

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

Distribution and selling expenses

Distribution and selling expenses relate to the expenses incurred for the promotion and selling of the Group's products. It mainly comprises, among others, salaries and related costs for the sales and marketing staff, travelling and transportation costs, and marketing expenses. Distribution and selling expenses were approximately HK$9.7 million and HK$14.0 million for the six months ended 30 September 2016 and 2015, respectively. The decrease in distribution and selling expenses was mainly attributed to the change of product mix, and the reduction in headcount and warehouse space during the Reporting Period.

General and administrative expenses

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

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

Finance costs

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

Income tax expenses

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

During the Reporting Period, the effective tax rate of the Group was approximately 427.4%. The exceptionally high effective tax rate was mainly caused by the fact that the Group did not recognise deferred tax effect on tax loss arising from the Group's loss making companies. Excluding the effect of such tax loss arising from the loss making companies, the provision for deferred taxation on the undistributed profits earned by the Group's PRC entities, and the effect of over-provision for taxation in respect of prior year, the adjusted effective tax rate during the Reporting Period would have been approximately 20.6%, while the same for the corresponding period last year would have been approximately 20.7%.

Loss attributable to equity holders of the Company

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

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Financial resources and liquidity

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

Capital structure

The Group's capital structure is summarised as follows:

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

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

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

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

For the six months ended 30 September 2016, the Group generally financed its operation primarily with internally generated cash flow, bank borrowings and unsecured borrowings from a related company.

Details of the Group's bank borrowings and unsecured borrowings from a related company as at 30 September 2016 are set out in Note 13 and 14, respectively, in this interim results announcement.

The capital structure of the Group consists of equity attributable to the equity holders of the Company (comprising issued share capital and reserves), bank borrowings and unsecured borrowings from a related company. The Directors will review the capital structure regularly. As part of such review, the Directors consider the cost of capital and the optimal use of debt and equity so as to maximise the return to the equity holders.

Capital expenditure

During the six months ended 30 September 2016, the Group acquired property, plant and equipment of approximately HK$13.3 million, as compared to the six months ended 30 September 2015 of approximately HK$35.8 million.

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

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

Charges on the Group's assets

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

Foreign currency exposure

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates mainly in Hong Kong and the PRC. The Group's Hong Kong entities are exposed to foreign exchange risk arising from Renminbi, while the Group's PRC entities are exposed to foreign exchange risk arising from United States dollars.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. During the six months ended 30 September 2016, the Group had one foreign exchange derivative contract to manage part of the foreign currency exposure between United States dollars and Renminbi. This contract was accounted for on the Group's interim condensed consolidated balance sheet at fair value.

Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 30 September 2016 are set out in Note 17(a) and 17(b), respectively, in this interim results announcement.

Contingent liabilities

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

OUTLOOK AND STRATEGY

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

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

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2016, the Group had a total number of 2,469 full-time employees (as at 30 September 2015: 2,610). The Group determined the remuneration packages of all employees based on several factors including individual qualifications, contribution to the Group, performance and years of experience of the respective staff.

The Group provides on-going training to its staff in order to enhance their technical skills and product knowledge and to provide them with updates with regards to industry quality and work safety.

The Group maintains good relationships with its employees. The Group has not had any labour strikes or other labour disturbances that would interfere with its operations during the Reporting Period.

As required by the PRC regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities.

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 2016.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code for securities transactions by the Directors on terms equivalent to the required standard of the Model Code as set out in Appendix 10 to the Listing Rules.

The Board confirmed that, having made specific enquiry, the Directors have complied in full with the required standards as set out in the Model Code and its code of conduct during the six months ended 30 September 2016.

INTERIM DIVIDEND

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

AUDIT COMMITTEE

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

The Audit Committee has reviewed the Group's interim condensed consolidated financial information for the six months ended 30 September 2016 and had discussed the financial information with management and the independent auditor of the Company. The Audit Committee is of the opinion that the preparation of such financial report has complied with the standard and requirements and that adequate disclosures have been made.

SUBSTANTIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED CORPORATIONS

During the six months ended 30 September 2016, the Group did not conduct any substantial acquisitions or disposals for its subsidiaries or associated corporations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 30 September 2016.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the Company's website at www.kingdom.com.hk and the Stock Exchange's website www.hkexnews.hk. The interim report for the six months ended 30 September 2016 containing all the information required by Appendix 16 to the Listing Rules will be despatched to the shareholders of the Company and available on the said websites in due course.