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KIN YAT HOLDINGS LIMITED

建溢集團有限公司

website: <http://www.kinyat.com.hk>

(Incorporated in Bermuda with limited liability)

(Stock Code: 638)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2016

The Board of Directors (the “Board”) would like to announce the unaudited condensed consolidated results for Kin Yat Holdings Limited (the “Company”) and its subsidiaries (collectively, the “Group”) for the six months ended 30 September 2016 together with the comparative figures for the corresponding period in 2015. This unaudited interim financial results has been reviewed by the Audit Committee of the Company but has not been reviewed by the auditors of the Company.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Unaudited for the six months ended 30 September | |
|---|--------------|--|--------------------------|
| | <i>Notes</i> | 2016 HK\$'000 | 2015 HK\$'000 |
| REVENUE | <i>3</i> | 1,249,863 | 1,223,138 |
| Costs of sales | <i>5</i> | (1,065,597) | (1,078,510) |
| Gross profit | | 184,266 | 144,628 |
| Other income and gains, net | <i>3</i> | 9,992 | 3,958 |
| Selling and distribution expenses | | (23,234) | (22,323) |
| Administrative expenses | | (77,881) | (69,146) |
| Finance costs | <i>4</i> | (37) | (89) |
| PROFIT BEFORE TAX | <i>5</i> | 93,106 | 57,028 |
| Income tax expense | <i>6</i> | (22,553) | (15,735) |
| PROFIT FOR THE PERIOD | | 70,553 | 41,293 |
| ATTRIBUTABLE TO: | | | |
| Equity holders of the Company | | 70,755 | 41,695 |
| Non-controlling interests | | (202) | (402) |
| | | 70,553 | 41,293 |
| EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY | <i>8</i> | | |
| Basic | | HK16.88 cents | HK9.95 cents |
| Diluted | | HK16.82 cents | HK9.94 cents |

Details of the dividends are disclosed in note 7 to the announcement.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | Unaudited for the six months ended 30 September | |
|---|---|----------------------|
| | 2016 HK\$'000 | 2015 HK\$'000 |
| PROFIT FOR THE PERIOD | <u>70,553</u> | <u>41,293</u> |
| OTHER COMPREHENSIVE INCOME | | |
| <i>Other comprehensive income to be reclassified to income statement in subsequent periods:</i> | | |
| Exchange differences on translation of foreign operations | <u>356</u> | <u>26</u> |
| TOTAL COMPREHENSIVE INCOME FOR THE PERIOD | <u>70,909</u> | <u>41,319</u> |
| ATTRIBUTABLE TO: | | |
| Equity holders of the Company | 71,111 | 41,721 |
| Non-controlling interests | <u>(202)</u> | <u>(402)</u> |
| | <u>70,909</u> | <u>41,319</u> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | | Unaudited 30 September 2016 <i>Notes</i> <i>HK\$'000</i> | Audited 31 March 2016 <i>HK\$'000</i> |
|---|----|---|--|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | 718,864 | 692,536 |
| Investment properties | | 46,305 | 46,305 |
| Prepaid land lease payments | | 24,910 | 25,231 |
| Properties under development | | 19,701 | 19,701 |
| Goodwill | | 4,650 | 4,650 |
| Deferred tax assets | | 40,146 | 40,918 |
| Deposits | | 55,852 | 34,309 |
| | | <hr/> | <hr/> |
| Total non-current assets | | 910,428 | 863,650 |
| CURRENT ASSETS | | | |
| Properties under development | | 162,883 | 155,934 |
| Inventories | | 315,609 | 333,681 |
| Accounts receivable | 9 | 414,440 | 222,191 |
| Prepayments and deposits | | 64,152 | 42,495 |
| Financial assets at fair value through profit or loss | | 14,618 | 10,648 |
| Tax recoverable | | 641 | 641 |
| Time deposits | | 6,609 | 6,565 |
| Cash and bank balances | | 332,591 | 204,948 |
| | | <hr/> | <hr/> |
| Total current assets | | 1,311,543 | 977,103 |
| CURRENT LIABILITIES | | | |
| Accounts and bills payables, accrued liabilities, other payables and deferred income | 10 | 684,566 | 509,234 |
| Interest-bearing bank borrowings | 11 | 123,606 | 188,507 |
| Due to non-controlling shareholders | | 38,056 | 38,056 |
| Tax payable | | 74,014 | 60,339 |
| | | <hr/> | <hr/> |
| Total current liabilities | | 920,242 | 796,136 |
| | | <hr/> | <hr/> |
| NET CURRENT ASSETS | | 391,301 | 180,967 |
| | | <hr/> | <hr/> |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | 1,301,729 | 1,044,617 |
| | | <hr/> | <hr/> |

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

| | | Unaudited 30 September 2016 <i>Notes</i> <i>HK\$'000</i> | Audited 31 March 2016 <i>HK\$'000</i> |
|---|----|---|--|
| NON-CURRENT LIABILITIES | | | |
| Other payables and deferred income | 10 | 153,929 | 157,018 |
| Interest-bearing bank borrowings | 11 | 210,250 | – |
| Deferred tax liabilities | | 30,223 | 30,223 |
| | | <u>394,402</u> | <u>187,241</u> |
| Total non-current liabilities | | | |
| | | <u>394,402</u> | <u>187,241</u> |
| NET ASSETS | | <u>907,327</u> | <u>857,376</u> |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Share capital | | 41,916 | 41,916 |
| Reserves | | 924,333 | 874,180 |
| | | <u>966,249</u> | <u>916,096</u> |
| Non-controlling interests | | (58,922) | (58,720) |
| | | <u>907,327</u> | <u>857,376</u> |
| TOTAL EQUITY | | <u>907,327</u> | <u>857,376</u> |

NOTES

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with Hong Kong Accounting Standards (“HKAS”) 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

The condensed consolidated financial statements have been prepared under the historical cost convention, except for the investment properties that are measured at fair value. The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2016 except as described below. In the current period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA which are effective for the Group’s financial year beginning on 1 April 2016.

| | |
|--|---|
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | <i>Investment Entities: Applying the Consolidation Exception</i> |
| Amendments to HKFRS 11 | <i>Accounting for Acquisitions of Interests in Joint Operations</i> |
| Amendments to HKAS 1 | <i>Disclosure Initiative</i> |
| Amendments to HKAS 16 and HKAS 38 | <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> |
| Amendments to HKAS 16 and HKAS 41 | <i>Agriculture: Bearer Plants</i> |
| Amendments to HKAS 27 (2011) | <i>Equity Method in Separate Financial Statements</i> |
| <i>Annual Improvements 2012 – 2014 Cycle</i> | Amendments to a number of HKFRSs |

The adoption of the new HKFRSs had no material effect on the results and financial position for the current or prior accounting periods which have been prepared and presented.

2. SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services, and has four reportable operating segments as follows:

- (a) the electrical and electronic products segment consists of the manufacture and sale of electrical appliances, electronic toys and related products;
- (b) the motors segment consists of the manufacture and sale of motors and encoder film;
- (c) the resources development segment consists of the manufacture and sale of materials primarily for use in panel display, the exploration and processing and sale of mineral products; and
- (d) real estate development.

2. SEGMENT INFORMATION (Continued)

Management monitors the operating results of the Group's business units separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects, as explained in the table below, is measured differently from operating profit or loss in the condensed consolidated financial statements.

Group financing (including finance costs and finance revenue) and income taxes are managed on a group basis and are not allocated to operating segments.

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

(a) Operating segments

The following table presents revenue and results for the Group's operating segments for the six months ended 30 September 2016 and 2015.

| | Unaudited for the six months ended 30 September | | | | | | | | | | | |
|---------------------------------------|---|----------|----------|----------|-----------------------|----------|-------------------------|----------|--------------|----------|--------------|-----------|
| | Electrical and electronic products | | Motors | | Resources development | | Real estate development | | Eliminations | | Consolidated | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | | | |
| Revenue from external customers | 871,257 | 868,987 | 378,594 | 353,261 | 12 | 890 | – | – | – | – | 1,249,863 | 1,223,138 |
| Intersegment sales | 21,444 | 16,637 | 2,665 | 4,694 | – | – | – | – | (24,109) | (21,331) | – | – |
| Other income and gains, net | 2,573 | 1,399 | 4,078 | 2,891 | – | 375 | 7 | 15 | – | – | 6,658 | 4,680 |
| | | | | | | | | | | | | |
| Total | 895,274 | 887,023 | 385,337 | 360,846 | 12 | 1,265 | 7 | 15 | (24,109) | (21,331) | 1,256,521 | 1,227,818 |
| | | | | | | | | | | | | |
| Segment results | 94,381 | 81,367 | 10,510 | (5,933) | (1,937) | (4,429) | (3,053) | (3,686) | – | – | 99,901 | 67,319 |
| | | | | | | | | | | | | |
| Interest and unallocated gains/(loss) | | | | | | | | | | | 3,334 | (722) |
| Unallocated expenses | | | | | | | | | | | (10,092) | (9,480) |
| Finance costs | | | | | | | | | | | (37) | (89) |
| | | | | | | | | | | | | |
| Profit before tax | | | | | | | | | | | 93,106 | 57,028 |

(b) Geographical information

| | Unaudited for the six months ended 30 September | | | | | | | | | |
|---------------------------------|---|----------|----------|----------|----------|----------|----------|----------|--------------|-----------|
| | United States of America | | Europe | | Asia | | Others | | Consolidated | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Segment revenue: | | | | | | | | | | |
| Revenue from external customers | 453,379 | 432,783 | 257,269 | 264,536 | 483,691 | 464,159 | 55,524 | 61,660 | 1,249,863 | 1,223,138 |

The revenue information above is based on the location of the customers.

3. REVENUE, OTHER INCOME AND GAINS, NET

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts but excluding intra-group transactions. An analysis of revenue, other income and gains, net is as follows:

| | Unaudited | |
|---|---------------------------------|------------------|
| | for the six months ended | |
| | 30 September | |
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Revenue | | |
| Manufacture and sale of: | | |
| Electrical and electronic products | 871,257 | 868,987 |
| Motors | 378,594 | 353,261 |
| Materials and products from resources development | 12 | 890 |
| | <u>1,249,863</u> | <u>1,223,138</u> |
| Other income and gains, net | | |
| Bank interest income | 403 | 341 |
| Dividend income from financial assets at | | |
| fair value through profit or loss | 737 | 35 |
| Gross rental income | 168 | 541 |
| Sale of scrap materials | 487 | 2,184 |
| Gain/(loss) on disposal of items of property, | | |
| plant and equipment, net | (4) | 46 |
| Fair value gain/(loss) on financial assets at | | |
| fair value through profit or loss, net | 2,194 | (1,098) |
| Subsidy income | 5,097 | – |
| Others | 910 | 1,909 |
| | <u>9,992</u> | <u>3,958</u> |

4. FINANCE COSTS

| | Unaudited for the six months ended 30 September | |
|------------------------|---|-----------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Interest on bank loans | <u>37</u> | <u>89</u> |

During the period ended 30 September 2016, interest of HK\$2,650,000 (2015: HK\$1,434,000) was capitalised under properties under development. Where funds have been borrowed generally and used for the purpose of obtaining qualifying assets, a capitalisation rate of 2.5% (2015: 2.5%) has been applied to the expenditure on the individual assets for the period ended 30 September 2016.

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| | Unaudited for the six months ended 30 September | |
|---|---|--------------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 1,065,597 | 1,078,510 |
| Depreciation | 38,323 | 46,535 |
| Amortisation of prepaid land lease payments | 327 | 375 |
| Amortisation of deferred development costs | – | 4,072 |
| Loss/(gain) on disposal of items of property, plant and equipment, net | 4 | (46) |
| Fair value (gain)/loss on financial assets at fair value through profit or loss, net | (2,194) | 1,098 |
| Bank interest income | <u>(403)</u> | <u>(341)</u> |

6. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the countries in which the Group operates.

| | Unaudited for the six months ended 30 September | |
|---------------------------------|---|---------------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Current period provision: | | |
| Hong Kong | 12,028 | 8,947 |
| Elsewhere | 10,525 | 6,788 |
| | <hr/> | <hr/> |
| Total tax charge for the period | 22,553 | 15,735 |
| | <hr/> <hr/> | <hr/> <hr/> |

7. DIVIDENDS

| | Unaudited for the six months ended 30 September | |
|--|---|-------------|
| | 2016 | 2015 |
| | HK\$'000 | HK\$'000 |
| Dividend paid during the period | | |
| Final dividend in respect of the financial year ended | | |
| 31 March 2016 – HK5.0 cents per ordinary share | | |
| (2015: final dividend in respect of the financial year ended | | |
| 31 March 2015 – HK4.0 cents per ordinary share) | 20,958 | 16,766 |
| | <hr/> | <hr/> |
| Proposed interim and special dividend | | |
| Interim dividend declared for the financial period ended | | |
| 30 September 2016 – HK5.0 cents per ordinary share | | |
| (2015: Nil) | 20,958 | – |
| | <hr/> | <hr/> |
| Special dividend declared for the financial period ended | | |
| 30 September 2016 – HK15.0 cents per ordinary share | | |
| (2015: Nil) | 62,874 | – |
| | <hr/> | <hr/> |
| | 83,832 | – |
| | <hr/> <hr/> | <hr/> <hr/> |

The interim and special dividend will be paid to the shareholders whose names appear in the register of members on 15 December 2016. The interim and special dividend was declared after the financial period ended 30 September 2016, and therefore has not been included as a liability in the condensed consolidated statement of financial position.

8. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share amount is based on the profit for the period attributable to equity holders of the Company of HK\$70,755,000 (2015: HK\$41,695,000) and the weighted average of 419,160,000 (2015: 418,936,000) ordinary shares in issue during the period.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to equity holders of the Company of HK\$70,755,000 (2015: HK\$41,695,000) and 420,727,000 (2015: 419,389,000) ordinary shares, being the number of shares outstanding during the period, adjusted for the effects of the dilutive potential ordinary shares outstanding during the period.

9. ACCOUNTS RECEIVABLE

The Group's trading terms with its customers are mainly on credit, except for new customers, where cash on sale or payment in advance is normally required. The credit period is generally for a period of one to two months, extending up to three months for certain well-established customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has imposed tightened control to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its accounts receivable balances. Accounts receivable are non-interest-bearing.

An aged analysis of the accounts receivable as at the end of the reporting period, based on the invoice date, is as follows:

| | Unaudited 30 September 2016 HK\$'000 | Audited 31 March 2016 HK\$'000 |
|----------------------------|---|---|
| 0 – 30 days | 274,152 | 130,706 |
| 31 – 60 days | 87,162 | 34,263 |
| 61 – 90 days | 33,412 | 41,146 |
| Over 90 days | 21,798 | 18,168 |
| | 416,524 | 224,283 |
| Less: Impairment allowance | (2,084) | (2,092) |
| | <u>414,440</u> | <u>222,191</u> |

The substantial increase in the accounts receivable is owing to the seasonal factor where usually September (30 September 2015: HK\$408,800,000) is the high season and March (31 March 2015: HK\$207,359,000) is the low season.

10. ACCOUNTS AND BILLS PAYABLES, ACCRUED LIABILITIES, OTHER PAYABLES AND DEFERRED INCOME

An aged analysis of the Group's accounts and bills payables as at the end of the reporting period, based on the invoice date, and the balance of accrued liabilities, other payables and deferred income are as follows:

| | Unaudited 30 September 2016 HK\$'000 | Audited 31 March 2016 HK\$'000 |
|-----------------------------|---|---|
| 0 – 30 days | 196,021 | 122,958 |
| 31 – 60 days | 126,882 | 52,881 |
| 61 – 90 days | 49,912 | 59,319 |
| Over 90 days | 30,677 | 27,516 |
| Accounts and bills payables | 403,492 | 262,674 |
| Accrued liabilities | 233,462 | 211,198 |
| Other payables | 41,433 | 29,183 |
| Deferred income* | 160,108 | 163,197 |
| | 838,495 | 666,252 |
| Less: Current portion | (684,566) | (509,234) |
| Non-current portion | 153,929 | 157,018 |

The accounts and bills payables and other payables are non-interest-bearing and are normally settled within credit terms of two months, extending up to three months.

- * Deferred income represents the amount received from the People's Government of Dushan County, Guizhou Province (the "Dushan Government"), the People's Republic of China (the "PRC") of RMB133,821,000, approximately HK\$163,197,000, in respect of the Group's investment project in Dushan County, Guizhou Province, the PRC ("Dushan"). During the year ended 31 March 2016, the Group clarified and confirmed with the Dushan Government the conditions of the above subsidies and considered the relevant requirements had been satisfied. These subsidies are released to the income statement on a systematic basis. During the period ended 30 September 2016, subsidies of HK\$3,089,000 (2015: Nil) has been recognised as "Other income".

11. INTEREST-BEARING BANK BORROWINGS

| | Unaudited 30 September 2016 | | Audited 31 March 2016 |
|---------------------------|--|-----------|----------------------------|
| | Effective interest rate | HK\$'000 | Effective interest rate |
| | | | HK\$'000 |
| Within 1 year | Hong Kong Interbank Offered Rate ("HIBOR") + 1% to 1.9% | 87,021 | – |
| | Fixed rate 4.785% | 36,585 | – |
| On demand | – | – | HIBOR + 1% to 1.9% 188,507 |
| Between 1 and 2 years | HIBOR + 1.88% to 1.9% | 41,750 | – |
| Between 2 and 5 years | HIBOR + 1.88% to 1.9% | 168,500 | – |
| | | 333,856 | 188,507 |
| Less: Non-current portion | | (210,250) | – |
| Current portion | | 123,606 | 188,507 |

The Group's banking facilities are supported by corporate guarantees given by the Company and certain subsidiaries of the Company. The carrying amounts of the Group's bank borrowings approximate to their fair values.

At 30 September 2016, the Group and the Company met all the bank covenants of all bank loan agreements, and therefore, the bank loans have been classified according to the repayment schedules of the related bank loans.

As at 31 March 2016 and subsequent to the year end, the Group was technically in breach of covenants under loan agreements with certain banks, as the Group's tangible net worth were less than that required by the banks (the "NTA Requirements"). Subsequent to 31 March 2016, the Group has successfully obtained written consents from these banks to waive the rights entitling the banks to declare the relevant outstanding loan balances immediately due and payable due to the breach as mentioned above. Accordingly, as at 31 March 2016, the Group's bank loan in the amount of HK\$112,500,000 had been classified as current liabilities.

11. INTEREST-BEARING BANK BORROWINGS (Continued)

The carrying amounts of the Group's interest-bearing bank borrowings were denominated in the following currencies:

| | Unaudited | Audited |
|-------------------|---------------------|-----------------|
| | 30 September | 31 March |
| | 2016 | 2016 |
| | HK\$'000 | HK\$'000 |
| Hong Kong dollars | 297,271 | 188,507 |
| Renminbi | 36,585 | – |
| | 333,856 | 188,507 |

12. CONTINGENT LIABILITIES

On 26 March 2014, the Hong Kong Inland Revenue Department (“IRD”) issued estimated assessments (“EA”) for the years of assessment 2007/08 (which were statutorily time-barred after 31 March 2014) with total tax demanded of approximately HK\$16,242,000 to certain subsidiaries of the Group (the “Subsidiaries”). The EA were issued as a consequence of the tax audit being carried out on the tax affairs of the Subsidiaries. During the year ended 31 March 2015, the Subsidiaries lodged objections to the EA and the IRD ordered the Subsidiaries to purchase tax reserve certificates (“TRC”) in the amount of HK\$7,875,000 and to holdover the balance on the condition that an 8% annual interest will be charged should the balance become payable upon settlement of the objection.

On 18 March 2015, the IRD issued another EA for the years of assessment 2008/09 (which were statutorily time-barred after 31 March 2015) with total tax demanded of approximately HK\$17,325,000 to the Subsidiaries. During the year ended 31 March 2016, the Subsidiaries lodged objections to the EA and the IRD subsequently ordered the Subsidiaries to purchase additional TRC in the amount of HK\$7,500,000 and to holdover the balance on the condition that an 8% annual interest will be charged should the balance become payable upon settlement of the objection.

On 16 March 2016, the IRD issued another EA for the years of assessment 2009/10 (which were statutorily time-barred after 31 March 2016) with total tax demanded of approximately HK\$10,241,000 to the Subsidiaries. Subsequent to 31 March 2016, the Subsidiaries lodged objections to the EA and the IRD subsequently ordered the Subsidiaries to purchase additional TRC in the amount of HK\$5,000,000 and to holdover the balance on the condition that an 8% annual interest will be charged should the balance become payable upon settlement of the objection.

12. CONTINGENT LIABILITIES (Continued)

In the opinion of the Directors, the formal negotiation has not yet been started and there is no specific basis for adjusting the Subsidiaries' tax position for the years of assessment 2007/08, 2008/09 and 2009/2010 specified in the EA. Therefore, the Directors are of the view that no tax provision for Hong Kong Profits Tax is required at this stage. The Subsidiaries will discuss with the IRD and will continue to monitor the progress of the tax audit and to defend the Subsidiaries' tax position vigorously. Therefore, no tax provision was provided thereon at 30 September 2016 (31 March 2016: Nil).

13. COMPARATIVE AMOUNTS

Certain amounts in the condensed consolidated financial statements for the period ended 30 September 2015 have been reclassified to conform with current period presentation.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is principally engaged in the research-and-development-based production of electrical and electronic products and motors. The non-manufacturing category currently comprises real estate development and resources development operations.

During the six months ended 30 September 2016 (“1H FY2017”), the Group posted a profit attributable to equity holders of the Company of HK\$70,755,000, a year-on-year increase of 69.7% from HK\$41,695,000 for the six months ended 30 September 2015 (“1H FY2016”). The increase in profit was mainly attributable to the improvements in the operating results of the electrical and electronic products and motors segments, together with the recognition of certain subsidy income during 1H FY2017.

The Group’s turnover was up by 2.2% year-on-year to HK\$1,249,863,000 for 1H FY2017 (1H FY2016: HK\$1,223,138,000).

The total turnover of the Group was accounted for by segmental external turnover of:

- HK\$871,257,000 from the electrical and electronic products segment, representing 69.7% of the Group’s consolidated turnover for 1H FY2017 (1H FY2016: HK\$868,987,000, 71.0%);
- HK\$378,594,000 from the motors segment, contributing 30.3% of the total (1H FY2016: HK\$353,261,000, 28.9%);
- HK\$12,000 from the resources development segment, representing 0% of the total (1H FY2016: HK\$890,000, 0.1%); and
- No turnover was generated from property pre-sales of the real estate development business during 1H FY2017 (1H FY2016: Nil, 0%).

The table below sets out the results of the Group by business segment for 1H FY2017, together with the comparative figures for the same period last year.

| Results by business segment | 1H FY2017 HK\$'000 | 1H FY2016 HK\$'000 | Year-on- year change % |
|------------------------------------|-------------------------------------|-------------------------------------|---|
| Electrical and electronic products | 94,381 | 81,367 | +16.0 |
| Motors | 10,510 | (5,933) | +277.1 |
| Resources development | (1,937) | (4,429) | NA |
| Real estate development | (3,053) | (3,686) | NA |
| Total segment results | <u>99,901</u> | <u>67,319</u> | +48.4 |

OPERATIONAL REVIEW

Manufacturing Businesses

Electrical and Electronic Products Business Segment

The segment is engaged in the development, design and manufacture of four main product categories: (i) appliances with artificial intelligence (AI) features, (ii) Internet of Things (IoT) devices, (iii) toys, and (iv) small home appliances. The segment's research-and-development and production platforms are principally based in Shenzhen City, Guangdong Province, the PRC, together with a small-scale production facility in Shixing County, Guangdong Province, the PRC ("Shixing").

The segment's external turnover for 1H FY2017 gained 0.3% year-on-year to HK\$871,257,000 (1H FY2016: HK\$868,987,000), on the back of higher business volume and an output of higher average value. Segment profit increased to HK\$94,381,000 (1H FY2016: HK\$81,367,000). Profit margin has improved partly owing to a further advance of the segment's product portfolio towards higher technology and value-added content.

1H FY2017 witnessed the segment's continued consolidation of resources, with the phasing out of less efficient or redundant facilities in order to enhance its core manufacturing competence. In line with the segment's shift to robotic manufacturing, more automated production processes have been installed.

On the solid foundation of robotic manufacturing, the segment ventured into the research and development of a new IoT product series during FY2016. The new products feature connectivity with smartphones and virtual reality/augmented reality (VR/AR) technology. During 1H FY2017, IoT products were put into production and shipment. A few new devices are currently under development for production in the second half of the year.

The AI robotic products category also recorded growth in its order book as well as in the product range. The segment continued to drive growth from the vacuum cleaning robot series, which has gained market prominence in export and Mainland domestic markets. Additionally, it has worked with the client to develop new product variety other than vacuum cleaning robot to maximise the use of its automated production setup and capability in robotic manufacturing.

Along with its strategy of moving towards higher-value-adding manufacturing, the segment has gradually phased out or outsourced the production of basic toy items. The toys line will thus be focused on high-value technology-based production.

The segment strives to maintain a stable order book for the second half of the year. As the segment enters the new robotic manufacturing era, management continues to hold an optimistic outlook of the earnings contribution of this core business.

Motors Business Segment

The motors segment is engaged in the development, design, manufacture and sale of micro-electric motors and related products, with a focus on direct-current (DC) motors. The segment's major facilities are located in Shixing and Dushan County, Guizhou Province, the PRC ("Dushan"), with a small-scale production facility in Malaysia.

Segment turnover increased by 7.2% year-on-year to HK\$378,594,000 (1H FY2016: HK\$353,261,000) on a robust order book for DC motors. Benefitting from efforts to consolidate and relocate the facilities to a lower-cost production base, and as a result of effective operating cost control and relatively stable material costs, the segment has successfully turned around its results and achieved an operating profit of HK\$10,510,000 (1H FY2016: loss of HK\$5,933,000) during the first half of the year.

During the previous financial year, the segment went through a restructuring exercise to consolidate its manufacturing activities and to scale down the alternating-current (AC) motors business, which has recorded shrinking profit margins. Facilities in Shixing and Dushan have been ramped up smoothly to replace the production lines in Shaoguan County, Guangdong Province, the PRC.

The strong performance of the segment was also a result of its refocus on the DC motors line, which has demonstrated healthy sales momentum. Management continues to work on soliciting international customers, and is therefore continuously raising the quality of products and of the production process. In view of the growing sales orders of DC motors, the segment will continue to expand the production scale of the factories in Shixing and Dushan. Efforts have also been ongoing to increase automation in both plants.

Management is much encouraged by the turnaround of this segment and holds a cautiously optimistic view of its ongoing performance. The segment will be subject to continuing pricing pressure exerted by competitors and customers, as well as uncertainties brought by raw material cost fluctuations. Ongoing facilities relocation, expansion and automation works may also bring short-term impacts to the financial performance of the segment. In spite of these challenges, the segment will work hard to drive growth and profitability through active product and business developments.

Non-manufacturing Businesses

Real Estate Development Business Segment

The Group is currently engaged in the development of a residential and commercial property project located at Dushan Economic Development Zone, Dushan County, Guizhou Province, the PRC.

During 1H FY2017, pre-sales revenue from property development activities has yet to be booked while the construction costs were capitalised. A loss of HK\$3,053,000 (1H FY2016: loss of HK\$3,686,000) was therefore recorded, mainly attributable to administrative expenses.

Following the completion of the superstructure construction and landscaping works on a reduced scale of phase I of the residential project, we have moved to the stage of application for construction completion and final acceptance certificates.

The management has seen the effort of the local government to grow the local economy by fostering tourist attractions. With increasing confidence in the development of Dushan in the medium term, the Group, through the segment, entered into a non-legally-binding letter of intent (“LOI”) on 30 September 2016 with the 貴州獨山經濟開發區管理委員會 (English translation: Guizhou Dushan Economic Development Zone Management Committee) (the “Dushan EDZ Administration”),

Pursuant to the LOI, the Dushan EDZ Administration and the Group will establish a strategic partnership relationship for closer cooperation. In particular, the segment is in the process of achieving workable deals for the Group to sell 100 units of *The Royale Cambridge Residences*, to develop a residential project with a saleable area of not less than 600,000 square metres for Shanty-town Reformation Project, and co-develop with the Dushan EDZ Administration a property development project of a landmark super high-rise commercial and luxury 5-star hotel complex in Dushan, in which the Group is expected to take up a majority share. Appropriate disclosure will be made by the Company when necessary and appropriate.

The management still holds a positive view of the long-term holding of the property to capture its longer-term value. Given this longer-term investment horizon and in order to reduce the demand for financing from the Group, the segment plans to reinvest the proceeds of the sales of the property units as start-up capital to finance the Shanty-town Reformation Project, and the potential profits from this will in turn be used for further future property development in Dushan.

Resources Development Business Segment

During the period under review, all projects and businesses under this segment, namely natural resources development and materials development businesses were terminated. No material impact on cash flow or the profit and loss account is expected as a result of the termination, given that the Group has already written down the asset value of the projects and businesses.

No operations were carried out in this segment during 1H FY2017. The management's task is to recoup the best residual value or assets for the Group.

As a result, the segment turnover dropped to HK\$12,000 (1H FY2016: HK\$890,000), with segment loss reduced to HK\$1,937,000 (1H FY2016: loss of HK\$4,429,000).

OUTLOOK

The second half of FY2017 will continue to bring opportunities and challenges. With stabilising labour costs and depreciating Renminbi, the general operating environment in Mainland China is becoming more favourable to the manufacturing sector.

The Group is equipped with a highly automated setup to stay relevant in the new era of robotic manufacturing. We are optimistic that our manufacturing business category is well positioned to enjoy more upside going forward.

The electrical and electronic products segment has continued to enhance its competitiveness and to broaden its business portfolio. With a strong background in high-technology production, it has succeeded in expanding into a new area of IoT devices. The products now under production were developed jointly with clients in the technological arena, but the segment is extending its business development efforts for this new product line. While it is actively building a new client base, the segment is also pitching IoT orders from its existing robotic appliances and toys customers.

Management is aware that the environment is not without concerns. The incoming government of the United States, the biggest single export market for China products, has proposed new trade measures including a new tariff on Chinese imports. This may pose new threats to Mainland-based manufacturers.

While our sales to export markets may be affected by the United States' more aggressive trade policy, our domestic sales have registered substantial growth. This shift in geographical mix will hopefully help to mitigate the impact of more restrictive trade measures in future.

Cost pressure will always remain a challenge. In response, the Group maintains a flexible production setup to maximise the value of our facilities. We keep the core processes within our production system, while outsourcing the lower-value-adding processes to outside manufacturers. This division of manufacturing activities can bring higher efficiencies to both our own facilities and those of our contractors.

The core manufacturing category is well positioned to produce sustainable earnings, while the non-manufacturing business is maintained under limited financial exposure. The Group continues to command a solid financial position to pursue further growth opportunities in the long-term interest of the shareholders.

The Board remains confident of the ongoing prospects of the Group, but will stay alert to the global uncertainties and market trends that may impact our operations.

LIQUIDITY AND FINANCIAL POSITION

The Group primarily used its internally generated cash flow and banking facilities to finance its operations and business development. The Group has always been executing a prudent and conservative strategy in its financial management. As at 30 September 2016, the Group had time deposits of HK\$6,609,000 (31 March 2016: HK\$6,565,000), cash and bank balances of HK\$332,591,000 (31 March 2016: HK\$204,948,000), and net current assets of HK\$391,301,000 (31 March 2016: HK\$180,967,000). As at 30 September 2016, shareholders' equity was HK\$966,249,000 (31 March 2016: HK\$916,096,000). Total consolidated banking facilities (including trade finance facilities) of the Group from all banks as at 30 September 2016 amounted to approximately HK\$664,185,000 (31 March 2016: HK\$663,185,000), of which HK\$335,164,000 (31 March 2016: HK\$195,664,000) was utilised including interest-bearing bank borrowings of HK\$333,856,000 (31 March 2016: HK\$188,507,000) and irrecoverable letter of credit of HK\$1,308,000 (31 March 2016: HK\$7,157,000).

As at 30 September 2016, the current ratio of the Group (current assets divided by current liabilities) was maintained at a healthy position at 1.4 times (31 March 2016: 1.2 times) and the gearing ratio of the Group (total interest-bearing bank borrowings divided by total equity) was 36.8% (31 March 2016: 22.0%). Based on the above, the Group continued to enjoy a healthy financial position with sufficient financial resources to support its future development.

CAPITAL STRUCTURE

As at 30 September 2016, the total issued share capital of the Company was HK\$41,916,000 (31 March 2016: HK\$41,916,000), comprising 419,160,000 (31 March 2016: 419,160,000) ordinary shares of HK\$0.1 each. There was no change in the share capital of the Company during the reporting period.

CHARGE ON THE GROUP'S ASSETS

There was no charge on the Group's assets as at 30 September 2016 (31 March 2016: Nil).

FOREIGN CURRENCY EXPOSURE

The Group's monetary assets, liabilities and transactions are principally denominated in Hong Kong dollars and Renminbi or United States dollars. The Group does not have a foreign currency hedging policy on it. In order to manage and minimise the foreign exchange risk, the management shall from time to time review and monitor the foreign exchange exposure and will consider hedging the significant foreign currency exposure when appropriate and necessary.

MATERIAL ACQUISITION AND DISPOSAL

During the reporting period, the Group was neither involved in any significant investment, nor any material acquisitions or disposals of any subsidiaries.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2016, the Group employed over 10,300 full-time employees, of which less than 120 of them were stationed in Hong Kong headquarters with the remaining working in the PRC and Malaysia.

The remuneration committee of the Company reviewed and determined the remuneration package of individual executive Director and senior management of the Company with reference to the Board's corporate goals and objectives, responsibilities and employment conditions elsewhere within the Group and in the market. The Group remunerates its employees largely in accordance with prevailing industry standards. In Hong Kong, the Group's employee benefits include staff retirement scheme, medical scheme and performance bonus. In the PRC and Malaysia, the Group provides its employee's staff welfare and allowances in accordance with prevailing labour laws. The Group has also put in place a share option scheme to motivate and reward staff with outstanding performance. At the discretion of the Board, the Group's employees will be granted the options, of which the number of options granted is determined by individual performance and level of responsibilities.

CLOSURE OF REGISTER OF MEMBERS

The Company's share register will be closed between Tuesday, 13 December 2016 to Thursday, 15 December 2016 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for entitlement to the proposed interim and special dividend for the six months ended 30 September 2016, all duly completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's Share Registrar in Hong Kong, Tricor Tengis Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Monday, 12 December 2016.

DIVIDEND

On 28 November 2016, the Board resolved to declare the payment of an interim dividend of HK5.0 cents per ordinary share (2015: Nil). The Board has also approved to pay a special dividend of HK15.0 cents per ordinary share to commemorate the 20th anniversary of the listing of the Company in Hong Kong and in view of the satisfactory interim results for the six months ended 30 September 2016. The aggregate dividend of HK20.0 cents per ordinary share will be paid to shareholders registered on the register of members on Thursday, 15 December 2016. The above-mentioned interim and special dividend will be payable on or before 5 January 2017.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

DISCLOSURES PURSUANT TO RULE 13.21 OF THE LISTING RULES

In April and July 2015, the Company, as a borrower, entered into a renewed and a new term loan facility agreements of HK\$100,000,000 each with 2 different banks for a term of 60 months and a term of 36 months, respectively.

Each of the term loan facility agreement imposes, inter alia, a condition that Mr. Cheng Chor Kit, the Director and the controlling shareholder (as defined under the Listing Rules) of the Company, and the discretionary trust set up by him for the benefit of his family; collectively shall beneficially or directly maintain a shareholding of not less than 50% of the issued share capital of the Company (the "Specific Performance Obligations"). A breach of the Specific Performance Obligations will constitute an event of default under the relevant facility letter. Upon the occurrence of such event, each of the loan shall become immediately due and repayable on demand.

COMPLIANCE WITH THE CORPORATE GOVERNANCE PRACTICES

The Company is committed to adopt a high standard of corporate governance which is crucial to the long term development of the Group and to safeguard the interests of the Company's shareholders. In the opinion of the Board, the Company has complied with the Corporate Governance Code (the "CG Code") as stated in the Appendix 14 of the Listing Rules throughout the period under review, except for the following deviation:

Under the code provision A.2.1 of the CG Code, the roles of the chairman and chief executive officer shall be separated and should not be performed by the same individual and the division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing. The roles of the chairman and the chief executive officer of the Company are not separated and are performed by the same individual, Mr. Cheng Chor Kit. The balance of power and authority is ensured by the operations of the Board which comprises experienced and high caliber individuals, with a high independent element in the Board, where the Board members meet regularly to discuss issue affecting operations of the Company. The Board believes that this structure is conducive to strong and consistent leadership, enabling the Company to make and implement decisions promptly and efficiently.

DIRECTORS' AND RELEVANT EMPLOYEES' SECURITIES TRANSACTIONS

The Company has adopted the Model Code of Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as its own code on terms no less exacting than the required standard set out in the Model Code regarding securities transactions by the Directors.

Having made specific enquiry of the Directors, all the Directors confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2016. The relevant employees who, because of their office in the Group, are likely to be in possession of unpublished price sensitive information have been requested to comply with the provisions of the Model Code.

DISCLOSURE OF INFORMATION OF DIRECTORS UNDER RULES 13.51B(1) OF THE LISTING RULES

Pursuant to Rule 13.51B(1) of the Listing Rules, the change of information of the Directors since the date of the 2016 Annual Report of the Company is set out below:

Mr. Wong Chi Wai, being an independent non-executive Director resigned, with effect on 1 November 2016, as an independent non-executive director, chairman of the audit committee and remuneration committee and the member of nomination committee of the China Ludao Technology Company Limited (stock code: 2023).

Other than disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

AUDIT COMMITTEE

The Audit Committee of the Company has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, risk management, internal control and financial reporting matters including the review of the unaudited condensed consolidated financial statements for the six months ended 30 September 2016.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is available for viewing on the website of the Stock Exchange at www.hkex.com.hk and at the website of the Company at www.kinyat.com.hk. An interim report for the six months ended 30 September 2016 containing all the information required by the Listing Rules will be despatched to the Company's shareholders and available on the above websites in due course.

By order of the Board
Cheng Chor Kit
Chairman and Chief Executive Officer

Hong Kong, 28 November 2016

As at the date of this announcement, the Board comprises ten Directors, of which six are executive Directors, namely Mr. CHENG Chor Kit, Mr. FUNG Wah Cheong, Vincent, Mr. LIU Tat Luen, Mr. CHENG Tsz To, Mr. CHENG Tsz Hang and Mr. CHIN Wee Hon; and four are independent non-executive Directors, namely Mr. WONG Chi Wai, Dr. SUN Kwai Yu, Vivian, Mr. CHENG Kwok Kin, Paul and Mr. CHEUNG Wang Ip.