

KFM KINGDOM



KFM KINGDOM HOLDINGS LIMITED

(Incorporated in the Cayman Islands with limited liability) (HKEx Stock Code: 3816)

INTERIM REPORT
2021



**OUR GOALS
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Corporate Information

Non-executive Director

Mr. Zhang Haifeng (Chairman)

Executive Directors

Mr. Sun Kwok Wah Peter
(Chief Executive Officer)

Mr. Wong Chi Kwok

Independent non-executive Directors and audit committee

Mr. Wan Kam To (Chairman)

Ms. Zhao Yue

Mr. Shen Zheqing

Remuneration committee

Ms. Zhao Yue (Chairman)

Mr. Zhang Haifeng

Mr. Wan Kam To

Nomination committee

Mr. Zhang Haifeng (Chairman)

Mr. Sun Kwok Wah Peter

Mr. Wan Kam To

Ms. Zhao Yue

Mr. Shen Zheqing

Headquarters and principal place of business in Hong Kong

Workshop C, 31/F, TML Tower

3 Hoi Shing Road, Tsuen Wan

New Territories, Hong Kong

Principal place of business in the PRC

881 South Jinshan Road, Gaoxin District, Suzhou
Jiangsu Province, the PRC

Registered office

Conyers Trust Company (Cayman) Limited

Cricket Square, Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Company secretary

Mr. Kwok For Chi

Authorised representatives

Mr. Sun Kwok Wah Peter

Mr. Kwok For Chi

Legal adviser as to Hong Kong law

Chiu & Partners

Auditor

SHINEWING (HK) CPA Limited

Certified Public Accountants

Registered Public Interest Entity Auditor

Principal bankers

DBS Bank (Hong Kong) Limited
Standard Chartered Bank (Hong Kong) Limited
The Hongkong and Shanghai Banking
Corporation Limited

**Cayman Islands share registrar and
transfer office**

SUNTERA (CAYMAN) LIMITED
Suite 3204, Unit 2A, Block 3
Building D, P.O. Box 1586
Gardenia Court, Camana Bay
Grand Cayman KY1-1110
Cayman Islands

**Hong Kong branch share registrar and
transfer office**

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

Website

www.kingdom.com.hk

Stock code

3816

Review of Interim Results

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 2021 (the “**Reporting Period**”) prepared in accordance with the relevant requirements of the Rules Governing the Listing of Securities (the “**Listing Rules**”) on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”), together with the comparative figures for the corresponding period of 2020.

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 2021.

Business Review

During the Reporting Period, the disputes between the People’s Republic of China (“**PRC**”) and the United States of America (the “**US**”) and COVID-19 pandemic continuously affected the business environment of the Group. Furthermore, the disruptions of electricity supply in China and the appreciation of Renminbi (“**RMB**”) during the Reporting Period had created adverse impacts on the Group’s operations. Meanwhile, the Group was still under the pressure from the increase in material cost, labour cost and production costs in China. The Group was therefore subject to reduced demands, surging operating cost and the unfavourable impact from foreign exchange.

The Group had sought ways to cope with the challenges and reviewed its business and operations for a streamlined structure. In August 2021, the Group entered into an agreement (“**Disposal Agreement**”) to dispose of its metal lathing business through the sale of the Group’s entire shareholding in Kingdom (Reliance) Precision Parts Manufactory Holdings Limited (“**KRP BVI**”), at a consideration of HK\$66.0 million to a connected company, with the extended long-stop date on 30 November 2021 as disclosed in the announcement of the Company dated 9 November 2021. Completion of the transactions contemplated under the Disposal Agreement is expected to take place within twelve months. The assets and liabilities attributable to the metal lathing business have been classified as a disposal group held for sale and its financial performance is separated as discontinued operations herein this section below.

During the Reporting Period, the Group recorded revenue of approximately HK\$263.5 million, with an increase by approximately HK\$79.1 million or 42.8% as compared to a revenue of approximately HK\$184.4 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\$10.9 million or 31.9% from approximately HK\$34.2 million during the corresponding period last year to approximately HK\$45.1 million during the Reporting Period. However, due to the increased production costs and changes in product mix, the overall gross profit margin of the Group decreased from approximately 18.5% in the corresponding period last year to approximately 17.1% in the Reporting Period.

As mentioned above, during the Reporting Period, the Company decided to dispose of its metal lathing segment as a result of the continuous deterioration of revenue over the recent years attributable to the change in demand of the major customers and the worsen business environment arising from the conflicts between China and the US. The discontinued metal lathing business recorded revenue of approximately HK\$126.8 million during the Reporting Period, with a decrease of approximately HK\$35.1 million or 21.7% as compared to approximately HK\$161.9 million for the corresponding period last year. The gross profit margin of the metal lathing business dropped to approximately 18.5% during the Reporting Period from approximately 30.6% during the corresponding period last year, mainly due to the drop in revenue of derived from some major customers who engaged in consumer electronics industry with the products sold thereto had higher profit margin.

Review of Interim Results (Continued)

As such, the Group recorded a net profit of approximately HK\$8.1 million from the continuing operations during the Reporting Period, as compared with a net profit of approximately HK\$2.4 million during the corresponding period last year. Meanwhile, the discontinued metal lathing business recorded an operating loss of approximately HK\$9.8 million during the Reporting Period, as compared with a net profit of approximately HK\$19.6 million during the corresponding period last year. The decrease was mainly attributable to the significant drop in revenue derived from the customers who engaged in consumer electronic industry. The net operating loss of the Group for the Reporting Period was approximately HK\$1.7 million as compared to a net profit of approximately HK\$22.0 million during the corresponding period last year. Further to the operating loss, the Group also recognised an impairment loss on remeasurement to fair value less costs to sell of the discontinued operation of approximately HK\$64.0 million during the Reporting Period. The total net loss for the Reporting Period was therefore approximately HK\$65.7 million, as compared to a net profit of approximately HK\$22.0 million for the corresponding period last year.

Financial Review

Revenue

During the Reporting Period, revenue of the Group was approximately HK\$263.5 million, representing an increase of approximately HK\$79.1 million or 42.8% from approximately HK\$184.4 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. The revenue from these customers recorded an approximately 165% increase as compared to the corresponding period last year.

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 57.8%, 21.2%, 6.6% and 2.1% 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 6 to this interim condensed consolidated financial information.

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			
	2021		2020	
	HK\$'000	%	HK\$'000	%
	(Unaudited)		(Unaudited and restated)	
Direct material	153,168	70.1	91,836	61.1
Direct labour	40,908	18.7	29,494	19.6
Processing fee	22,642	10.4	19,503	13.0
Change in inventory of finished goods and work in progress	(14,224)	(6.5)	(7,175)	(4.8)
Other direct overheads	15,890	7.3	16,605	11.1
	218,384	100.0	150,263	100.0

During the Reporting Period, cost of sales of the Group increased by approximately HK\$68.1 million or 45.3% as compared to the same of the corresponding period last year. The increase was primarily due to growth in the revenue and inflation of the direct costs, mainly, raw material cost and direct labour cost.

Gross profit and gross profit margin

During the Reporting Period, the gross profit margin of the Group was approximately 17.1%, with a decrease by approximately 1.4% as compared to approximately 18.5% in the corresponding period last year. The decrease of gross profit margin was mainly due to the change of product mix as well as surging production costs during the Reporting Period.

Review of Interim Results (*Continued*)

Other gains/(losses), net

During the Reporting Period, the Group recorded other gains, net which amounted to approximately HK\$0.6 million. In the corresponding period last year, the Group recorded other losses, net of approximately HK\$3.8 million, mainly comprising a net exchange loss upon RMB appreciation of approximately HK\$4.3 million being offset by government subsidies of approximately HK\$0.6 million. The Group experienced a reduction of a net exchange loss of approximately HK\$3.7 million during the Reporting Period as compared to 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 increased by approximately HK\$0.7 million from approximately HK\$2.6 million for the six months ended 30 September 2020 to approximately HK\$3.3 million for the Reporting Period, which is mainly in line with the growth of the revenue.

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\$24.9 million for the corresponding period last year to approximately HK\$30.7 million for the Reporting Period. The increase was mainly due to the increase in personnel, research and development costs 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.

During the Reporting Period, the Group's finance costs was approximately HK\$1.7 million, as compared to approximately HK\$2.4 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 a decrease in lease liabilities as compared to corresponding period last year.

Income tax expenses

The Group's income tax expenses amounted to approximately HK\$2.2 million for the Reporting Period, while the Group's income tax expenses for the corresponding period last year amounted to approximately HK\$1.5 million. The increase was mainly attributable to the increase in taxable profit during the Reporting Period.

The effective tax rate of the Company for the Reporting Period and the corresponding period last year was approximately 21.7% and 39.2% respectively. The decrease was mainly due to (i) the bigger portion of taxable profits arising from the Company's subsidiaries in the PRC as compared to the corresponding period last year; and (ii) the Group did not recognise deferred tax effect on certain tax loss arising from most of the Group's loss making companies. Excluding the effect of such tax loss arising from the loss making companies, the adjusted effective tax rate during the Reporting Period would have been approximately 15.5%, while the same for the corresponding period last year would have been approximately 19.1%. The decrease was mainly due to tax reductions arising from preferential tax treatment in the PRC being granted for the Group's research and development costs during the Reporting Period.

Profit attributable to owners of the Company

For the Reporting Period, 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 a provision of approximately HK\$64.0 million for the impairment loss on the remeasurement to the fair value less cost 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 Reporting Period. For the corresponding period last year, the profit attributable to owners of the Company amounted to approximately HK\$22.0 million.

Review of Interim Results (Continued)

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 2021 and 31 March 2021, the Group's total current assets amounted to approximately HK\$862.7 million and HK\$683.6 million respectively, which represented approximately 94.5% and 74.3% of the Group's total assets as at 30 September 2021 and 31 March 2021, respectively.

Capital structure

The Group's capital structure is summarised as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Unsecured borrowings from a related company		
– Continuing operations	36,000	166,000
– Discontinued operations	100,000	–
Total debts	136,000	166,000
Shareholders' equity	493,522	559,631
Gearing ratio		
– Total debts to shareholders' equity ratio [#]	27.6%	29.7%

[#] 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 2021 are set out in Note 25 to this interim condensed consolidated financial information.

As at 30 September 2021, 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\$4.3 million in its continuing operations, as compared to the six months ended 30 September 2020 of approximately HK\$17.4 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 2021 and 31 March 2021, 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.

Review of Interim Results (*Continued*)

Capital commitments

Details of the Group's capital commitments as at 30 September 2021 are set out in Note 26 to this interim condensed consolidated financial information.

Contingent liabilities

As at 30 September 2021, the Group had no material contingent liabilities.

Outlook and Strategy

The China-US tension on political and trade disputes will likely subsist for a period of time. The business environment in China is expected to experience stagnant economic growth and high operating costs such as employment and utilities cost. 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 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 the Southeast Asia.

Looking forward, the tension between China-US and the pandemic will remain to be the major factors to affect the global economy and business environment. 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 to mitigate those impacts, as necessary. The Group has been striving to explore more new customers in the region to broaden its customer base, notably seen in the metal stamping 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 lockdowns due to the pandemic. The Group will also put more efforts in maintaining good relationships with existing customers. 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.

Employees and Remuneration Policy

As at 30 September 2021, the Group had a total number of 1,555 employees (as at 30 September 2020: 1,338). 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.

Updates on Compliance and Regulatory Matters as Disclosed in the Prospectus of the Company

Long term relocation plan

As disclosed in the prospectus of the Company dated 28 September 2012 (the "**Prospectus**"), one of the Group's four production bases, namely the Group's factory building and staff dormitory currently located in Xili, Nanshan District, Shenzhen (the "**Xili Leased Properties**") were leased by Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited. As advised by the Company's PRC legal advisers, there is a potential risk of demolition and expropriation of the Xili Leased Properties as it may be deemed as the historical illegal construction. For details, please refer to pages 186 to 190 of the Prospectus.

In order to mitigate the potential risk in relation to the legality and the ownership of title of the Xili Leased Properties, the Group entered into a framework agreement with an independent third party to lease a factory premises in Huizhou city, Guangdong province (the "**Production Facility**") as the relocation plan of the Group in 2018 (the "**Long Term Relocation Plan**"). A formal leasing agreement of the premises was entered into by both parties on 27 October 2020 as disclosed in the announcements of the Company dated 27 October 2020, 3 November 2020, 17 November 2020 and 23 November 2020 and the circular of the Company dated 27 November 2020 in respect of the leasing of the factory premises for a term of six years from 1 March 2021. As at the date of this interim report, the Long Term Relocation Plan has been completed in November 2021. It is expected that full operation will be resumed in the Production Facility by the end of 2021.

Review of Interim Results (Continued)

Share option scheme

Pursuant to the written resolution of the shareholders of the Company dated 22 September 2012, the share option scheme (the “**Share Option Scheme**”) of the Company was approved and adopted.

The Share Option Scheme was established for the purpose of providing incentives or rewards for the contribution of Directors and eligible persons. The Share Option Scheme will remain in force for a period of ten years from adoption of the Share Option Scheme. The Share Option Scheme will expire on 21 September 2022.

Under the Share Option Scheme, the Directors may at their discretion grant options to (i) any Director (including executive Directors, non-executive Directors and independent non-executive Directors) and employees of the Company, any of its subsidiaries or any entity in which the Group holds an equity interest; or (ii) any suppliers, customers, consultants who provided services to the Group, shareholders of the subsidiaries of the Group and joint venture partners to subscribe for the shares.

The offer of a grant of options must be taken up within 21 days of the date of offer. The maximum number of shares in respect of which options may be granted under the Share Option Scheme shall not exceed 30% of the issued share capital of the Company at any point in time. The total number of shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 10% of the shares in issue at the time dealings in the shares first commence on the Stock Exchange. The maximum number of shares in respect of which options may be granted to any individual in any 12-month period shall not exceed 1% of the shares in issue on the last date of such 12-month period unless approval of the shareholders of the Company has been obtained in accordance with the Listing Rules.

Options may be exercised during such period (including the minimum period, if any, for which an option must be held before it can be exercised) as may be determined by the Directors and commences after a certain vesting period and ends in any event not later than ten years from the date of grant of the relevant share option, subject to the provisions for early termination thereof. Options may be granted upon payment of HK\$1 as consideration for each grant. The exercise price is equal to the highest of (i) the closing price of the shares as stated in the daily quotation sheet issued by the Stock Exchange on the date of the offer of grant; (ii) the average closing price of the shares as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the date of the offer of grant; and (iii) nominal value of the shares.

During the Reporting Period, no option was granted, exercised, cancelled, lapsed or outstanding under the Share Option Scheme. As at the date of this interim report, the total number of shares available for issue under the Share Option Scheme was 60,000,000, representing 10% of the issued share capital of the Company.

Interests and Short Positions of Directors and Chief Executive of the Company in the Shares, Underlying Shares or Debentures of the Company or Its Associated Corporations

As at 30 September 2021, no Directors or chief executive of the Company had any interest or short position in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”)) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) contained in Appendix 10 to the Listing Rules.

Review of Interim Results (Continued)

Substantial Shareholders', Other Persons' Interests and Short Positions in Shares and Underlying Shares

As at 30 September 2021, the following person (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Name of Group member/ associated corporation	Capacity/ Nature of Interest	Number and class of securities (Note 1)	Approximate shareholding percentage
Massive Force Limited ("MFL")	Company	Beneficial owner	449,999,012 shares (L) (Note 2)	75%

Notes:

- 1 The letter "L" denotes the corporation/person's long position in our shares.
- 2 These shares were held by MFL, which is owned as to 40% by Mr. Zhang Yongdong.

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.

Subsequent Event

Saved as disclosed in the Note 30 to this interim condensed consolidated financial information, the Group had no material subsequent events from the end of the Reporting Period up to the date of this interim report.

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

Saved as disclosed in the Note 12 to this interim condensed consolidated financial information, 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.

By order of the Board

Zhang Haifeng

Chairman

Hong Kong, 24 November 2021

Report on Review of Interim Condensed Consolidated Financial Information



SHINEWING (HK) CPA Limited
43/F., Lee Garden One, 33 Hysan Avenue
Causeway Bay, Hong Kong

信永中和(香港)會計師事務所有限公司
香港銅鑼灣希慎道33號
利園一期43樓

TO THE BOARD OF DIRECTORS OF KFM KINGDOM HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the interim condensed consolidated financial information of KFM Kingdom Holdings Limited (the “**Company**”) and its subsidiaries set out on pages 20 to 60, which comprise the interim condensed consolidated statement of financial position as at 30 September 2021 and the related interim condensed consolidated statement of profit or loss and other comprehensive income, interim condensed consolidated statement of changes in equity and interim condensed consolidated statement of cash flows for the six-month period then ended, and other explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” (“**HKAS 34**”) issued by the Hong Kong Institute of Certified Public Accountants (the “**HKICPA**”). The directors of the Company are responsible for the preparation and presentation of these interim condensed consolidated financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on these interim condensed consolidated financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Report on Review of Interim Condensed Consolidated Financial Information (*Continued*)

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the HKICPA. A review of these interim condensed consolidated financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim condensed consolidated financial information are not prepared, in all material respects, in accordance with HKAS 34.

SHINEWING (HK) CPA Limited

Certified Public Accountants

Lau Kai Wong

Practising Certificate Number: P06623

Hong Kong

24 November 2021

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 September 2021

	Notes	Six months ended 30 September	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Continuing operations			
Revenue	6	263,453	184,442
Cost of sales		(218,384)	(150,263)
Gross profit			
		45,069	34,179
Other gains/(losses), net	8	611	(3,769)
Distribution and selling expenses		(3,307)	(2,634)
General and administrative expenses		(30,697)	(24,916)
Finance income	9	315	3,425
Finance costs	9	(1,652)	(2,384)
Profit before tax			
	10	10,339	3,901
Income tax expense	11	(2,247)	(1,528)
Profit for the period from continuing operations			
		8,092	2,373
Discontinued operations			
(Loss)/profit for the period from discontinued operations	12	(73,810)	19,618
(Loss)/profit for the period			
		(65,718)	21,991
Other comprehensive (expense)/income for the period:			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		(391)	7,069
Total comprehensive (expense)/income for the period			
		(66,109)	29,060

Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income
(Continued)

For the six months ended 30 September 2021

	Notes	Six months ended 30 September	
		2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
(Loss)/profit for the period attributable to owners of the Company			
– from continuing operations		8,092	2,373
– from discontinued operations		(73,838)	19,375
(Loss)/profit for the period attributable to owners of the Company		(65,746)	21,748
Profit for the period attributable to non-controlling interests			
– from continuing operations		–	–
– from discontinued operations		28	243
Profit for the period attributable to non-controlling interests		28	243
		(65,718)	21,991
Total comprehensive (expense)/income attributable to:			
– Owners of the Company		(66,137)	28,817
– Non-controlling interests		28	243
		(66,109)	29,060
(Loss)/earnings per share	13		
From continuing and discontinued operations			
– Basic and diluted (HK cents)		(10.96)	3.62
From continuing operations			
– Basic and diluted (HK cents)		1.35	0.40

Interim Condensed Consolidated Statement of Financial Position

At 30 September 2021

	Notes	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
ASSETS			
Non-current assets			
Plant and equipment	15	38,685	135,637
Right-of-use assets	16	4,451	90,125
Prepayments and deposits	19	6,740	8,945
Deferred income tax assets	23	–	1,975
Total non-current assets		49,876	236,682
Current assets			
Inventories	17	90,168	90,802
Trade and bills receivables	18	121,748	172,670
Prepayments, deposits and other receivables	19	11,119	13,112
Current income tax recoverable		422	2,829
Financial asset at fair value through profit or loss		8	27
Time deposits with maturity over three months	20	219,082	160,000
Restricted bank deposits	20	1,163	675
Cash and cash equivalents	20	76,426	243,452
Assets classified as held for sale	12	520,136 342,595	683,567 –
Total current assets		862,731	683,567
Total assets		912,607	920,249
EQUITY			
Capital and reserves			
Share capital	21	60,000	60,000
Share premium	21	26,135	26,135
Reserves	22	403,240	469,377
Capital and reserves attributable to owners of the Company		489,375	555,512
Non-controlling interests		4,147	4,119
Total equity		493,522	559,631

Interim Condensed Consolidated Statement of Financial Position *(Continued)*

At 30 September 2021

	Notes	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
LIABILITIES			
Non-current liabilities			
Lease liabilities	16	1,901	62,928
Deferred income tax liabilities	23	1,073	2,136
Total non-current liabilities		2,974	65,064
Current liabilities			
Trade and other payables	24	141,227	105,133
Lease liabilities	16	1,335	20,840
Unsecured borrowings from a related company	25	36,000	166,000
Current income tax liabilities		–	3,581
		178,562	295,554
Liabilities associated with assets classified as held for sale	12	237,549	–
Total current liabilities		416,111	295,554
Total liabilities		419,085	360,618
Total equity and liabilities		912,607	920,249
Net current assets		446,620	388,013
Total assets less current liabilities		496,496	624,695

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 September 2021

	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 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	-	-	-	-	(391)	(65,746)	(66,137)	28	(66,109)
Transfer of retained profits to statutory reserve	-	-	-	1,518	-	(1,518)	-	-	-
Balance at 30 September 2021 (unaudited)	60,000	26,135	2,358	54,850	25,504	320,528	489,375	4,147	493,522

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

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 September 2021

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Operating activities		
Net cash generated from operations	6,937	53,054
Income tax paid, net	(947)	(745)
Net cash from operating activities	5,990	52,309
Investing activities		
Interest received	456	3,305
Repayment from a related company	–	4,000
Proceeds from disposal of plant and equipment	1,366	36
Placement of restricted bank deposits	(1,924)	(1,448)
Placement of bank deposits with maturity over three months	(219,082)	–
Withdrawal of restricted bank deposits	1,448	–
Withdrawal of bank deposits with maturity over three months	160,000	–
Prepayments for acquisition of plant and equipment	(41,711)	(10,466)
Deposits received for disposal of discontinued operations	30,000	–
Purchase of plant and equipment	(5,442)	(17,416)
Net cash used in investing activities	(74,889)	(21,989)
Financing activities		
Repayment of unsecured borrowings from a related company	(30,000)	–
Receipts of government subsidies	490	3,326
Payment of lease liabilities	(8,299)	(13,610)
Interest paid	(6,951)	(5,482)
Net cash used in financing activities	(44,760)	(15,766)
Net (decrease)/increase in cash and cash equivalents	(113,659)	14,554
Cash and cash equivalents at the beginning of the period	243,452	386,354
Net foreign exchange difference	(1,220)	1,381
Cash and cash equivalents at the end of the period	128,573	402,289

Notes to the Interim Condensed Consolidated Financial Information

For the six months ended 30 September 2021

1. General information

KFM Kingdom Holdings Limited (the “**Company**”) was incorporated in the Cayman Islands on 13 July 2011 as an exempted company with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The 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 Virgin Islands.

The Company is an investment holding company and its subsidiaries (collectively referred to as the “**Group**”) are principally engaged in the manufacture and sales of precision metal stamping and 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 2021.

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 2021 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 2021, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“**HKFRS**”) issued by the HKICPA.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

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 2021, except as described below.

Non-current assets (and disposal group) held for sale

Non-current assets and disposal group are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Such classification requires the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset or disposal group and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal group classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

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 2021:

Amendment to HKFRS 16

Amendments to HKFRS 9, HKAS 39, HKFRS 7,
HKFRS 4 and HKFRS 16

COVID-19 Related Rent Concessions

Interest rate Benchmark Reform –
Phase 2

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 these interim condensed consolidated financial information.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

4. Estimates

The preparation of interim condensed consolidated financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these interim condensed consolidated financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that were applied to the Group's annual financial statements for the year ended 31 March 2021 as described in those consolidated financial statements.

5. Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risks (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information does not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 March 2021.

There have been no changes in the risk management policies of the Group since 31 March 2021.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

5. Financial risk management (Continued)

(b) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, unsecured borrowings from a related company with a repayment on demand clause are included in the earliest time band regardless of the probability of a related company choosing to exercise its right. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

5. Financial risk management (Continued)

(b) Liquidity risk (Continued)

The table includes both interest and principal cash flows. To the extent that the interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	On demand or less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 6 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 30 September 2021					
Unsecured borrowings from a related company	36,000	–	–	36,000	36,000
Trade and other payables	140,974	–	–	140,974	140,974
	176,974	–	–	176,974	176,974
Lease liabilities	2,883	851	–	3,734	3,236

	On demand or less than 1 year HK\$'000	1 to 2 years HK\$'000	2 to 6 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount HK\$'000
At 31 March 2021					
Unsecured borrowings from a related company	166,000	–	–	166,000	166,000
Trade and other payables	93,669	–	–	93,669	93,669
	259,669	–	–	259,669	259,669
Lease liabilities	26,306	18,446	56,450	101,202	83,768

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

5. Financial risk management (Continued)

(b) Liquidity risk (Continued)

As at 30 September 2021, unsecured borrowings from a related company of HK\$36,000,000 (31 March 2021: HK\$166,000,000) that contain a repayment on demand clause are included in the “on demand or less than 1 year” time band in the above maturity analysis. Nevertheless, in the opinion of the directors of the Company, the Group will have sufficient working capital to meet its financial obligations when they fall due for the next twelve months from the end of the reporting period and the Group is expected to generate adequate cash flows to maintain its operation. Taking into account the Group’s financial position, the directors of the Company believe that it is not probable that the related company will exercise its discretionary rights to demand immediate repayment. The directors of the Company believe that such borrowing will be repaid in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the principal and aggregate interest cash outflows will amount to HK\$36,000,000 (31 March 2021: HK\$166,000,000) and approximately HK\$1,241,000 (31 March 2021: HK\$781,000) respectively.

6. 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.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

6. Revenue (Continued)

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

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited and restated)
Geographical region		
The People's Republic of China (the "PRC")	152,306	131,257
North America	55,857	29,476
Europe	17,415	11,126
Singapore	5,639	5,534
Japan	17	9
Others	32,219	7,040
	263,453	184,442

7. Segment information

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

During the year ended 31 March 2021, the CODM have assessed the nature of the Group's business 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 product assembling ("Metal stamping"); and
- (ii) Manufacturing and sale of precision metal products involving lathing, machining and turning process ("Metal lathing").

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

7. Segment information (Continued)

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

During the six months ended 30 September 2021, an operating segment regarding the metal lathing was classified as discontinued operations, which are in more details in note 12. Accordingly, the Group operates in one business unit based on its products, and has only one reportable segment which is metal stamping, no segmental analysis has been presented. The Group conducts its principal operation in Mainland China. Management monitors the operating results of its business unit for the purpose of making decisions about resources allocation and performance assessment.

Geographic information

The non-current assets, other than those related to discontinued operations, deposits and deferred income tax assets, of the Group as at 30 September 2021 and 31 March 2021 are as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Restated)
The PRC	44,409	47,691
Hong Kong	5,125	3,957
	49,534	51,648

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

7. Segment information (Continued)

Information about major customers

Revenue from customers of the corresponding periods contributing over 10% of the total revenue of the Group from continuing operations are as follows:

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Customer A	59,617	58,366
Customer B	36,708	N/A ¹
Customer C	44,951	N/A ¹
Customer D	N/A ¹	21,345

¹ The corresponding revenue did not contribute over 10% of the total revenue of the Group.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

8. Other gains/(losses), net

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Continuing operations		
Loss on disposal of plant and equipment	(118)	(29)
Reversal of impairment of plant and equipment	602	–
Exchange losses, net	(573)	(4,251)
Fair value loss on financial assets at fair value through profit or loss (“FVTPL”)	(19)	–
Government subsidies (Note)	152	573
Others	567	(62)
	611	(3,769)

Note: The amount represented the government subsidies with no unfulfilled conditions or contingencies and recognised as other gains upon receipts during the six months ended 30 September 2021 and 2020.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

9. Finance income and finance costs

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Continuing operations		
Finance income		
Interest income on bank balances and deposits	315	3,235
Interest income on amount due from a related company	–	190
	315	3,425
Continuing operations		
Finance costs		
Interest expense on unsecured borrowings from a related company	1,426	1,732
Interest expense on lease liabilities	226	652
	1,652	2,384

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

10. Profit before tax

Profit before tax has been arrived at after charging:

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Continuing operations		
Cost of inventories sold	218,384	150,263
Depreciation of plant and equipment	2,875	3,580
Depreciation of right-of-use assets	9,459	9,371

11. Income tax expense

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Continuing operations		
Current income tax:		
– The PRC	1,139	1,519
Deferred income tax (Note 23)	1,108	9
Total	2,247	1,528

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

11. Income tax expense (Continued)

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 2021 and 2020:

(a) Hong Kong Profits Tax

For the six months ended 30 September 2021 and 2020, 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% (2020: 16.5%).

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

The PRC EIT is provided on the assessable income of the Company'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 2021 is provided at the rate of 25% (2020: 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 2021, a lower 5% (2020: 5%) PRC dividend withholding tax rate was adopted since (i) the immediate holding companies of the PRC subsidiaries that 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.

Notes to the Interim Condensed Consolidated Financial Information (*Continued*)

For the six months ended 30 September 2021

12. Discontinued operations/disposal group held for sale

In August 2021, the Group entered into a sale and purchase agreement to dispose of its metal lathing business through the sale of the Company's entire shareholding in its indirect wholly-owned subsidiary, namely 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 subsidiaries of the Group and the ultimate beneficial owner of the Purchaser) (the "**Proposed Disposal**"). KRP BVI is an investment holding company and its subsidiaries are engaged in the manufacturing and sales of metal lathing products. The assets and liabilities attributable to the metal lathing business, which are expected to be sold within twelve months, have been classified as a disposal group held for sale and are presented separately in the interim condensed consolidated statement of financial position.

Details (including the facts and circumstances, the expected manner and timing of the Proposed Disposal as well as the terms of the sale and purchase agreement and the reasons for the Proposed 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 and 22 November 2021.

The (loss)/profit for the period from the discontinued metal lathing business is set out below. The comparative figures in the interim condensed consolidated statement of profit or loss and other comprehensive income have been restated to re-present the metal lathing business as a discontinued operation.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

12. Discontinued operations/disposal group held for sale (Continued)

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Revenue	126,825	161,947
Cost of sales	(103,315)	(112,414)
Other gains, net	52	1,481
Distribution and selling expenses	(2,350)	(1,843)
General and administrative expenses	(24,543)	(23,849)
Finance income	141	70
Finance costs	(5,299)	(3,098)
(Loss)/profit before tax	(8,489)	22,294
Income tax expense	(1,328)	(2,676)
(Loss)/profit for the period	(9,817)	19,618
Loss on remeasurement to fair value less costs to sell	(63,993)	–
(Loss)/profit for the period from discontinued operations	(73,810)	19,618

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.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

12. Discontinued operations/disposal group held for sale (Continued)

(Loss)/profit for the period from discontinued operation including the following:

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Finance income		
Interest income on bank balances and deposits	141	70
Finance costs		
Interest expense on unsecured borrowings		
from a related company	2,626	2,626
Interest expense on lease liabilities	2,673	472
	5,299	3,098
Gain/(loss) on disposal of plant and equipment	33	(89)
Cost of inventories sold	103,315	112,414
Depreciation of plant and equipment	5,693	8,781
Depreciation of right-of-use assets	6,748	4,435

During the Reporting Period, the metal lathing business contributed approximately HK\$574,000 (six months ended 30 September 2020: HK\$50,414,000) to the Group's net operating cash flows, paid approximately HK\$39,534,000 (six months ended 30 September 2020: HK\$22,572,000) in respect of investing activities and paid approximately HK\$5,810,000 (six months ended 30 September 2020: HK\$6,864,000) in respect of financing activities.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

12. Discontinued operations/disposal group held for sale (Continued)

The major classes of assets and liabilities of the metal lathing business as at 30 September 2021, which have been presented separately in the interim condensed consolidated statement of financial position, are as follows:

	HK\$'000
Plant and equipment	58,072
Right-of-use assets	43,731
Deferred income tax assets	1,350
Inventories	44,440
Trade and bills receivables	95,237
Prepayments, deposits and other receivables	47,618
Cash and cash equivalents	52,147
Total assets classified as held for sale	342,595
Trade and other payables	58,611
Amounts due to an intermediate holding company and a fellow subsidiary	40,192
Unsecured borrowings from a related party	100,000
Lease liabilities	74,709
Current income tax liabilities	2,674
Deferred income tax liabilities	1,555
	277,741
Amounts due to an intermediate holding company and a fellow subsidiary of KRP BVI which are wholly eliminated on consolidation for financial reporting purpose	(40,192)
Total liabilities associated with assets classified as held for sale	237,549

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.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

13. (Loss)/earnings per share

Basic and diluted (loss)/earnings per share

	Six months ended 30 September	
	2021 (Unaudited)	2020 (Unaudited and restated)
(Loss)/profit attributable to owners of the Company (HK\$'000)		
– from continuing operations	8,092	2,373
– from discontinued operations	(73,838)	19,375
	(65,746)	21,748
Weighted average number of shares in issue ('000)	600,000	600,000
Basic and diluted (loss)/earnings per share (HK cents per share)		
– from continuing operations	1.35	0.40
– from discontinued operations	(12.31)	3.22
	(10.96)	3.62

Basic (loss)/earnings per share for the Reporting Period and the corresponding period last year is calculated by dividing the (loss)/profit attributable to owners of the Company by 600,000,000 ordinary shares in issue during the period.

Diluted (loss)/earnings per share is same as basic (loss)/earnings per share as the Company had no potentially dilutive ordinary share in issue during the Reporting Period and the corresponding period last year.

14. Dividend

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

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

15. Plant and equipment

	Six months ended 30 September	
	2021	2020
	HK\$'000	HK\$'000
At 1 April (Audited)	135,637	132,010
Reclassified as held for sale (note)	(92,546)	–
Additions	4,828	17,416
Disposals	(1,451)	(154)
Depreciation	(8,568)	(12,361)
Reversal of impairment loss	1,074	–
Transfer from right-of-use assets	434	–
Exchange differences	(723)	2,440
At 30 September (Unaudited)	38,685	139,351

Note: The amount was carrying amount before the remeasurement as at 31 July 2021 and are disclosed in more details in note 12.

16. Right-of-use assets and lease liabilities

(i) Right-of-use assets

As at 30 September 2021, the Group has lease arrangements for office premises and factories of approximately HK\$4,451,000 (31 March 2021: office premises and factories, plant and machinery and motor vehicles of approximately HK\$78,202,000, HK\$11,464,000 and HK\$459,000), respectively. The lease terms are generally ranged from two to three years (31 March 2021: two to six years).

During the six months ended 30 September 2021, there was no addition of right-of-use assets from continuing operations (30 September 2020: recognised right-of-use assets of approximately HK\$2,274,000 due to new lease of office premises and factories).

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

16. Right-of-use assets and lease liabilities (Continued)

(ii) Lease liabilities

As at 30 September 2021, the carrying amount of lease liabilities was approximately HK\$3,236,000 (31 March 2021: HK\$83,768,000).

During the six months ended 30 September 2021, there was no new lease agreements entered from continuing operations (30 September 2020: recognised lease liabilities of approximately HK\$2,274,000 due to new lease of office premises and factories).

(iii) Amount recognised in profit or loss

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)
Depreciation of right-of-use assets	16,207	13,806
Interest expense on lease liabilities	2,899	1,124
Expense relating to short-term leases	—	252

(iv) Other

At 30 September 2021 and 2020, there is no committed short-term leases.

17. Inventories

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Raw materials	46,520	30,096
Work in progress	15,922	17,206
Finished goods	27,726	43,500
	90,168	90,802

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

18. Trade and bills receivables

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Bills receivables (Note (a))	–	6,119
Trade receivables (Note (b))		
– third parties	121,748	166,515
– a related company	–	36
	121,748	166,551
	121,748	172,670

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 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Up to 3 months	–	6,119

- (b) The Group normally grants credit periods of 30 to 90 days (31 March 2021: 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 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Up to 3 months	121,256	152,952
3 to 6 months	492	9,753
6 months to 1 year	–	3,838
1 to 2 years	–	8
	121,748	166,551

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

19. Prepayments, deposits and other receivables

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Non-current asset		
Prepayments and deposits	6,740	8,945
Current assets		
Prepayments, deposits and other receivables	11,119	13,112
Amounts due from non-controlling shareholders (Note)	–	4,000
	11,119	17,112
Less: allowance for impairment losses	–	(4,000)
	11,119	13,112
	17,859	22,057

Note: The amounts are unsecured, non-interest bearing and repayable on demand and were reclassified as assets of disposal group classified as held for sale.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

20. Cash and cash equivalents/restricted bank deposits/time deposits with maturity over three months

For the purpose of the interim condensed consolidated statement of cash flows, cash and cash equivalents are comprised of the following:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Cash and bank balances	76,426	193,452
Bank deposits	220,245	210,675
	296,671	404,127
Less:		
Time deposits with maturity over three months (Note (ii))	(219,082)	(160,000)
Restricted bank deposits (Note (iii))	(1,163)	(675)
Cash and cash equivalents	76,426	243,452

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

20. Cash and cash equivalents/restricted bank deposits/time deposits with maturity over three months (Continued)

Notes:

- (i) The analysis below includes those reclassified as part of the disposal group classified as held for sale:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Analysed for reporting purpose as:		
Cash and cash equivalents (excluding those classified as part of the disposal group as held for sale)	76,426	243,452
Cash and cash equivalents included as part of the disposal group classified as held for sale (Note 12)	52,147	–
Cash and cash equivalents	128,573	243,452

- (ii) Time deposits carry interest rate ranged from 0.025% to 0.33% per annum (31 March 2021: 0.2% to 0.29% per annum) with an original maturity of 6 months for the six months ended 30 September 2021.
- (iii) Restricted bank deposits are for certain import purchases in the PRC.

21. 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 2021 and 31 March 2021	4,500,000,000	450,000		
Issued and fully paid				
At 30 September 2021 and 31 March 2021	600,000,000	60,000	26,135	86,135

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

22. Reserves

(a) Capital reserve

During the year ended 31 March 2012, as part of the re-organisation, KFM Group Limited (“**KFM BVI**”) acquired 100% of the issued share capital of Kingdom Fine Metal Limited (“**KFM HK**”) on 11 October 2011 and KFM HK acquired the issued share capital of 49% and 10% of Kingdom (Reliance) Precision Parts Manufactory Limited (“**KRP HK**”) and Kingdom Precision Product Limited (“**KPP HK**”) on 29 November 2011 and 29 December 2011 respectively, by allotting shares of KFM BVI to each of the respective companies’ then shareholders and gained 100% control of the companies. The subscription of new shares of KFM BVI was accounted for by the Group using merger method and approximately HK\$3,500,000 was recognised in capital reserve which mainly represented 100%, 49% and 10% of the aggregated issued share capital of KFM HK, KRP HK and KPP HK respectively.

On 13 September 2012, the Company acquired the entire equity interest in KFM BVI by (a) issuing and allotting 999,999 new shares of the Company to Kingdom International Group Limited (“**KIG**”), credited as fully paid; and (b) crediting as fully paid at par the one nil-paid share which was then registered in the name of KIG. As result of the subscription of new shares of the Company, approximately HK\$100,000 was charged to capital reserve.

During the year ended 31 March 2020, entire equity interest in KFM HK was disposed and resulting a debit of approximately HK\$1,087,000 to the capital reserve.

(b) Statutory reserve

In accordance with the PRC laws and regulations, the PRC subsidiaries are required to transfer not less than 10% of their net profit as stated in the financial statements prepared under PRC accounting regulations to statutory reserves before the corresponding PRC subsidiaries can distribute any dividend. Such a transfer is not required when the amount of statutory reserves reaches 50% of the corresponding subsidiaries’ registered capital. In addition, the PRC subsidiaries may make further contribution to the statutory reserve using its post-tax profits in accordance with resolutions of the shareholders of the PRC subsidiaries of the Company.

The statutory reserve shall only be used to make up losses of the corresponding subsidiaries, to expand the corresponding subsidiaries’ production operations, or to increase the capital of the corresponding subsidiaries. Upon approval of the corresponding subsidiaries’ shareholders in general meetings, the corresponding subsidiaries may convert their statutory reserves into registered capital and issue bonus capital to the existing owners in proportion to the existing ownership structure.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

23. Deferred income tax

The analysis of deferred income tax assets/(liabilities) is as follows:

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Deferred income tax assets	–	1,975
Deferred income tax liabilities	(1,073)	(2,136)
	(1,073)	(161)

The movements in deferred income tax assets and liabilities during the six months ended 30 September 2021 and 2020 are as follows:

	Accelerated accounting/(tax) depreciation HK\$'000	Undistributable profits from subsidiaries HK\$'000	Total HK\$'000
At 1 April 2021 (Audited)	1,975	(2,136)	(161)
Less: deferred income tax (assets)/liabilities related to discontinued operations	(1,608)	1,813	205
	367	(323)	44
Charged to profit or loss of continuing operations (Note 11)	(358)	(750)	(1,108)
Exchange difference	(9)	–	(9)
At 30 September 2021 (Unaudited)	–	(1,073)	(1,073)

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

23. Deferred income tax (Continued)

	Accelerated accounting/(tax) depreciation HK\$'000	Undistributable profits from subsidiaries HK\$'000	Total HK\$'000
At 1 April 2020 (Audited)	667	(879)	(212)
Less: deferred income tax (assets)/liabilities related to discontinued operations	(277)	1,090	813
	390	211	601
Charged to profit or loss of continuing operations (Note 11)	(28)	19	(9)
Exchange difference	7	–	7
At 30 September 2020 (Unaudited)	369	230	599

24. Trade and other payables

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Trade payables (Note)		
– third parties	97,733	74,018
– a related company	64	–
	97,797	74,018
Accruals and other payables	43,430	31,115
	141,227	105,133

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

24. Trade and other payables (Continued)

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

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Up to 3 months	97,719	73,168
3 to 6 months	26	658
6 months to 1 year	–	54
1 to 2 years	52	138
	97,797	74,018

The average credit period on purchase of goods is from 30 to 90 days (31 March 2021: 30 to 90 days). The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

25. Unsecured borrowings from a related company

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Due for repayment within 1 year which contains a repayment on demand clause	36,000	166,000

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

25. Unsecured borrowings from a related company (Continued)

As at 30 September 2021, unsecured borrowings of HK\$36,000,000 (31 March 2021: HK\$166,000,000) were advanced from KIG, a related company in which the director of the Company, Mr. Wong Chi Kwok (“**Mr. Wong**”), 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.

During the six months ended 30 September 2021, unsecured borrowings from a related company of HK\$30,000,000 was paid and HK\$100,000,000 was reclassified to liabilities associated with assets classified as held for sale.

The interest rate of the unsecured borrowings from a related company is at the prime rate of 5.25% per annum (31 March 2021: 5.25% per annum).

26. Capital commitments

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Authorised or contracted for but not provided:		
– Plant and machinery	45,138	48,486
– Capital investments	5,270	5,270
	50,408	53,756

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

27. Significant related party transactions

(a) Name and relationship with related parties

Name	Relationship
KIG	A related company in which Mr. Wong, the executive director of the Company, has beneficial interests
KIG Real Estate Holdings Limited ("KREH")	A related company in which Mr. Sun Kwok Wah Peter ("Mr. Sun") and Mr. Wong, the executive directors of the Company, have beneficial interests
Innotech Advanced Products Limited ("Innotech")	A subsidiary of Gold Joy (HK) Industrial Limited which is owned by a connected party of Mr. Sun
Dongguan Tech-in Technical Electrical & Mechanical Products Limited ("Dongguan Tech-in")	A subsidiary of Innotech
Golden Express Capital Investment Limited ("GECI")	A subsidiary of KREH
Kingdom Precision Science and Technology (Suzhou) Company Limited ("KPST Suzhou") * (金德精密科技(蘇州)有限公司)	A subsidiary of KREH
KFM HK	A subsidiary of KIG
Kingdom Technology (Shenzhen) Co., Ltd. ("KFM SZ") * (金德鑫科技(深圳)有限公司)	A subsidiary of KIG

* The English name is for identification purpose only.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

27. Significant related party transactions (Continued)

(b) Material related parties transactions

During the six months ended 30 September 2021 and 2020, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

	Six months ended 30 September	
	2021 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited and restated)
Continuing operations		
Purchase of products from related parties		
– KFM HK	–	597
– KFM SZ	–	1,854
– Dongguan Tech-in	140	79
	140	2,530
Finance costs – interest expense on unsecured borrowings from a related company		
– KIG	1,426	1,732
Finance costs – interest expense on lease liabilities		
– KPST Suzhou	116	477
– GECl	84	132
Finance income – interest income from amount due from a related party		
– KFM HK	–	190
Lease payments		
– KPST Suzhou	5,809	9,421
– GECl	1,025	1,025

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

27. Significant related party transactions (Continued)

(c) Balances with related companies

	30 September 2021 HK\$'000 (Unaudited)	31 March 2021 HK\$'000 (Audited)
Amounts due from non-controlling shareholders	–	4,000
Less: Provision for impairment	–	(4,000)
	–	–
Trade receivables from a related company		
– KFM SZ	–	36
Trade payable to a related company		
– Dongguan Tech-in	(64)	–
Lease liabilities		
– KPST Suzhou	–	(5,908)
– GECI	(2,805)	(3,746)
Unsecured borrowings from a related company		
– KIG	(36,000)	(166,000)

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

27. Significant related party transactions (Continued)

(c) Balances with related companies (Continued)

In 2018, the Group entered into three-year lease in respect of a factory with KPST Suzhou. The amount of rent payable by the Group under the lease is approximately HK\$1,419,000 per month. As at 30 September 2021, the carrying amount of such lease liability is nil (31 March 2021: HK\$5,908,000).

In 2019, the Group entered into three three-year leases in respect of one office premises and two car parks with GECL respectively. The amount of rent payable by the Group under the lease is approximately HK\$171,000 per month in total. As at 30 September 2021, the carrying amount of such lease liabilities is approximately HK\$2,805,000 (31 March 2021: HK\$3,746,000).

(d) Key management compensation

Key management personnel includes directors and senior managements of the Company. The compensation paid or payable to key management personnel amounted to approximately HK\$3,711,000 for the six months ended 30 September 2021 (six months ended 30 September 2020: HK\$3,401,000).

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

28. Fair value measurement of financial instrument

Some of the Group's financial assets are measured at fair value at the end of the reporting period.

For financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

The following table provides the fair value measurement hierarchy of the Group's financial assets as at 30 September 2021 and 31 March 2021. The valuation techniques and inputs used in the fair value measurements of each financial instruments on a recurring basis are set out below:

Financial instruments	Fair value hierarchy	Fair value as at		Valuation technique and key inputs
		30 September 2021	31 March 2021	
		HK\$'000 (Unaudited)	HK\$'000 (Audited)	
Listed equity instrument	Level 1	8	27	Quoted bid prices in an active market

There were no transfer between levels of fair value hierarchy in the current and prior periods.

Notes to the Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 September 2021

29. Comparative figures

Certain comparative figures in these interim condensed consolidated financial information have been restated in order to conform to the current period's presentation of the financial results of the discontinued operations.

30. Event after the reporting period

Subsequent to the Reporting Period, Kingdom Precision Product (Suzhou) Company Limited * 金德精密配件(蘇州)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 KPST Suzhou, a related company of the Group, at an initial yearly rent of approximately RMB17.6 million, subject to adjustments over the lease 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 20 September 2021 and 12 October 2021 and the circular dated 1 November 2021.

* The English name is for identification purpose only.