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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 2020**

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 2020 (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 2019.

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

Hong Kong, 24 November 2020

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 2020

		Six months ended	
		30 September	
	<i>Notes</i>	2020	2019
		HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Revenue	4	346,389	528,372
Cost of sales		<u>(262,677)</u>	<u>(398,271)</u>
Gross profit		83,712	130,101
Other (losses)/gains, net		(2,288)	27,921
Distribution and selling expenses		(4,477)	(11,636)
General and administrative expenses		(48,765)	(97,588)
Finance income		3,495	177
Finance costs		<u>(5,482)</u>	<u>(9,331)</u>
Profit before tax	5	26,195	39,644
Income tax expenses	6	<u>(4,204)</u>	<u>(8,091)</u>
Profit for the period		21,991	31,553
Other comprehensive income/(expense) for the period:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>7,069</u>	<u>(24,232)</u>
Total comprehensive income for the period		<u>29,060</u>	<u>7,321</u>
Profit for the period attributable to:			
– Owners of the Company		21,748	31,521
– Non-controlling interests		<u>243</u>	<u>32</u>
		<u>21,991</u>	<u>31,553</u>
Total comprehensive income attributable to:			
– Owners of the Company		28,817	7,289
– Non-controlling interests		<u>243</u>	<u>32</u>
		<u>29,060</u>	<u>7,321</u>
EARNINGS PER SHARE			
– Basic and diluted (<i>HK cents</i>)	13	<u>3.62</u>	<u>5.25</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2020

		30 September	31 March
		2020	2020
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Plant and equipment	7	139,351	132,010
Right-of-use assets		32,551	42,364
Prepayments and deposits		13,902	3,255
Deferred income tax assets		632	667
		<hr/>	<hr/>
Total non-current assets		186,436	178,296
		<hr/>	<hr/>
Current assets			
Inventories	8	71,534	64,642
Trade and bills receivables	9	174,327	165,780
Prepayments, deposits and other receivables		16,930	29,408
Current income tax recoverable		–	829
Restricted bank deposits		1,474	–
Cash and cash equivalents		402,289	386,354
		<hr/>	<hr/>
Total current assets		666,554	647,013
		<hr/>	<hr/>
Total assets		852,990	825,309
		<hr/> <hr/>	<hr/> <hr/>

		30 September 2020	31 March 2020
	<i>Notes</i>	HK\$'000 (Unaudited)	HK\$'000 (Audited)
EQUITY			
Capital and reserves			
Share capital	<i>10</i>	60,000	60,000
Share premium	<i>10</i>	26,135	26,135
Reserves		451,152	422,335
Capital and reserves attributable to owners of the Company			
Non-controlling interests		3,882	3,639
Total equity		541,169	512,109
LIABILITIES			
Non-current liabilities			
Lease liabilities		5,356	18,362
Deferred income tax liabilities		1,913	879
Total non-current liabilities		7,269	19,241
Current liabilities			
Trade and other payables	<i>11</i>	100,467	94,871
Lease liabilities		33,175	29,727
Unsecured borrowings from a related company	<i>12</i>	166,000	166,000
Current income tax liabilities		4,910	3,361
Total current liabilities		304,552	293,959
Total liabilities		311,821	313,200
Total equity and liabilities		852,990	825,309
Net current assets		362,002	353,054
Total assets less current liabilities		548,438	531,350

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

	Attributable to owners of the Company							Non-controlling interests	Total equity
	Share capital	Share premium	Capital reserve	Statutory reserve	Exchange reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 April 2020 (audited)	60,000	26,135	2,358	47,256	(3,224)	375,945	508,470	3,639	512,109
Profit for the period	-	-	-	-	-	21,748	21,748	243	21,991
Other comprehensive income for the period:									
Exchange differences on translation of foreign operations	-	-	-	-	7,069	-	7,069	-	7,069
Total comprehensive income for the period	-	-	-	-	7,069	21,748	28,817	243	29,060
Transfer of retained profits to statutory reserve	-	-	-	2,996	-	(2,996)	-	-	-
Balance at 30 September 2020 (unaudited)	60,000	26,135	2,358	50,252	3,845	394,697	537,287	3,882	541,169

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

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 24 November 2020.

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 2020 have been prepared in accordance with the applicable disclosure provisions of Appendix 16 to the Main Board Listing 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 2020, 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 use 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 2020, except as described below.

In the current interim period, the Group has applied, for the first time, the Amendments to References to the Conceptual Framework in HKFRSs and the following amendments to HKFRSs issued by the HKICPA which are effective for the Group’s financial year beginning 1 April 2020.

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest rate Benchmark Reform

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRSs and the amendments to HKFRSs in the current interim period has had no material effect 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.

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional “concentration test” that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The Group has applied the amendments prospectively to transactions for which the acquisition date is on or after 1 April 2020. These amendments had no impact on the interim condensed consolidated financial information of the Group, but may impact future periods should the Group enter into any business combinations.

Amendments to HKAS 1 and HKAS 8, *Definition of Material*

The amendments provide a new definition of material that states “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.” The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. These amendments had no impact on the interim condensed consolidated financial information of, nor is there expected to be any future impact to the Group.

4. 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 (losses)/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 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 2020

	Metal stamping <i>HK\$'000</i> (Unaudited)	Metal lathing <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	
Segment revenue				
Sales	184,460	161,947	346,407	
Intersegment sales	(18)	–	(18)	
	<u>184,442</u>	<u>161,947</u>	<u>346,389</u>	
Sales to external customers	184,442	161,947	346,389	
Cost of sales	(150,263)	(112,414)	(262,677)	
	<u>34,179</u>	<u>49,533</u>	83,712	
Segment gross profit	<u>34,179</u>	<u>49,533</u>	83,712	
Unallocated expenses, net			(55,530)	
Finance income			3,495	
Finance costs			(5,482)	
			<u>26,195</u>	
Profit before tax			26,195	
Income tax expenses			(4,204)	
			<u>21,991</u>	
Profit for the period			<u>21,991</u>	
	Metal stamping <i>HK\$'000</i> (Unaudited)	Metal lathing <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Amounts included in the measures of segment profit:				
Depreciation	<u>12,416</u>	<u>12,656</u>	<u>1,095</u>	<u>26,167</u>

(ii) For the six months ended 30 September 2019

	Metal stamping <i>HK\$'000</i> (Unaudited)	Metal lathing <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)	
Segment revenue				
Sales	372,774	156,723	529,497	
Intersegment sales	<u>(81)</u>	<u>(1,044)</u>	<u>(1,125)</u>	
Sales to external customers	372,693	155,679	528,372	
Cost of sales	<u>(274,814)</u>	<u>(123,457)</u>	<u>(398,271)</u>	
Segment gross profit	<u>97,879</u>	<u>32,222</u>	130,101	
Unallocated expenses, net			(81,303)	
Finance income			177	
Finance costs			<u>(9,331)</u>	
Profit before tax			39,644	
Income tax expenses			<u>(8,091)</u>	
Profit for the period			<u>31,553</u>	
	Metal stamping <i>HK\$'000</i> (Unaudited)	Metal lathing <i>HK\$'000</i> (Unaudited)	Unallocated <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Amounts included in the measure of segment profit:				
Depreciation	<u>25,134</u>	<u>12,686</u>	<u>2,739</u>	<u>40,559</u>

(b) The segment assets are as follows:

(i) As at 30 September 2020

	Metal stamping <i>HK\$'000</i> (Unaudited)	Metal lathing <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Segment assets			
Reconciliation	188,175	247,795	435,970
Corporate and other unallocated assets:			
Deferred income tax assets			632
Restricted bank deposits			1,474
Cash and cash equivalents			402,289
Other unallocated head office and corporate assets (<i>Note</i>)			<u>12,625</u>
Total assets			<u><u>852,990</u></u>

(ii) As at 31 March 2020

	Metal stamping <i>HK\$'000</i> (Audited)	Metal lathing <i>HK\$'000</i> (Audited)	Total <i>HK\$'000</i> (Audited)
Segment assets			
Reconciliation	174,465	245,801	420,266
Corporate and other unallocated assets:			
Deferred income tax assets			667
Current income tax recoverable			829
Cash and cash equivalents			386,354
Other unallocated head office and corporate assets (<i>Note</i>)			<u>17,193</u>
Total assets			<u><u>825,309</u></u>

Note: Other unallocated head office and corporate assets include certain plant and equipment, certain right-of-use assets 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 2020**

	Metal stamping <i>HK\$'000</i> (Unaudited)	Metal lathing <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Geographical region			
The PRC	131,257	125,379	256,636
North America	29,476	12,556	42,032
Europe	11,126	23,832	34,958
Singapore	5,534	3	5,537
Japan	9	–	9
Others	7,040	177	7,217
	<u>184,442</u>	<u>161,947</u>	<u>346,389</u>
Total	<u>184,442</u>	<u>161,947</u>	<u>346,389</u>

(ii) **Six months ended 30 September 2019**

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

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Cost of inventories sold	262,677	397,978
Write-down of inventories (included in cost of sales)	–	293
Depreciation of plant and equipment	12,361	15,351
Depreciation of right-of-use assets	13,806	25,208
	<u>292,644</u>	<u>443,830</u>

6. INCOME TAX EXPENSES

	Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Current income tax		
– Hong Kong	–	1,210
– The PRC	3,042	6,150
Adjustments in respect of		
– Under-provision/(Over-provision) in respect of prior years	81	(1,001)
	<u>3,123</u>	<u>6,359</u>
Deferred income tax	<u>1,081</u>	<u>1,732</u>
Total	<u><u>4,204</u></u>	<u><u>8,091</u></u>

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 jurisdictions in which the entities operate.

Below are the major tax jurisdictions that the Group operates in for the six months ended 30 September 2020 and 2019.

(a) Hong Kong profits tax

For the six months ended 30 September 2020 and 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% (2019: 16.5%).

(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 2020 is provided at the rate of 25% (2019: 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% 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 2020, a lower 5% (2019: 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.

7. PLANT AND EQUIPMENT

	Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
At 1 April	132,010	190,450
Additions	17,416	11,830
Disposals	(154)	(1,262)
Depreciation	(12,361)	(15,351)
Reversal of impairment loss	–	217
Right-of-use assets (<i>Note</i>)	–	(20,568)
Exchange differences	2,440	(7,415)
	<u>139,351</u>	<u>157,901</u>
At 30 September	<u>139,351</u>	<u>157,901</u>

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.

8. INVENTORIES

	30 September	31 March
	2020 HK\$'000 (Unaudited)	2020 HK\$'000 (Audited)
Raw materials	22,777	27,752
Work in progress	10,654	16,823
Finished goods	38,103	20,067
	<u>71,534</u>	<u>64,642</u>

9. TRADE AND BILLS RECEIVABLES

	30 September	31 March
	2020 HK\$'000 (Unaudited)	2020 HK\$'000 (Audited)
Bills receivables (<i>Note (a)</i>)	2,436	8,159
Trade receivables (<i>Note (b)</i>)		
– third parties	171,840	157,510
– a related company	51	111
	<u>171,891</u>	<u>157,621</u>
	<u>174,327</u>	<u>165,780</u>

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 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Up to 3 months	<u>2,436</u>	<u>8,159</u>

- (b) The Group normally grants credit periods of 30 to 90 days (31 March 2020: 30 to 90 days). The following is an ageing analysis of trade receivables presented based on the date of delivery, which approximates the respective revenue recognition dates, at the end of the reporting period:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Up to 3 months	148,538	127,321
3 to 6 months	20,935	28,053
6 months to 1 year	1,547	2,215
1 to 2 years	871	32
	<u>171,891</u>	<u>157,621</u>

10. 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 2020 and 31 March 2020	<u>4,500,000,000</u>	<u>450,000</u>		
Issued and fully paid				
At 30 September 2020 and 31 March 2020	<u>600,000,000</u>	<u>60,000</u>	<u>26,135</u>	<u>86,135</u>

11. TRADE AND OTHER PAYABLES

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade payables (<i>Note</i>)		
– third parties	72,396	67,164
– related companies	192	2,080
	<u>72,588</u>	<u>69,244</u>
Accruals and other payables	27,879	25,627
	<u>100,467</u>	<u>94,871</u>

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 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Up to 3 months	66,918	63,673
3 to 6 months	5,409	5,417
6 months to 1 year	105	91
1 to 2 years	156	63
	<u>72,588</u>	<u>69,244</u>

12. UNSECURED BORROWINGS FROM A RELATED COMPANY

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Due for repayment within 1 year which contains a repayment on demand clause	<u>166,000</u>	<u>166,000</u>

As at 30 September 2020, unsecured borrowings of HK\$166,000,000 (31 March 2020: HK\$166,000,000) were advanced from Kingdom International Group Limited, a related company in which the director of the Company, namely Mr. Wong Chi Kwok, has beneficial interests in and which is repayable within 12 months from the end of the reporting period and contains a repayment on demand clause.

The interest rate of the unsecured borrowings from a related company is at prime rate of 5.25% per annum (31 March 2020: ranged from 5.25% to 5.38% per annum).

13. EARNINGS PER SHARE

Basic and diluted earnings per share

	Six months ended 30 September	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Profit attributable to owners of the Company (HK\$'000)	21,748	31,521
Weighted average number of shares in issue ('000)	600,000	600,000
Basic and diluted earnings per share (HK cents per share)	3.62	5.25

Basic earnings per share for the six months ended 30 September 2020 and 2019 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 2020 and 2019.

14. DIVIDEND

No dividend was paid, declared or proposed during the six months ended 30 September 2020, nor has any dividend been proposed since the end of the reporting period (six months ended 30 September 2019: nil).

15. CAPITAL COMMITMENTS

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
	Authorised or contracted for but not provided:	
– Plant and machinery	416	11,284
– Capital investment	5,270	5,270
	<u>5,686</u>	<u>16,554</u>

16. EVENT AFTER THE REPORTING PERIOD

Subsequent to the reporting period, Reliance Technology (Huizhou) Company Limited* 德利賽科技(惠州)有限公司, an indirect wholly-owned subsidiary of the Company, entered into a leasing agreement of a factory for a term of six years with an independent third party, at a monthly rent of RMB873,000 for the first three years and shall be increased by 12% for the rest of the term. Right-of-use assets and lease liabilities of the Group will be increased upon recognition of the lease at the commencement date. Details of the leasing arrangement are set out in the Company's announcements dated 27 October 2020, 3 November 2020, 17 November 2020 and 23 November 2020.

* The English name is for identification purpose only

REVIEW OF INTERIM RESULTS

The interim results and the interim condensed consolidated financial information of the Group for the Reporting Period, after being reviewed by the audit committee of the Company (the “**Audit Committee**”) and by the Company’s auditor in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants, were approved by the Board on 24 November 2020.

BUSINESS REVIEW

During the Reporting Period, the trade disputes between China and the United States of America (the “**US**”) and the outbreak of COVID-19 continuously affected the business environment of the Group and created significant uncertainties on the global economy. Further to the global pandemic and 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 People’s Republic of China (“**PRC**”). As such, the Group continued the efforts in broadening its customer base and streamlining the operation for a stringent cost control.

During the Reporting Period, the Group recorded revenue amounted to approximately HK\$346.4 million for the Reporting Period, with a decrease by approximately HK\$182.0 million or 34.4% as compared to a revenue amounted to approximately HK\$528.4 million during the corresponding period last year. The decrease is mainly due to the Group disposed (the “**Disposal**”) of a loss making business unit in its metal stamping segment, namely KFM Group Limited and its subsidiaries (collectively the “**Disposed Group**”), which was completed on 13 March 2020.

For the Reporting Period, net profit of the Company amounted to approximately HK\$22.0 million, while there was net profit of the Company amounted to approximately HK\$31.6 million for the corresponding period last year. For the purpose of comparison, had the results of the Group for the six months ended 30 September 2019 been carved out with that of the Disposed Group which recorded a profit after taxation and extraordinary items of approximately HK\$9.2 million during the period, the financial performance of the Group for the six months ended 30 September 2020 was in effect at a similar level as compared with the same of the corresponding period in 2019.

During the Reporting Period, revenue generated from the Group’s metal stamping segment was approximately HK\$184.4 million with a decrease by approximately HK\$188.3 million or 50.5% as compared to that of the corresponding period last year. Apart from reduction in revenue due to the Disposal, the metal stamping segment continued to be affected by the weakening demand from its customers engaged in office automation industry and finance equipment industry. However, the Group sought to increase revenue derived from customers engaged in network and data storage industry and medical and testing equipment industry during the Reporting Period.

Regarding the metal lathing segment, the Group recorded revenue of approximately HK\$161.9 million during the Reporting Period. As compared to the revenue of approximately HK\$155.7 million in the corresponding period last year, revenue derived from the metal lathing segment increased by approximately HK\$6.2 million or 4.0%. The increase was mainly attributable to stronger sales to customers who engaged in medical and testing equipment industry during the Reporting Period.

Due to the changes in product mix, the overall gross profit margin of the Group decreased from approximately 24.6% in the corresponding period last year to approximately 24.2% in the Reporting Period. Also as a result of the Disposal, the total gross profit of the Group decreased by approximately HK\$46.4 million from approximately HK\$130.1 million during the corresponding period last year to approximately HK\$83.7 million during the Reporting Period.

As such, the Group recorded a net profit of approximately HK\$22.0 million during the Reporting Period, as compared with a net profit of approximately HK\$31.6 million during the corresponding period last year.

FINANCIAL REVIEW

Revenue

For the six months ended 30 September 2020, revenue of the Group was approximately HK\$346.4 million, representing a decrease of approximately HK\$182.0 million or 34.4% from approximately HK\$528.4 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			
	2020		2019	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Metal stamping	184,442	53.2	372,693	70.5
Metal lathing	161,947	46.8	155,679	29.5
	<u>346,389</u>	<u>100.0</u>	<u>528,372</u>	<u>100.0</u>

Revenue derived from the metal stamping segment decreased by approximately HK\$188.3 million or 50.5% from approximately HK\$372.7 million for the six months ended 30 September 2019 to approximately HK\$184.4 million for the Reporting Period, mainly due to the Disposal. For the performance of the remaining operation of the metal stamping segment, the Group experienced an increase in number of orders from customers who engaged in network and data storage industry and medical and testing equipment industry, despite the decrease in demand from the customers who engaged in office automation industry and finance equipment industry during the Reporting Period.

Revenue derived from the metal lathing segment increased by approximately HK\$6.2 million or 4.0% from approximately HK\$155.7 million for the six months ended 30 September 2019 to approximately HK\$161.9 million for the Reporting Period. The increase was mainly attributed to stronger sales to customers who engaged in medical and testing equipment industry.

Geographically, the PRC, North America, Europe and Singapore continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 74.1%, 12.1%, 10.1% and 1.6% 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 4(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 5 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			
	2020		2019	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Direct material	157,572	60.0	226,421	56.9
Direct labour	51,666	19.7	76,723	19.3
Processing fee	33,358	12.7	50,989	12.8
Other direct overheads	20,081	7.6	44,138	11.0
	<u>262,677</u>	<u>100.0</u>	<u>398,271</u>	<u>100.0</u>

During the Reporting Period, cost of sales of the Group decreased by approximately HK\$135.6 million or 34.0% as compared to the same of the corresponding period last year. The decrease was primarily due to the Disposal. After taken out the Disposal Group, due to the increase in, mainly, raw material cost and direct labour cost, the percentage of cost of sales to the total revenue during the Reporting Period was approximately 75.8%, representing an increase of approximately 0.4%, as compared to approximately 75.4% in the corresponding period last year.

Gross profit and gross profit margin

During the Reporting Period, the gross profit margin of the Group was approximately 24.2%, with a decrease by approximately 0.4% as compared to approximately 24.6% in the corresponding period last year. The overall gross profit margin remained stable as compared to the same period last year.

In respect of the Group's metal stamping segment, gross profit margin decreased from approximately 26.3% for the six months ended 30 September 2019 to approximately 18.5% during the Reporting Period. Such decrease was mainly the result of the Disposal and higher production costs during the Reporting Period.

In respect of the Group's metal lathing segment, gross profit margin increased from approximately 20.7% for the six months ended 30 September 2019 to approximately 30.6% during the Reporting Period. Such increase was mainly due to the change of product mix to higher revenue derived from the sale of more profitable new products as the lathing segment expanded its product portfolio and launched new products during the Reporting Period.

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

Other (losses)/gains, net

During the Reporting Period, the Group recorded other losses, net which amounted to approximately HK\$2.3 million. In the corresponding period last year, the Group recorded other gains, net of approximately HK\$27.9 million. The Group recorded a net exchange loss upon RMB appreciation and a lower amount of government subsidies during the Reporting Period, as compared to a net exchange gain and a higher amount of government subsidies during the corresponding period last year.

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 decreased by approximately HK\$7.1 million from HK\$11.6 million to HK\$4.5 million for the six months ended 30 September 2019 and 2020, respectively, as a result of the Disposal.

General and administrative expenses

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

The general and administrative expenses of the Group decreased from approximately HK\$97.6 million for the six months ended 30 September 2019 to approximately HK\$48.8 million for the Reporting Period. The decrease was mainly due to the Disposal.

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\$5.5 million, as compared to approximately HK\$9.3 million for the corresponding period last year. The decrease in finance costs was mainly due to a decrease in average balances of unsecured borrowings from a related company and lease liabilities as compared to corresponding period last year, which was due to the reduction of unsecured borrowings from a related company and lease liabilities as a result of the Disposal.

Income tax expenses

The Group's income tax expenses amounted to approximately HK\$4.2 million for the Reporting Period, while the Group's income tax expenses for the six months ended 30 September 2019 amounted to approximately HK\$8.1 million. The decrease was mainly attributable to the decrease in taxable profit during the Reporting Period.

During the Reporting Period, the Group's effective tax rate was approximately 16.0%, while the same for the corresponding period last year was approximately 20.4%. The decrease was mainly due to more non-taxable income and decrease in income tax expenses of a subsidiary in China with higher tax rate 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\$21.7 million, while there was profit attributable to owners of the Company amounted to approximately HK\$31.5 million for the corresponding period last year. For the purpose of comparison, had the results of the Group for the six months ended 30 September 2019 been carved out with that of the Disposed Group which recorded a profit after taxation and extraordinary items of approximately HK\$9.2 million during the period, the financial performance of the Group for the six months ended 30 September 2020 was in effect at a similar level as compared with the same of the corresponding period in 2019.

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 2020 and 31 March 2020, the Group's total current assets amounted to approximately HK\$666.6 million and HK\$647.0 million respectively, which represented approximately 78.1% and 78.4% of the Group's total assets as at 30 September 2020 and 31 March 2020, respectively.

Capital structure

The Group's capital structure is summarised as follows:

	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Unsecured borrowings from a related company	<u>166,000</u>	<u>166,000</u>
Total debts	<u>166,000</u>	<u>166,000</u>
Shareholders' equity	<u>541,169</u>	<u>512,109</u>
Gearing ratio		
– Total debts to shareholders' equity ratio [#]	<u>30.7%</u>	<u>32.4%</u>

[#] 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 2020 are set out in Note 12 to this interim results announcement.

As at 30 September 2020, 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 plant and equipment of approximately HK\$17.4 million, as compared to the six months ended 30 September 2019 of approximately HK\$11.8 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 2020 and 31 March 2020, 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 2020 are set out in Note 15 to this interim results announcement.

Contingent liabilities

As at 30 September 2020, the Group had no material contingent liabilities.

OUTLOOK AND STRATEGY

The tension between China-US on trade disputes and coronavirus pandemic will likely subsist for a period of time. Major economies have signalled a deteriorating situation suffering with dampening market sentiments, striking rise in unemployment, possibly lasting retaliations from the tension. Meanwhile, the difficulties faced by manufacturing industries in the PRC are expected to subsist as well. 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. The stamping segment business of the Group, suffered with thin profit margins and bigger asset scale of operation, is particularly vulnerable to the adverse threats and challenges beyond the control of a manufacturer in the PRC.

Looking forward, with the newly elected administration of the US starting 2021, there is a possibility of easing the tension between China-US. Meanwhile there are multiple advancements in the development of new vaccines for COVID-19, of which may become available to the public next year. The Group will be in a better position to catch the economic rebound and business opportunities in which it will make use of its resources for investment with a view to having a higher return on the assets and in compliance with the prudence investment policy of the Group. As mentioned in the section headed Subsequent Event, the Group will invest in the metal lathing segment (i.e. expanding the production base thereof) when the leasing of the Factory begins next year. Despite the uncertainties ahead, the Group will continue to closely assess and monitor the challenges and take appropriate actions to mitigate those impacts, as necessary. The Group has been striving to develop more new customers in the region to broaden its customer base with some success. The Group will also put more efforts in maintaining good relationships with existing customers and in enhancing the overall operational efficiency. Last but not least, the Group will continuously look for new long term and sustainable business opportunities to enhance the Group's performance, with the aim to creating better value for customers, shareholders and investors.

SUBSEQUENT EVENT

Reference is made to the announcements (the “**Announcements**”) of the Company dated 27 October 2020, 3 November 2020, 17 November 2020 and 23 November 2020. Capitalised terms used herein the section below shall have the same meanings as those defined in the Announcement. Reliance Technology, an indirect wholly-owned subsidiary of the Company (as tenant) and the Landlord (as landlord) on the same date entered into the Tenancy Agreement in respect of the leasing of the Factory for a term of six years from the commencement date of leasing, which is tentatively from 1 March 2021 to 28 February 2027. The Factory is currently in the course of construction by the Landlord. Pursuant to HKFRS 16, the entering into of the Tenancy Agreement by Reliance Technology will require the Group to recognise the Factory as right-of-use assets on its consolidated statement of financial position. Therefore, the entering into of the Tenancy Agreement will be regarded as an acquisition of asset by the

Group under the Listing Rules. The value of right-of-use asset recognised by the Company under the Tenancy Agreement amounted to approximately RMB47.6 million (equivalent to approximately HK\$53.8 million). The commencement date of leasing under the Tenancy Agreement is dependent on the construction completion date of the Factory.

Save as disclosed above, 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 2020, the Group had a total number of 1,338 full-time employees (As at 30 September 2019: 2,096). 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 2020.

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 2020.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the six months ended 30 September 2020.

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 2020 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 2020, 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 2020.

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 2020 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.