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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 2022**

The board (the “**Board**”) of directors (the “**Directors**” and each a “**Director**”) of KFM Kingdom Holdings Limited (the “**Company**”) would like to announce the interim results of the Company and its subsidiaries (together, the “**Group**”) for the six months ended 30 September 2022 (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 2021.

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

Hong Kong, 25 November 2022

As at the date of this announcement, the Board comprises the executive Directors: Mr. Sun Kwok Wah Peter and Mr. Wong Chi Kwok; the non-executive Director: Mr. Zhang Haifeng (Chairman); and the independent non-executive Directors: 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 2022**

		Six months ended	
		30 September	
		2022	2021
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Continuing operations			
Revenue	<i>4</i>	343,073	263,453
Cost of sales		<u>(279,836)</u>	<u>(218,384)</u>
Gross profit		63,237	45,069
Other gains, net		16,872	611
Distribution and selling expenses		(3,382)	(3,307)
General and administrative expenses		(33,743)	(30,697)
Finance income		1,194	315
Finance costs		<u>(4,628)</u>	<u>(1,652)</u>
Profit before tax	<i>5</i>	39,550	10,339
Income tax expense	<i>6</i>	<u>(6,597)</u>	<u>(2,247)</u>
Profit for the period from continuing operations		32,953	8,092
Discontinued operations			
Loss for the period from discontinued operations	<i>12</i>	<u>—</u>	<u>(73,810)</u>
Profit/(loss) for the period		<u>32,953</u>	<u>(65,718)</u>
Other comprehensive expense for the period:			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of foreign operations		<u>(18,730)</u>	<u>(391)</u>
Total comprehensive income/(expense) for the period		<u>14,223</u>	<u>(66,109)</u>

	Six months ended	
	30 September	
	2022	2021
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Profit/(loss) for the period attributable to owners of the Company:		
— from continuing operations	32,953	8,092
— from discontinued operations	<u>—</u>	<u>(73,838)</u>
Profit/(loss) for the period attributable to owners of the Company:	<u>32,953</u>	<u>(65,746)</u>
Profit for the period attributable to non-controlling interests:		
— from continuing operations	—	—
— from discontinued operations	<u>—</u>	<u>28</u>
Profit for the period attributable to non-controlling interests:	<u>—</u>	<u>28</u>
Profit/(loss) for the period	<u>32,953</u>	<u>(65,718)</u>
Total comprehensive income/(expense) attributable to:		
— Owners of the Company	14,223	(66,137)
— Non-controlling interests	<u>—</u>	<u>28</u>
	<u>14,223</u>	<u>(66,109)</u>
EARNINGS/(LOSS) PER SHARE	<i>13</i>	
From continuing and discontinued operations		
— Basic and diluted (<i>HK cents</i>)	<u>5.49</u>	<u>(10.96)</u>
From continuing operations		
— Basic and diluted (<i>HK cents</i>)	<u>5.49</u>	<u>1.35</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2022

		30 September	31 March
		2022	2022
	<i>Notes</i>	HK\$'000	HK\$'000
		(Unaudited)	(Audited)
ASSETS			
Non-current assets			
Plant and equipment	7	46,199	50,437
Right-of-use assets		90,594	109,029
Prepayments, deposits and other receivable		51,145	49,866
		<hr/>	<hr/>
Total non-current assets		187,938	209,332
		<hr/>	<hr/>
Current assets			
Inventories	8	121,156	112,120
Trade receivables	9	184,175	141,121
Prepayments, deposits and other receivables		17,065	9,722
Financial asset at fair value through profit or loss		5	8
Time deposits with maturity over three months		216,272	221,009
Restricted bank deposits		314	341
Cash and cash equivalents		57,910	82,841
		<hr/>	<hr/>
Total current assets		596,897	567,162
		<hr/>	<hr/>
Total assets		784,835	776,494
		<hr/> <hr/>	<hr/> <hr/>

		30 September 2022	31 March 2022
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Audited)
EQUITY			
Capital and reserves			
Share capital	<i>10</i>	60,000	60,000
Share premium	<i>10</i>	26,135	26,135
Reserves		432,751	418,528
		<hr/>	<hr/>
Total equity		518,886	504,663
		<hr/>	<hr/>
LIABILITIES			
Non-current liabilities			
Lease liabilities		81,463	96,154
Deferred income tax liabilities		2,821	656
		<hr/>	<hr/>
Total non-current liabilities		84,284	96,810
		<hr/>	<hr/>
Current liabilities			
Trade and other payables	<i>11</i>	113,214	124,807
Lease liabilities		14,469	10,953
Bank borrowings		50,730	36,580
Current income tax liabilities		3,252	2,681
		<hr/>	<hr/>
Total current liabilities		181,665	175,021
		<hr/>	<hr/>
Total liabilities		265,949	271,831
		<hr/>	<hr/>
Total equity and liabilities		784,835	776,494
		<hr/> <hr/>	<hr/> <hr/>
Net current assets		415,232	392,141
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		603,170	601,473
		<hr/> <hr/>	<hr/> <hr/>

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022**

	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		
Balance at 1 April 2022 (audited)	60,000	26,135	1	33,149	23,238	362,140	504,663	—	504,663
Profit for the period	—	—	—	—	—	32,953	32,953	—	32,953
Other comprehensive expense for the period:									
Exchange differences on translation of foreign operations	—	—	—	—	(18,730)	—	(18,730)	—	(18,730)
Total comprehensive (expense)/income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(18,730)</u>	<u>32,953</u>	<u>14,223</u>	<u>—</u>	<u>14,223</u>
Transfer of retained profits to statutory reserve	—	—	—	4,356	—	(4,356)	—	—	—
Balance at 30 September 2022 (unaudited)	<u>60,000</u>	<u>26,135</u>	<u>1</u>	<u>37,505</u>	<u>4,508</u>	<u>390,737</u>	<u>518,886</u>	<u>—</u>	<u>518,886</u>

	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		
Balance at 1 April 2021 (audited)	60,000	26,135	2,358	53,332	25,895	387,792	555,512	4,119	559,631
(Loss)/profit for the period	—	—	—	—	—	(65,746)	(65,746)	28	(65,718)
Other comprehensive expense for the period:									
Exchange differences on translation of foreign operations	—	—	—	—	(391)	—	(391)	—	(391)
Total comprehensive (expense)/income for the period	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(391)</u>	<u>(65,746)</u>	<u>(66,137)</u>	<u>28</u>	<u>(66,109)</u>
Transfer of retained profits to statutory reserve	—	—	—	1,518	—	(1,518)	—	—	—
Balance at 30 September 2021 (unaudited)	<u>60,000</u>	<u>26,135</u>	<u>2,358</u>	<u>54,850</u>	<u>25,504</u>	<u>320,528</u>	<u>489,375</u>	<u>4,147</u>	<u>493,522</u>

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 Act, Cap. 22 (Act 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The 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 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 immediate holding company and controlling shareholder of the Company is Massive Force Limited (“**Massive Force**”), a company incorporated in the British Virgins Islands.

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

This interim condensed consolidated financial information is presented in Hong Kong dollars (“**HKS**”), unless otherwise stated.

This interim condensed consolidated financial information was approved by the directors of the Company for issue on 25 November 2022.

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 2022 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 2022, 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, except for certain financial instruments which have been measured at fair values at the end of each reporting period.

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 2022.

Application of amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA which are effective for the Group's financial year beginning 1 April 2022:

Amendments to HKFRS 3	Reference to Conceptual Framework
Amendments to HKAS 16	Property, plant and equipment: Proceeds before Intended Use
Amendments to HKAS 37	Onerous Contracts — Cost of Fulfilling a Contract
Amendment to HKFRSs	Annual improvement to HKFRSs 2018–2020 cycle

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

4. REVENUE

Revenue represents sales of precision metal products to external parties excluding sales-related taxes. Revenue from contracts with customers within the scope of HKFRS 15 are recognised at a point in time.

Set out below is the disaggregation of the Group's revenue from continuing operations from contracts with customers:

<i>Geographical region</i>	Six months ended 30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
South East Asia	154,412	35,713
The People's Republic of China (the "PRC")	127,701	152,306
Europe	39,721	17,415
North America	15,837	55,857
Others	5,402	2,162
	<u>343,073</u>	<u>263,453</u>

5. PROFIT BEFORE TAX

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

	Six months ended 30 September	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Continuing operations		
Cost of inventories sold	279,836	218,384
Depreciation of plant and equipment	2,970	2,875
Depreciation of right-of-use assets	10,248	9,459
Exchange (gain)/loss, net	(16,268)	573
Reversal of impairment loss	—	(602)
	<u>276,786</u>	<u>240,691</u>

6. INCOME TAX EXPENSE

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Continuing operations		
Current income tax:		
— The PRC	4,432	1,139
Deferred income tax	2,165	1,108
	<u>6,597</u>	<u>2,247</u>
Total	<u>6,597</u>	<u>2,247</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 2022 and 2021:

(a) Hong Kong Profits Tax

No provision for Hong Kong Profits Tax was made for the six months ended 30 September 2022 and 2021 as there were no assessable profits generated in Hong Kong during the six months ended 30 September 2022 and 2021.

(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 2022 is provided at the rate of 25% (2021: 25%).

A PRC subsidiary was recognised by the PRC government as "High and New Technology Enterprise" and was eligible to a preferential tax rate of 15% for a period of three calendar years, with effective from 1 December 2021.

(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 company outside the PRC when the PRC subsidiary declares dividend out of profits earned after 1 January 2008. During the six months ended 30 September 2022, a lower 5% (2021: 5%) PRC dividend withholding tax rate was adopted since (i) the immediate holding company of the PRC subsidiary is incorporated in Hong Kong and fulfills 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	
	2022	2021
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 April (Audited)	50,437	135,637
Reclassified as held for sale	—	(92,546)
Additions	2,624	4,828
Disposals	(3)	(1,451)
Depreciation	(2,970)	(8,568)
Reversal of impairment loss	—	1,074
Transfer from right-of-use assets (<i>Note</i>)	—	434
Exchange differences	(3,889)	(723)
	<u>46,199</u>	<u>38,685</u>
At 30 September (Unaudited)	<u>46,199</u>	<u>38,685</u>

Note: Plant and equipment of approximately HK\$434,000 had been transferred from the right-of-use assets since respective lease liabilities had been fully settled during the six months ended 30 September 2021.

8. INVENTORIES

	30 September	31 March
	2022	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Raw materials	59,887	58,291
Work in progress	18,263	20,335
Finished goods	43,006	33,494
	<u>121,156</u>	<u>112,120</u>

9. TRADE RECEIVABLES

	30 September	31 March
	2022	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade receivables (<i>Note</i>)	<u>184,175</u>	<u>141,121</u>

Note:

The Group normally grants credit periods of 30 to 120 days (31 March 2022: 30 to 120 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 2022	31 March 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Up to 3 months	183,934	138,470
3 to 6 months	241	2,651
	<u>184,175</u>	<u>141,121</u>

10. SHARE CAPITAL AND SHARE PREMIUM

	Number of shares	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Total <i>HK\$'000</i>
Ordinary shares of HK\$0.1 each				
Authorised				
At 30 September 2022 and 31 March 2022	<u>4,500,000,000</u>	<u>450,000</u>		
Issued and fully paid				
At 30 September 2022 and 31 March 2022	<u>600,000,000</u>	<u>60,000</u>	<u>26,135</u>	<u>86,135</u>

11. TRADE AND OTHER PAYABLES

	30 September 2022	31 March 2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Trade payables (<i>Note</i>)	99,641	109,672
Accruals and other payables	13,573	15,135
	<u>113,214</u>	<u>124,807</u>

Note:

The ageing analysis of trade payables presented based on the invoice date at the end of the reporting period is as follows:

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Up to 3 months	99,536	109,557
3 to 6 months	—	—
6 months to 1 year	—	61
1 to 2 years	105	54
	99,641	109,672

12. DISCONTINUED OPERATIONS

In August 2021, the Group entered into a sale and purchase agreement to dispose of its metal lathing business entirely through the sale of all of its shareholding in its indirect wholly-owned subsidiary, Kingdom (Reliance) Precision Parts Manufactory Holdings Limited (“**KRP BVI**”), to Cosmic Master Holdings Limited (the “**Purchaser**”), a connected company (being Mr. Lam Kin Shun is a director of a then subsidiary of the Group and the ultimate beneficial owner of the Purchaser) (the “**Disposal**”). KRP BVI is an investment holding company and its subsidiaries are engaged in the manufacturing and sales of metal lathing products. The Disposal was completed on 20 December 2021, on which date control of KRP BVI was passed to the Purchaser.

Details (including the facts and circumstances, the expected manner and timing of the Disposal as well as the terms of the sale and purchase agreement and the reasons for the Disposal) are set out in the Company’s announcements dated 13 August 2021, 3 September 2021, 17 September 2021, 4 October 2021, 26 October 2021, 22 November 2021, 30 November 2021, 10 December 2021, 20 December 2021 and the Company’s circular dated 15 December 2021.

Loss from discontinued operations

The results of the discontinued operations for the six months ended 30 September 2021, which had been included in the interim condensed consolidated statement of profit or loss and other comprehensive income, were as follows:

	Six months ended 30 September 2021 <i>HK\$'000</i> (Unaudited)
Revenue	126,825
Cost of sales	(103,315)
Other gains, net	52
Distribution and selling expenses	(2,350)
General and administrative expenses	(24,543)
Finance income	141
Finance costs	<u>(5,299)</u>
Loss before tax	(8,489)
Income tax expense	<u>(1,328)</u>
Loss for the period	(9,817)
Loss on remeasurement to fair value less costs to sell	<u>(63,993)</u>
Loss for the period from discontinued operations	<u><u>(73,810)</u></u>

The Group engaged an independent valuer not connected to the Group, to assess the fair value less costs to sell of the abovementioned disposal group as a cash-generating unit. With reference to the valuation report issued, loss on remeasurement to fair value less costs to sell of approximately HK\$63,993,000 were recognised, of which of approximately HK\$36,476,000 and HK\$27,517,000 were allocated to plant and equipment and right-of-use assets respectively.

Loss for the period from discontinued operation including the following:

	Six months ended 30 September 2021 <i>HK\$'000</i> (Unaudited)
Finance income	
Interest income on bank balances and deposits	<u>141</u>
Finance costs	
Interest expense on unsecured borrowings from a related company	2,626
Interest expense on lease liabilities	<u>2,673</u>
	<u>5,299</u>
Gain on disposal of plant and equipment	33
Cost of inventories sold	103,315
Depreciation of plant and equipment	5,693
Depreciation of right-of-use assets	6,748
Reversal of impairment loss	472
Employee benefit expenses	<u>30,006</u>

During the six months ended 30 September 2021, the metal lathing business contributed approximately HK\$574,000 to the Group's net operating cash flows, paid approximately HK\$39,534,000 in respect of investing activities and paid approximately HK\$5,810,000 in respect of financing activities.

During the six months ended 30 September 2021, cumulative amount of HK\$8,302,000 relating to the disposal group classified as held for sale has been recognised in other comprehensive income and included in equity.

13. EARNINGS/(LOSS) PER SHARE

Basic and diluted earnings/(loss) per share

	Six months ended 30 September	
	2022	2021
	(Unaudited)	(Unaudited)
Profit/(loss) attributable to owners of the Company (<i>HK\$'000</i>)		
— from continuing operations	32,953	8,092
— from discontinued operations	—	(73,838)
	<u>32,953</u>	<u>(65,746)</u>
Weighted average number of shares in issue (<i>'000</i>)	<u>600,000</u>	<u>600,000</u>
Basic and diluted earnings/(loss) per share (<i>HK cents per share</i>)		
— from continuing operations	5.49	1.35
— from discontinued operations	—	(12.31)
	<u>5.49</u>	<u>(10.96)</u>

Basic earnings/(loss) per share for the six months ended 30 September 2022 and 2021 is calculated by dividing the profit/(loss) attributable to owners of the Company by 600,000,000 ordinary shares in issue during the period.

Diluted earnings/(loss) per share is same as basic earnings/(loss) per share as the Company had no potentially dilutive ordinary shares in issue during the six months ended 30 September 2022 and 2021.

14. DIVIDEND

No dividend was paid, declared or proposed during the six months ended 30 September 2022, nor has any dividend been proposed since the end of the six months ended 30 September 2022 (six months ended 30 September 2021: nil).

15. CAPITAL COMMITMENTS

	30 September	31 March
	2022	2022
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Audited)
Authorised or contracted for but not provided:		
— Plant and machinery	<u>5,785</u>	<u>7,347</u>

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 25 November 2022.

BUSINESS REVIEW

During the Reporting Period, the disputes between the People’s Republic of China (“**PRC**”) and the United States of America (the “**US**”), Russia-Ukraine conflicts, sanctions on Russia and COVID-19 pandemic continuously affected the business environment of the Group and created significant uncertainties on the global economy. In particular, Shanghai implemented lock-down measures to restrict the movement in Shanghai following the outbreak of COVID-19 with a new variant of the coronavirus. Meanwhile, the Group was also under the pressure from the increase in material cost, labour cost and production costs in China. As such, the Group was still subject to uncertainties of global economic downturn, reduced demands, surging operating cost and fluctuation of currency exchange rates.

During the Reporting Period, the Group recorded revenue of approximately HK\$343.1 million, with an increase by approximately HK\$79.6 million or 30.2% as compared to a revenue of approximately HK\$263.5 million during the corresponding period last year. The increase was mainly due to the growth in the revenue derived from the customers engaged in the network and data storage industry as a result of surging demands arising from an acceleration and wider spread of digitalisation of business processes and higher volume of the internet activities subsequent to the outbreak of the pandemic.

The total gross profit of the Group increased by approximately HK\$18.1 million or 40.1% from approximately HK\$45.1 million during the corresponding period last year to approximately HK\$63.2 million during the Reporting Period. Due to the fact that the Group strived to control production costs and continued to review the product mix on a regular basis, the overall gross profit margin of the Group increased from approximately 17.1% in the corresponding period last year to approximately 18.4% during the Reporting Period.

During the Reporting Period, the Group recorded a net profit of approximately HK\$33.0 million. During the corresponding period last year, a profit from the continuing operations amounted to approximately HK\$8.1 million and a loss from the discontinued operations amounted to approximately HK\$73.8 million, which in aggregate amounted to a net loss of approximately HK\$65.7 million for the Group. The turn around from net loss to net profit during the Reporting Period was mainly attributable to (i) the disposal

of a loss making business unit in its metal lathing segment; (ii) an increase in revenue derived from the customers engaged in the network and data storage industry as a result of the surging demands arising from an acceleration and wider spread of digitalisation of business processes and higher volume of the internet activities subsequent to the outbreak of the pandemic; and (iii) the depreciation of Renminbi against United States dollars during the Reporting Period.

FINANCIAL REVIEW

Revenue

During the Reporting Period, revenue of the Group was approximately HK\$343.1 million, representing an increase of approximately HK\$79.6 million or 30.2% from approximately HK\$263.5 million for the corresponding period last year. The increase was mainly due to an increase in number of orders from customers who engaged in network and data storage industry during the Reporting Period.

Geographically, South East Asia, the PRC, Europe and North America continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 45.0%, 37.2%, 11.6% and 4.6% 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 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. Set out below is the breakdown of the Group's cost of sales:

	Six months ended 30 September			
	2022		2021	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
	(Unaudited)		(Unaudited)	
Direct material	200,361	71.6	153,168	70.1
Direct labour	49,316	17.6	40,908	18.7
Processing fee	17,822	6.4	22,642	10.4
Change in inventory of finished goods and work in progress	(7,441)	(2.7)	(14,224)	(6.5)
Other direct overheads	19,778	7.1	15,890	7.3
	<u>279,836</u>	<u>100.0</u>	<u>218,384</u>	<u>100.0</u>

During the Reporting Period, cost of sales of the Group increased by approximately HK\$61.4 million or 28.1% as compared to the same of the corresponding period last year. The increase was primarily due to growth in the revenue.

Gross profit and gross profit margin

During the Reporting Period, the gross profit margin of the Group was approximately 18.4%, with an increase by approximately 1.3% as compared to approximately 17.1% in the corresponding period last year. The increase of gross profit margin was mainly due to the change in product mix as well as a better control of production costs during the Reporting Period.

Other gains, net

During the Reporting Period, the Group recorded other gains, net which amounted to approximately HK\$16.9 million. In the corresponding period last year, the Group recorded other gains, net of approximately HK\$0.6 million. The other gains, net during the Reporting Period was mainly comprising a net exchange gain upon Renminbi depreciation of approximately HK\$16.3 million and government subsidies of approximately HK\$0.6 million.

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 slightly increased by approximately HK\$0.1 million from approximately HK\$3.3 million for the six months ended 30 September 2021 to approximately HK\$3.4 million for the Reporting Period.

General and administrative expenses

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

The general and administrative expenses of the Group increased from approximately HK\$30.7 million for the corresponding period last year to approximately HK\$33.7 million for the Reporting Period. The increase was mainly due to the increase in personnel, research and development costs during the Reporting Period, which is in line with the growth of the revenue.

Finance costs

The Group's finance costs represented interest expenses on bank borrowings and finance costs of operating lease.

During the Reporting Period, the Group's finance costs was approximately HK\$4.6 million, as compared to approximately HK\$1.7 million for the corresponding period last year. The increase in finance costs was mainly due to an increase in average balances of bank borrowings and an increase in lease liabilities as compared to corresponding period last year.

Income tax expense

The Group's income tax expense amounted to approximately HK\$6.6 million for the Reporting Period, while the Group's income tax expense for the corresponding period last year amounted to approximately HK\$2.2 million. The increase was mainly attributable to the increase in taxable profits 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\$33.0 million. During the corresponding period last year, profit attributable to owners of the Company from the continuing operations amounted to approximately HK\$8.1 million and loss attributable to owners of the Company from the discontinued operations amounted to approximately HK\$73.8 million upon making a provision of approximately HK\$64.0 million for the impairment loss on the remeasurement to the fair value less costs to sell of the discontinued operations, which in aggregate amounted to a net loss of approximately HK\$65.7 million for the Group during 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 2022 and 31 March 2022, the Group's total current assets amounted to approximately HK\$596.9 million and HK\$567.2 million respectively, which represented approximately 76.1% and 73.0% of the Group's total assets as at 30 September 2022 and 31 March 2022, respectively.

Capital structure

The Group's capital structure is summarised as follows:

	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Bank borrowings	<u>50,730</u>	<u>36,580</u>
Total debts	<u>50,730</u>	<u>36,580</u>
Shareholders' equity	<u>518,886</u>	<u>504,663</u>
Gearing ratio		
— Total debts to shareholders' equity ratio [#]	<u><u>9.8%</u></u>	<u><u>7.2%</u></u>

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

For the Reporting Period, the Group generally financed its operation primarily with internal generated cash flows and bank borrowings.

As at 30 September 2022, the Group's bank borrowings were denominated in Renminbi.

The capital structure of the Group consists of equity attributable to the equity holder of the Company (comprising issued share capital and reserves) and bank borrowings. The Directors will review the capital structure regularly. As part of such review, the Directors will 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\$2.6 million, as compared to the six months ended 30 September 2021 of approximately HK\$4.3 million.

The Group financed its capital expenditure through cash flows generated from operating activities and bank borrowings.

Charges on the Group's assets

As at 30 September 2022 and 31 March 2022, 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 Renminbi, while the Group's PRC entities are exposed to foreign exchange risk arising from United States dollars.

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

Capital commitments

Details of the Group's capital commitments as at 30 September 2022 are set out in Note 15 to this interim results announcement.

Contingent liabilities

As at 30 September 2022, the Group had no material contingent liabilities.

OUTLOOK AND STRATEGY

The world is facing difficulty and uncertainty in the business environment during the year. Global economy is threatened by a downturn possibly followed by hyperinflation, rising interest rate, Russia-Ukraine conflicts, energy crisis in Europe and the virus-variant infections. In addition, the China-US political tension and their trade disputes will likely subsist for a period of time. The China-US trade dispute has driven deglobalisation and caused disruption on the global supply chains. Business environment in China is expected to experience stagnant economic growth and face problems including high operating costs. The difficulties faced by the manufacturing industries in China will likely linger in the foreseeable future. The increasing labour, material and production costs in China will remain to be the challenges to the Group. It is also expected that a certain number of the Group's customers will continue to relocate their businesses to the Southeast Asia.

Looking forward, the deglobalisation will continue causing disruption on the global supply chains, the hyperinflation, the rapid interest rate uptrend and the pandemic of coronavirus will remain to be the major factors to affect the global economy and business environment, probably a recession around the world. Notwithstanding the adversity, the Group has been making its best effort to cope with the challenges by streamlining its operations for optimal efficiency and taking appropriate actions such as adopting a more prudent financial policy to mitigate those impacts. In order to reduce the political risk from trade disputes between China-US causing deglobalisation, the Group has to consider a strategy to diversify and reorganise supply chains and to develop a new production base located outside China, especially in Southeast Asia.

Furthermore, the Group has been striving to explore more new customers in the region to broaden its customer base, notably seen in the business which has been benefited from the surge of demands from the data and network industry arising from an acceleration and wider spread of digitalisation of business processes and higher volume of the internet activities since the pandemic. The Group will also put more efforts in maintaining good relationships with existing customers of the Group. Last but not least, the Group will continue to 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

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

EMPLOYEES AND REMUNERATION POLICY

As at 30 September 2022, the Group had a total number of 1,024 employees (as at 30 September 2021: 1,555). 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 Reporting Period.

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 Reporting Period.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the Reporting Period.

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 Reporting Period 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

The Group did not conduct any disposals or acquisitions for its subsidiaries and associated corporations during the Reporting Period.

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 Reporting Period.

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 Reporting Period 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.