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 2019

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 2019 (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 2018.

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

Hong Kong, 22 November 2019

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 2019

	Notes	Six months ended 30 September 2019 HK$'000 (Unaudited)	2018 HK$'000 (Unaudited)
Revenue	5	**528,372**	521,372
Cost of sales		**(398,271)**	(383,569)
Gross profit		**130,101**	137,803
Other gains, net		**27,921**	27,150
Distribution and selling expenses		**(11,636)**	(11,449)
General and administrative expenses		**(97,588)**	(99,772)
Finance income		**177**	119
Finance costs		**(9,331)**	(10,825)
Profit before tax	6	**39,644**	43,026
Income tax expenses	7	**(8,091)**	(10,871)
Profit for the period		**31,553**	32,155
Other comprehensive expense for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(24,232)**	(45,398)
Total comprehensive income/(expense) for the period		**7,321**	(13,243)
Profit for the period attributable to:			
— Owners of the Company		**31,521**	31,578
— Non-controlling interests		**32**	577
		31,553	32,155
Total comprehensive income/(expense) attributable:			
— Owners of the Company		**7,289**	(13,820)
— Non-controlling interests		**32**	577
		7,321	(13,243)
Earnings per share			
— Basic and diluted *(HK cents)*	15	**5.25**	5.26

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 SEPTEMBER 2019

	Notes	30 September 2019 HK$'000 (Unaudited)	31 March 2019 HK$'000 (Audited)
ASSETS			
Non-current assets			
Property, plant and equipment	8	**157,901**	190,450
Leasehold land and land use rights	9	**—**	—
Interest in an associated entity		**—**	—
Right-of-use assets		**150,747**	—
Rental deposits		**6,629**	6,969
Deferred income tax assets		**1,501**	1,890
Total non-current assets		**316,778**	199,309
Current assets			
Inventories	10	**92,745**	98,682
Trade and bills receivables	11	**265,490**	237,293
Prepayments, deposits and other receivables		**36,663**	35,943
Current income tax recoverable		**253**	2,204
Cash and cash equivalents		**380,671**	357,171
Total current assets		**775,822**	731,293
Total assets		**1,092,600**	930,602

	Notes	**30 September 2019** *HK$'000* **(Unaudited)**	31 March 2019 *HK$'000* (Audited)
EQUITY			
Capital and reserves			
Share capital	12	**60,000**	60,000
Share premium	12	**26,135**	26,135
Reserves		**441,819**	434,530
Capital and reserves attributable to owners of the Company		**527,954**	520,665
Non-controlling interests		**3,683**	3,651
Total equity		**531,637**	524,316
LIABILITIES			
Non-current liabilities			
Obligations under finance leases		**—**	5,233
Leases liabilities		**93,681**	—
Deferred income tax liabilities		**8,710**	7,327
Total non-current liabilities		**102,391**	12,560
Current liabilities			
Trade and other payables	13	**194,133**	183,322
Obligations under finance leases		**—**	7,127
Leases liabilities		**49,912**	—
Unsecured borrowings from a related company	14	**210,000**	200,000
Current income tax liabilities		**4,527**	3,277
Total current liabilities		**458,572**	393,726
Total liabilities		**560,963**	406,286
Total equity and liabilities		**1,092,600**	930,602
Net current assets		**317,250**	337,567
Total assets less current liabilities		**634,028**	536,876

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2019

	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 2019 (audited)	**60,000**	**26,135**	**3,445**	**53,641**	**9,615**	**367,829**	**520,665**	**3,651**	**524,316**
Profit for the period	**—**	**—**	**—**	**—**	**—**	**31,521**	**31,521**	**32**	**31,553**
Other comprehensive expense for the period:									
Exchange differences on translation of foreign operations	**—**	**—**	**—**	**—**	**(24,232)**	**—**	**(24,232)**	**—**	**(24,232)**
Total comprehensive (expense)/income for the period	**—**	**—**	**—**	**—**	**(24,232)**	**31,521**	**7,289**	**32**	**7,321**
Transfer of retained profits to statutory reserve	**—**	**—**	**—**	**3,078**	**—**	**(3,078)**	**—**	**—**	**—**
Balance at 30 September 2019 (unaudited)	**60,000**	**26,135**	**3,445**	**56,719**	**(14,617)**	**396,272**	**527,954**	**3,683**	**531,637**

	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

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 ("**Massive Force**"), 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 22 November 2019.

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 2019 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 2019, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the HKICPA.

3. PRINCIPAL ACCOUNTING POLICIES

The interim condensed consolidated financial information has been prepared on the historical cost basis.

The accounting policies used in the interim condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 March 2019, except as described below.

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning 1 April 2019.

HKFRS 16	Leases
HKFRIC-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

The adoption of HKFRS 16 resulted in changes in the Group's accounting policies and adjustments to the amounts recognised in the interim condensed consolidated financial information. The new accounting policies are set out in note 4 below. The application of other new and amendments to 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.

3.1 Impacts on adoption of HKFRS 16 *Leases*

HKFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating lease and finance lease and requiring the recognition of right-of-use asset and a lease liability for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged. Details of these new accounting policies are described in note 4. The Group has applied HKFRS 16 *Leases* modified retrospectively and has not restated comparatives for the reporting period as permitted under the specific transitional provisions in the standard. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 17 *Leases*.

On transition to HKFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which arrangements are, or contain, leases. It applied HKFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under HKAS 17 and HKFRIC-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

The major impacts of the adoption of HKFRS 16 on the Group's interim condensed consolidated financial information are described below:

The Group as lessee

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17 *Leases* (except for lease of low value assets and lease with remaining lease term of twelve months or less). These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 April 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 April 2019 was 4.85%.

The Group recognises right-of-use assets and measures them at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments.

The Group leases certain plant and equipment and motor vehicles. These leases were classified as finance leases under HKAS 17. For these finance leases, the carrying amount of the right-of-use assets and the lease liabilities at 1 April 2019 were determined at the carrying amount of the lease assets included in property, plant and equipment and obligations under finance leases under HKAS 17 immediately before that date. Accordingly, the obligations under finance leases previously presents as a separate line item is now included within lease liabilities, and the carrying amount of the corresponding leased assets are identified as right-of-use assets. There is no impact on the opening balance of equity.

The following table summarises the impact of transition to HKFRS 16 at 1 April 2019. Line items that were not affected by the adjustments have not been included.

	Notes	**Carrying amounts previously reported at 31 March 2019** ***HK$'000***	**Impact on adoption of HKFRS 16** ***HK$'000***	**Carrying amounts previously reported at 1 April 2019** ***HK$'000***
Property, plant and equipment	(a)	190,450	(20,568)	169,882
Right-of-use assets	(a), (b)	—	174,381	174,381
Obligations under finance leases	(a)	12,360	(12,360)	—
Lease liabilities	(a), (b)	—	166,173	166,173

Notes:

(a) The obligations under finance leases of approximately HK$12,360,000 previously presents as a separate line item as at 31 March 2019 are now included within lease liabilities under HKFRS 16. The carrying amount of the related assets under finance leases amounting to approximately HK$20,568,000 included in property, plant and equipment is reclassified to right-of-use assets.

(b) As at 1 April 2019, the Group recognised right-of-use assets at an amount equal to the lease liabilities of approximately HK$153,813,000 in respect of leases of buildings.

3.2 Practical expedients applied

On the date of initial application of HKFRS 16, the Group has used the following practical expedients permitted by the standard:

- not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HKFRIC-Int 4 *Determining whether an Arrangement contains a Lease*;
- reliance on previous assessments on whether leases are onerous by applying HKAS 37 as an alternative to performing an impairment review; and
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application.

4. CHANGE IN ACCOUNTING POLICIES

Leases

Definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

The Group as lessee

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

At the commencement date, the Group measures lease liability at the present value of the lease payments that are not paid at that date. The lease payments are discounted by using the interest rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments.

The lease liability is presented as a separate line in the interim condensed consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

Right-of-use assets

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement date and any initial direct costs, less lease incentives received.

Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses. They are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease.

The Group presents right-of-use assets as a separate line item on the condensed consolidated statement of financial position.

The Group applies HKAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Impairment losses on tangible assets and intangible assets" policy as stated in the Group's annual consolidated financial statements for the year ended 31 March 2019.

5. 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, 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 information provided to the CODM for the reportable segments is as follows:

(i) For the six months ended 30 September 2019

	Metal stamping *HK$'000* (Unaudited)	Metal lathing *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment revenue			
Sales	**372,774**	**156,723**	**529,497**
Intersegment sales	**(81)**	**(1,044)**	**(1,125)**
Sales to external customers	**372,693**	**155,679**	**528,372**
Cost of sales	**(274,814)**	**(123,457)**	**(398,271)**
Segment gross profit	**97,879**	**32,222**	**130,101**
Unallocated expenses, net			**(81,303)**
Finance income			**177**
Finance costs			**(9,331)**
Profit before tax			**39,644**
Income tax expenses			**(8,091)**
Profit for the period			**31,553**

	Metal stamping *HK$'000* (Unaudited)	Metal lathing *HK$'000* (Unaudited)	Unallocated *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Amounts included in the measure of segment profit:				
Depreciation	**25,134**	**12,686**	**2,739**	**40,559**

(ii) 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

	Metal stamping *HK$'000* (Unaudited)	Metal lathing *HK$'000* (Unaudited)	Unallocated *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Amounts included in the measure of segment profit:				
Depreciation	10,057	7,989	2,720	20,766
Amounts regularly provided to the CODM but not included in the measure of segment profit:				
Amortisation	230	—	—	230

(b) The segment assets are as follows:

(i) As at 30 September 2019

	Metal stamping *HK$'000* (Unaudited)	Metal lathing *HK$'000* (Unaudited)	Total *HK$'000* (Unaudited)
Segment assets	**440,833**	**254,651**	**695,484**
Reconciliation			
Corporate and other unallocated assets:			
Deferred income tax assets			**1,501**
Current income tax recoverable			**253**
Cash and cash equivalents			**380,671**
Other unallocated head office and corporate assets *(Note)*			**14,691**
Total assets			**1,092,600**

(ii) As at 31 March 2019

	Metal stamping *HK$'000* (Audited)	Metal lathing *HK$'000* (Audited)	Total *HK$'000* (Audited)
Segment assets			
Reconciliation	297,518	254,961	552,479
Corporate and other unallocated assets:			
Deferred income tax assets			1,890
Current income tax recoverable			2,204
Cash and cash equivalents			357,171
Other unallocated head office and corporate assets *(Note)*			16,858
Total assets			930,602

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

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

(i) Six months ended 30 September 2019

	Metal stamping *HK$'000* (Unaudited)	**Metal lathing** *HK$'000* (Unaudited)	**Total** *HK$'000* (Unaudited)
Geographical region			
The PRC	**212,186**	**124,768**	**336,954**
North America	**65,505**	**16,712**	**82,217**
Singapore	**64,157**	**37**	**64,194**
Europe	**19,191**	**13,912**	**33,103**
Japan	**5,788**	**—**	**5,788**
Others	**5,866**	**250**	**6,116**
Total	**372,693**	**155,679**	**528,372**

(ii) 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
Singapore	25,902	139	26,041
Europe	18,684	17,002	35,686
Japan	9,127	—	9,127
Others	8,126	842	8,968
Total	355,452	165,920	521,372

6. PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Cost of inventories sold	**397,978**	381,655
Write-down of inventories (included in cost of sales)	**293**	2,290
Reversals of inventories (included in cost of sales)	**—**	(376)
Depreciation of property, plant and equipment	**15,351**	20,766
Depreciation of right-of-use assets	**25,208**	—
Amortisation of leasehold land and land use rights	**—**	230
Minimum lease payment paid under operating lease rentals in respect of rented premises	**—**	13,642

7. INCOME TAX EXPENSES

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Current income tax		
— Hong Kong	**1,210**	—
— The PRC	**6,150**	7,720
— Withholding tax	**—**	378
Adjustments in respect of		
— Over-provision in respect of prior years	**(1,001)**	(501)
	6,359	7,597
Deferred income tax	**1,732**	3,274
Total	**8,091**	10,871

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 2019 and 2018.

(a) Hong Kong profits tax

For the six months ended 30 September 2019, Hong Kong profits tax of the qualified entity of the Group is calculated in accordance with the two-tiered profits tax rates regime. Under the two-tiered profits tax rates regime, the first HK$2,000,000 of profits of qualifying entity will be taxed at 8.25%, and profits above HK$2,000,000 will be taxed at 16.5%. The profits of other Group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%. No tax is payable on the profit arising in Hong Kong for the six months ended 30 September 2018 since the Group did not have any assessable profits generated.

(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 2019 is provided at the rate of 25% (2018: 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 dividend withholding 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 2019, a lower 5% (2018: 5%) PRC dividend withholding 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 in the year ended 31 March 2018.

8. PROPERTY, PLANT AND EQUIPMENT

	Six months ended 30 September	
	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
At 1 April	**190,450**	382,247
Additions	**11,830**	13,356
Disposals	**(1,262)**	(502)
Depreciation	**(15,351)**	(20,766)
Reversal of impairment loss	**217**	—
Non-current assets held for sale	**—**	(159,736)
Right-of-use assets *(Note)*	**(20,568)**	—
Exchange differences	**(7,415)**	(22,185)
At 30 September	**157,901**	192,414

Note: Upon adoption of HKFRS 16, on 1 April 2019, the carrying amount of the related assets under finance leases amounting to approximately HK$19,799,000 and HK$769,000 in respect of plant and machinery and motor vehicles, respectively was reclassified to right-of-use assets.

9. LEASEHOLD LAND AND LAND USE RIGHTS

	2019	2018
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
At 1 April	—	23,925
Amortisation	—	(230)
Classified as held for sales	—	(21,969)
Exchange differences	—	(1,726)
At 30 September	—	—

10. INVENTORIES

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Raw materials	**31,067**	32,693
Work in progress	**16,509**	18,827
Finished goods	**45,169**	47,162
	92,745	98,682

11. TRADE AND BILLS RECEIVABLES

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Bills receivables *(Note (a))*	**2,886**	7,605
Trade receivables *(Note (b))*	**262,604**	229,688
	265,490	237,293

Notes:

(a) The ageing analysis of bills receivables presented based on the issue date at the end of the reporting period is as follows:

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 3 months	**2,886**	7,605

(b) The Group normally grants credit periods of 30 to 90 days (31 March 2019: 30 to 90 days). The following is an aged analysis of trade receivables based on the date of delivery, which approximates the respective revenue recognition dates, at the end of the reporting period:

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 3 months	**238,647**	197,058
3 to 6 months	**23,002**	29,983
6 months to 1 year	**760**	1,904
1 to 2 years	**195**	743
	262,604	229,688

12. SHARE CAPITAL AND SHARE PREMIUM

Ordinary shares of HK$0.1 each

	Number of shares	**Share capital**	**Share premium**	**Total**
		HK$'000	*HK$'000*	*HK$'000*
Authorised				
At 30 September 2019 and 31 March 2019	4,500,000,000	450,000		
Issued and fully paid				
At 30 September 2019 and 31 March 2019	600,000,000	60,000	26,135	86,135

13. TRADE AND OTHER PAYABLES

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade payables *(Note)*		
— third parties	**121,522**	112,039
— related companies	**142**	290
	121,664	112,329
Accruals and other payables	**72,469**	70,993
	194,133	183,322

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

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Up to 3 months	**115,744**	107,317
3 to 6 months	**5,353**	4,440
6 months to 1 year	**247**	213
1 to 2 years	**320**	359
	121,664	112,329

14. UNSECURED BORROWINGS FROM A RELATED COMPANY

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Due for repayment within 1 year which contains a repayment on demand clause	**210,000**	200,000

During the six months ended 30 September 2019, unsecured borrowings of HK$210,000,000 (31 March 2019: HK$200,000,000) were advanced from Kingdom International Group Limited ("**KIG**"), a company in which a director of the Company, namely Mr. Wong Chi Kwok ("**Mr. Wong**"), (31 March 2019: two directors of the Company, namely Mr. Sun Kwok Wah Peter ("**Mr. Sun**") and Mr. Wong) has beneficial interest in, of which HK$210,000,000 (31 March 2019: HK$200,000,000) contain a repayment on demand clause.

The interest rate of the unsecured borrowings from a related company is at prime rate which 5.38% per annum (31 March 2019: 5.25% to 5.38% per annum).

During the six months ended 30 September 2019, Mr. Sun disposed of his entire beneficial interests in KIG to his close family member and on 6 May 2019, he resigned as the sole director of KIG.

15. EARNINGS PER SHARE

Basic and diluted earnings per share

	Six months ended 30 September	
	2019	2018
	(Unaudited)	(Unaudited)
Profit attributable to owners of the Company *(HK$'000)*	**31,521**	31,578
Weighted average number of shares in issue *('000)*	**600,000**	600,000
Basic and diluted earnings per share *(HK cents per share)*	**5.25**	5.26

Basic earnings per share for the six months ended 30 September 2019 and 2018 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 2019 and 2018.

16. DIVIDEND

No dividend was paid, declared or proposed during the six months ended 30 September 2019, nor has any dividend been proposed since the end of the reporting period (2018: nil).

17. CAPITAL COMMITMENTS

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Contracted but not provided for		
— Plant and machinery	**1,549**	1,732
— Capital investment	**5,270**	5,270
	6,819	7,002

18. COMPARATIVE FIGURES

Rental deposits with amount of approximately HK$6,969,000 as at 31 March 2019 included in prepayments, deposits and other receivables has been reclassified to non-current assets to conform with current period's presentation.

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 22 November 2019.

BUSINESS REVIEW

During the Reporting Period, the trade disputes between China and the United States of America (the "**US**") continuously affected the business environment of the Group and created significant uncertainties on the global economy. The demand in the manufacturing industries was therefore inevitably affected. Further to the global trade difficulties, the foreign exchange rate of Renminbi ("**RMB**") was even more volatile than before. Meanwhile, the Group was still under the pressure from the increase in material cost, labour cost and operating costs in the PRC.

However, the Group exerted efforts in broadening its customer base and made a slight revenue growth during the Reporting Period. The Group recorded revenue amounted to approximately HK$528.4 million for the Reporting Period, with an increase by approximately HK$7.0 million or 1.3% as compared to a revenue amounted to approximately HK$521.4 million during the corresponding period last year.

During the Reporting Period, revenue generated from the Group's metal stamping segment was approximately HK$372.7 million with an increase by approximately HK$17.2 million or 4.8% as compared to that 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 and consumer electronics industry, the Group sought to increase revenue derived from customers engaged in network and data storage industry and finance equipment industry during the Reporting Period.

Regarding the metal lathing segment, the Group recorded revenue of approximately HK$155.7 million during the Reporting Period. As compared to the revenue of approximately HK$165.9 million in the corresponding period last year, revenue derived from the metal lathing segment decreased by approximately HK$10.2 million or 6.2%. The decrease was mainly attributable to the lower demand from the customers who engaged in the consumer electronics industry as well as medical and test equipment industry during the Reporting Period.

Due to the changes in product mix and the increase in production costs, the overall gross profit margin of the Group decreased from approximately 26.4% in the corresponding period last year to approximately 24.6% in the Reporting Period. As such, the total gross profit of the Group decreased by approximately HK$7.7 million from approximately HK$137.8 million during the corresponding period last year to approximately HK$130.1 million during the six months ended 30 September 2019.

As a result of the above, the Group recorded a net profit of approximately HK$31.6 million during the Reporting Period, as compared with a net profit of approximately HK$32.2 million during the corresponding period last year.

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2019, revenue of the Group was approximately HK$528.4 million, representing an increase of approximately HK$7.0 million or 1.3% from approximately HK$521.4 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			
	2019		2018	
	HK$'000	*%*	*HK$'000*	*%*
	(Unaudited)		(Unaudited)	
Metal stamping	**372,693**	**70.5**	355,452	68.2
Metal lathing	**155,679**	**29.5**	165,920	31.8
	528,372	**100.0**	521,372	100.0

Revenue derived from the metal stamping segment increased by approximately HK$17.2 million or 4.8% from approximately HK$355.5 million for the six months ended 30 September 2018 to approximately HK$372.7 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 and finance equipment industry, despite the decrease in demand from the customers who engaged in office automation industry and consumer electronics industry.

Revenue derived from the metal lathing segment decreased by approximately HK$10.2 million or 6.2% from approximately HK$165.9 million for the six months ended 30 September 2018 to approximately HK$155.7 million for the Reporting Period. The decrease was mainly attributed to the decrease in demand from the customers who engaged in the consumer electronics industry as well as medical and test equipment industry.

Geographically, the PRC, North America, Singapore and Europe continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 63.8%, 15.6%, 12.1% and 6.3% 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 5(c) to 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 mainly consists of direct materials, direct labour, processing fee and other direct overheads (including the write-down of inventories as disclosed in Note 6 to 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			
	2019		2018	
	HK$'000	*%*	*HK$'000*	*%*
	(Unaudited)		(Unaudited)	
Direct material	**226,421**	**56.9**	216,935	56.6
Direct labour	**76,723**	**19.3**	79,048	20.6
Processing fee	**50,989**	**12.8**	53,358	13.9
Other direct overheads	**44,138**	**11.0**	34,228	8.9
	398,271	**100.0**	383,569	100.0

During the Reporting Period, cost of sales of the Group increased by approximately HK$14.7 million or 3.8% 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 costs and the change in product mix during the Reporting Period. Due to the increase in, mainly, raw material cost and other direct overheads, the percentage of cost of sales to the total revenue during the Reporting Period was approximately 75.4%, representing an increase of approximately 1.8%, as compared to approximately 73.6% 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 24.6%, with a decrease by approximately 1.8% as compared to approximately 26.4% in the corresponding period last year. The decrease in gross profit margin was mainly due to the increase in raw material cost and other direct overheads.

In respect of the Group's metal stamping segment, gross profit margin decreased from approximately 27.7% for the six months ended 30 September 2018 to approximately 26.3% during the Reporting Period. Such decrease was mainly the result of higher production costs and change in product mix during the Reporting Period.

In respect of the Group's metal lathing segment, gross profit margin decreased from approximately 23.7% for the six months ended 30 September 2018 to approximately 20.7% 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 5(a) to this interim results announcement.

Other gains, net

During the Reporting Period, the Group recorded other gains, net which amounted to approximately HK$27.9 million. In the corresponding period last year, the Group recorded other gains, net of approximately HK$27.2 million. The slight change in the other gains, net was mainly due to a decrease in net exchange gains, which was partially offset by an increase in government subsidies during the Reporting Period.

Distribution and selling expenses

Distribution and selling expenses represented 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 remained relatively stable at approximately HK$11.6 million and HK$11.4 million for the six months ended 30 September 2019 and 2018, respectively.

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 slightly decreased from approximately HK$99.8 million for the six months ended 30 September 2018 to approximately HK$97.6 million for the Reporting Period. The decrease was mainly due to the decrease in depreciation, which was partially offset by an increase in rental expenses during the Reporting Period.

Finance costs

The Group's finance costs represented interest expenses on finance lease and unsecured borrowings from a related company and finance costs of operating lease upon adoption of HKFRS 16 "Lease". During the Reporting Period, the Group's finance costs was approximately HK$9.3 million, as compared to approximately HK$10.8 million for the corresponding period last year. The decrease in finance costs was mainly due to a decrease in average balances of borrowings as compared to corresponding period last year, which was partially offset by an increase in finance costs as result of adoption of HKFRS 16 "Lease".

Income tax expenses

The Group's income tax expenses amounted to approximately HK$8.1 million for the Reporting Period, while the Group's income tax expenses for the six months ended 30 September 2018 amounted to approximately HK$10.9 million. The decrease was mainly attributable to the decrease in taxable profit during the Reporting Period.

During the year ended 30 September 2019, the Group's effective tax rate was approximately 20.4%, while the same for the corresponding period last year was approximately 25.3%. The decrease was mainly due to larger amount of reversal of over-provision in respect of prior year and less deferred income tax on undistributed profit in respect of less profit being generated from subsidiaries in the PRC during the Reporting Period.

Profit attributable to owners of the Company

For the Reporting Period, profit attributable to owners of the Company amounted to approximately HK$31.5 million, while there was profit attributable to owners of the Company amounted to approximately HK$31.6 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 2019 and 31 March 2019, the Group's total current assets amounted to approximately HK$775.8 million and HK$731.3 million respectively, which represented approximately 71.0% and 78.6% of the Group's total assets as at 30 September 2019 and 31 March 2019, respectively.

Capital structure

The Group's capital structure is summarised as follows:

	30 September 2019	31 March 2019
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Unsecured borrowings from a related company	**210,000**	200,000
Total debts	**210,000**	200,000
Shareholders' equity	**531,637**	524,316
Gearing ratio		
— Total debts to shareholders' equity ratio#	**39.5%**	38.1%

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

Total debts comprise unsecured borrowings from a related company. For the Reporting Period, the Group generally financed its operation primarily with internal generated cash flows and unsecured borrowings from a related company.

Details of the Group's unsecured borrowings from a related company as at 30 September 2019 are set out in Note 14 to this interim results announcement.

As at 30 September 2019, the Group's 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) 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$11.8 million, as compared to the six months ended 30 September 2018 of approximately HK$13.4 million.

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 2019 and 31 March 2019, no borrowing of the Group was secured by assets 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 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

Details of the Group's capital commitments as at 30 September 2019 are set out in Note 17 to this interim results announcement.

Contingent liabilities

As at 30 September 2019, the Group had no material contingent liabilities.

OUTLOOK AND STRATEGY

Looking forward, uncertainties arising from Sino-US trade disputes will likely continue for a period of time and may lead to a slower economic growth and greater currency fluctuations. Major economies have signaled a deteriorating situation with considerable uncertainties in economic and trade conditions which may persist in the near future. Meanwhile, the difficulties faced by manufacturing industries in the PRC are expected to subsist. The increasing labour cost, material cost and production costs in the PRC will remain the major challenges to the Group. It is also expected that a certain number of the Group's customers will continue to relocate their businesses to lower cost regions such as the Southeast Asia.

Facing the challenges and uncertainties in the business and economic outlook, the Group will put effort in looking for means to strengthen the business model, improve its flexibility and enhance the robustness against uncertainties. In the coming year, even though a certain proportion of revenue derived from export to the US will be affected by the Sino-US trade disputes, the management is closely assessing and monitoring the development of the trade dispute. The Group will take appropriate actions to mitigate those impacts when necessary. In response to the recent economic downward trend, the Group will put more efforts in broadening its customer base and developing more new customers in the region. The Group will also strive to maintain good relationships with existing customers and devote more effort in enhancing the overall operational efficiency. The Group will also continue to streamline its operations by effective allocation of resources to enhance its overall efficiency, if necessary. 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.

SUBSEQUENT EVENT

The Group had 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 2019, the Group had a total number of 2,096 full-time employees (As at 30 September 2018: 2,144). 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 2019.

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 2019.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2019.

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 2019 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 2019, the Group did not conduct any 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 2019.

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 2019 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.