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 2017

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 2017 (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 2016.

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

Hong Kong, 23 November 2017

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Notes	Six months ended 30 September 2017 HK$'000 (Unaudited)	2016 HK$'000 (Unaudited)
Revenue	*4*	**503,164**	438,050
Cost of sales		**(341,022)**	(331,838)
Gross profit		**162,142**	106,212
Other (loss)/gains, net		**(12,983)**	8,341
Distribution and selling expenses		**(9,904)**	(9,735)
General and administrative expenses		**(102,594)**	(95,710)
Finance income		**97**	107
Finance costs		**(9,448)**	(8,005)
Profit before tax	*5*	**27,310**	1,210
Income tax expenses	*6*	**(806)**	(5,171)
Profit/(loss) for the period		**26,504**	(3,961)
Other comprehensive income/(expense) for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**26,001**	(18,757)
Total comprehensive income/(expense) for the period		**52,505**	(22,718)
Profit/(loss) for the period attributable to:			
— Owners of the Company		**26,674**	(2,435)
— Non-controlling interests		**(170)**	(1,526)
		26,504	(3,961)
Total comprehensive income/(expense) attributable to:			
— Owners of the Company		**52,675**	(21,192)
— Non-controlling interests		**(170)**	(1,526)
		52,505	(22,718)
Earnings/(loss) per share	*15*		
— Basic and diluted *(HK cents)*		**4.45**	(0.41)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2017

	Notes	30 September 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	*7*	**365,035**	351,803
Leasehold land and land use rights	*8*	**23,187**	22,233
Intangible assets		**—**	—
Goodwill		**—**	—
Interest in an associated entity		**—**	—
Deferred income tax assets		**4,841**	5,083
Total non-current assets		**393,063**	379,119
Current assets			
Inventories	*9*	**91,367**	80,807
Trade and other receivables	*10*	**273,054**	220,760
Current income tax recoverable		**246**	1,515
Cash and cash equivalents		**327,061**	219,008
Total current assets		**691,728**	522,090
Total assets		**1,084,791**	901,209

	Notes	30 September 2017 HK$'000 (Unaudited)	31 March 2017 HK$'000 (Audited)
EQUITY			
Capital and reserves			
Share capital	*11*	**60,000**	60,000
Share premium	*11*	**26,135**	26,135
Reserves		**378,475**	325,800
Capital and reserves attributable to owners of the Company		**464,610**	411,935
Non-controlling interests		**2,307**	2,477
Total equity		**466,917**	414,412
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		**4,363**	145
Unsecured borrowing from a related company	*14*	**100,000**	—
Deferred income tax liabilities		**5,976**	13,958
Total non-current liabilities		**110,339**	14,103
Current liabilities			
Trade and other payables	*12*	**194,607**	151,937
Bank borrowings	*13*	**35,700**	45,200
Obligations under finance leases		**3,064**	436
Unsecured borrowings from a related company	*14*	**270,000**	270,000
Current income tax liabilities		**4,164**	5,121
Total current liabilities		**507,535**	472,694
Total liabilities		**617,874**	486,797
Total equity and liabilities		**1,084,791**	901,209
Net current assets		**184,193**	49,396
Total assets less current liabilities		**577,256**	428,515

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

	Attributable to owners of the Company								
	Share capital	**Share premium**	**Capital reserve**	**Statutory reserve**	**Exchange reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***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**

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

NOTES

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 in Hong Kong is Workshop C, 31/F., TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The immediate holding company and controlling shareholder of the Company is Massive Force Limited, a company incorporated in the British Virgins Islands.

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

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

This interim condensed consolidated financial information was approved by the directors of the Company for issue on 23 November 2017.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION

The interim condensed consolidated financial information for the six months ended 30 September 2017 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange and with Hong Kong Accounting Standard 34 ("**HKAS 34**") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**"). This interim condensed consolidated financial information should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2017, which have been prepared in accordance with Hong Kong Financial Reporting Standards (the "**HKFRSs**") issued by the HKICPA.

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 2017, except as described below.

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

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

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

4. SEGMENT INFORMATION

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

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

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

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

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

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

Segment assets exclude interest in an associated entity, deferred income tax assets, current income tax recoverable, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

(a) The segment results are as follows:

(i) For the six months ended 30 September 2017

	Metal stamping *HK$'000* (Unaudited)	Metal lathing *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
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**

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

(b) The segment assets are as follows:

(i) As at 30 September 2017

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

(ii) As at 31 March 2017

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

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.

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

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

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

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

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

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

6. INCOME TAX EXPENSES

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

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

Below are the major tax jurisdictions that the Group operates in for the six months ended 30 September 2017 and 2016.

(a) Hong Kong profits tax

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

(b) The PRC Enterprise Income Tax (the "PRC EIT")

The PRC EIT is provided on the assessable income of the Group's PRC subsidiaries, adjusted for items which are not taxable or deductible for the PRC EIT purpose. The statutory PRC EIT tax rate for the six months ended 30 September 2017 is provided at the rate of 25% (2016: 25%).

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

(c) PRC dividend withholding tax

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

7. PROPERTY, PLANT AND EQUIPMENT

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

8. LEASEHOLD LAND AND LAND USE RIGHTS

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

9. INVENTORIES

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

11. 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 2017 and 31 March 2017	4,500,000,000	450,000		
Issued and fully paid				
At 30 September 2017 and 31 March 2017	600,000,000	60,000	26,135	86,135

12. TRADE AND OTHER PAYABLES

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

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

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

13. BANK BORROWINGS

	30 September 2017	31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Short-term bank borrowings	**35,700**	45,200

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

14. UNSECURED BORROWINGS FROM A RELATED COMPANY

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

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

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

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

15. EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings/(loss) per share

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

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

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

16. DIVIDEND

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

17. COMMITMENTS

(a) Capital commitments

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

(b) Operating lease commitments

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

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

The leases typically run for an initial period of two to ten years (31 March 2017: two to ten years). Certain of the operating leases contain renewal options which allow the Group to renew.

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 HKICPA, were approved by the Board on 23 November 2017.

BUSINESS REVIEW

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

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

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

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

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

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

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2017, revenue of the Group was approximately HK$503.2 million, representing an increase of approximately HK$65.1 million or 14.9% from approximately HK$438.1 million for the corresponding period last year. Set out below is a breakdown of the Group's revenue by business segments:

	Six months ended 30 September			
	2017		2016	
	HK$'000	*%*	*HK$'000*	*%*
	(Unaudited)		(Unaudited)	
Metal Stamping	**343,998**	**68.4**	344,359	78.6
Metal Lathing	**159,166**	**31.6**	93,691	21.4
	503,164	**100.0**	438,050	100.0

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

Revenue derived from the metal lathing segment increased by approximately HK$65.5 million or 69.9% from approximately HK$93.7 million for the six months ended 30 September 2016 to approximately HK$159.2 million for the six months ended 30 September 2017. The increase was mainly attributed by an increase in revenue from the Group's customers engaged in the consumer electronics industry.

Geographically, the PRC, North America, Europe and Japan continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 68.9%, 20.4%, 6.6% and 2.0% of the Group's revenue, respectively, for the six months ended 30 September 2017. Details of a breakdown of revenue generated by different geographical locations are set out in Note 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 (including the write-down for inventories as disclosed in Note 5 in this interim results announcement after regular review of the Group's inventory provision policy). Set out below is the breakdown of the Group's cost of sales:

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

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

Gross profit and gross profit margin

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

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

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

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

Other (loss)/gains, net

During the six months ended 30 September 2017, the Group recorded other loss, net which amounted to approximately HK$13.0 million. In the corresponding period last year, the Group recorded other gains, net of approximately HK$8.3 million. Upon the appreciation of Renminbi against United States dollars during the Reporting Period, the Group recorded net exchange loss of approximately HK$11.4 million, while during the same period last year the Group recorded net exchange gain of approximately HK$8.3 million. In addition, the Group recorded loss from disposal of property, plant and equipment amounted to approximately HK$2.9 million during the six months ended 30 September 2017, but during the six months ended 30 September 2016, the Group only recorded loss from disposal of property, plant and equipment amounted to approximately HK$0.2 million.

Distribution and selling expenses

Distribution and selling expenses relate to the expenses incurred for the promotion and selling of the Group's products. It mainly comprises, among others, salaries and related costs for the sales and marketing staff, travelling and transportation costs, and marketing expenses. Distribution and selling expenses were approximately HK$9.9 million and HK$9.7 million for the six months ended 30 September 2017 and 2016, respectively. The slight increase in distribution and selling expenses was mainly attributed to the increase in revenue during the Reporting Period.

General and administrative expenses

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

Finance costs

The Group's finance costs represented interest expenses on bank borrowings and unsecured borrowings from a related company. During the Reporting Period, the Group's finance costs was approximately HK$9.4 million, as compared to approximately HK$8.0 million for the corresponding period last year. Increase in finance costs was mainly due to an increase in average balances of borrowings as compared to corresponding period last year.

Income tax expenses

The Group's income tax expenses amounted to approximately HK$0.8 million for the six months ended 30 September 2017, while the Group's income tax expenses for the six months ended 30 September 2016 amounted to approximately HK$5.2 million. During the Reporting Period, the Group's effective tax rate was approximately 3.0% and was lower than the same during the corresponding period last year. This is mainly caused by the reversal of certain deferred tax provision and taken into consideration of other tax effects. Excluding such factors, the adjusted effective tax rate would have been 20.0% during the Reporting Period, while the same for the corresponding period last year would have been 20.6%. Please refer to Note 6 in this interim results announcement for details of the Group's income tax expenses for the Reporting Period.

Profit attributable to owners of the Company

For the six months ended 30 September 2017, profit attributable to owners of the Company amounted to approximately HK$26.7 million, while there was loss attributable to owners of the Company of approximately HK$2.4 million for the corresponding period last year.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Financial resources and liquidity

The Group's current assets comprise mainly cash and cash equivalents, trade and other receivables and inventories. As at 30 September and 31 March 2017, the Group's total current assets amounted to approximately HK$691.7 million and HK$522.1 million respectively, which represented approximately 63.8% and 57.9% of the Group's total assets as at 30 September and 31 March 2017, respectively.

Capital structure

The Group's capital structure is summarised as follows:

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

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

For the six months ended 30 September 2017, the Group generally financed its operation primarily with internal generated cash flows, bank borrowings and unsecured borrowings from a related company.

Details of the Group's bank borrowings and unsecured borrowings from a related company as at 30 September 2017 are set out in Notes 13 and 14, respectively, in this interim results announcement.

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

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

Capital expenditure

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

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

Charges on the Group's assets

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

Foreign currency exposure

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

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates.

Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 30 September 2017 are set out in Notes 17(a) and 17(b), respectively, in this interim results announcement.

Contingent liabilities

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

OUTLOOK AND STRATEGY

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

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

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

SUBSEQUENT EVENT

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2017, the Group had a total number of 2,224 full-time employees (as at 30 September 2016: 2,469). The Group determined the remuneration packages of all employees based on several factors including individual qualifications, contribution to the Group, performance and years of experience of the respective staff.

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

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

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

CORPORATE GOVERNANCE

The Company and the Directors confirm, to the best of their knowledge, that the Company has complied with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2017.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

The Board confirmed that, having made specific enquiry, the Directors have complied in full with the required standards as set out in the Model Code and its code of conduct during the six months ended 30 September 2017.

INTERIM DIVIDEND

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

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 2017 and had discussed the financial information with management and the independent auditor of the Company. The Audit Committee is of the view that the preparation of such financial report has complied with the standard and requirements and that adequate disclosures have been made.

SUBSTANTIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED CORPORATIONS

During the six months ended 30 September 2017, the Group did not conduct any substantial acquisitions or disposals for its subsidiaries or associated corporations.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's securities during the six months ended 30 September 2017.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

This interim results announcement is published on the Company's website at www.kingdom.com.hk and the Stock Exchange's website at www.hkexnews.hk. The interim report for the six months ended 30 September 2017 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.