You should carefully consider all of the information in this prospectus including the risks and uncertainties described below before making an investment in our Shares. You should pay particular attention to the fact that we conduct our operations in the PRC, the legal and regulatory environment of which may differ in some respects from that which prevails in other countries. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. The trading price of our Shares could decline due to any of these risks, and you may lose all or part of your investment. For more information concerning the PRC and certain related matters discussed below, see the section headed "Regulation" in this prospectus.

RISKS RELATING TO OUR BUSINESS

We derive a significant portion of our revenues from a small number of customers

During the three years ended 31 March 2012, sales to our top five customers in the aggregate accounted for approximately 46.8%, 51.3% and 53.7% of our total revenue, respectively. Our largest customer accounted for approximately 11.0%, 22.1% and 19.1% of our total revenue for each of the three years ended 31 March 2012, respectively. Our top five customers are (a) Agilent Technologies (Shanghai) Co., Ltd. together with its other group members of Agilent Technologies, Inc.; (b) Customer A; (c) BDT-Germany; (d) Ricoh Asia Industry (Shenzhen) Limited together with its other group members of Ricoh Company, Ltd.; and (e) Fuji Xerox China Procurement Service (Shenzhen) Limited together with its other group members of Fuji Xerox Co., Ltd. in terms of revenue for the financial year ended 31 March 2012. The business relationship between our Group and these top five customers has been established for more than 6 years. Please refer to the section headed "Business – Sales and marketing – Our customers" in this prospectus. We expect revenues from our largest five customers (except Customer A) to continue to account for a significant portion of our revenues.

Developments adverse to our major customers or their products, or the failure of a major customer to pay for components or services on a timely basis or at all, could have an adverse effect on us. Further, our business with our customers has been, and we expect it will continue to be, conducted on the basis of actual purchase orders received from time to time. We cannot assure you that our major customers will continue to do business with us at the same or increased levels or at all. If one or more major customers were to cease to conduct business with us and we were unable to expand our business with existing customers or attract new customers, we may experience slowed growth or no growth at all and our business, financial condition and results of operations would be materially and adversely affected.

We cannot assure you that we will be able to retain our existing customers or add new customers at desired levels or at all. A decision made by a major customer, whether motivated by competitive considerations, economic conditions or otherwise, to reduce its purchases from us or any other adverse change in our business relationship with the customer could have a material adverse effect on our business, financial condition and results of operations. Further, any significant changes in the operations or financial condition of a significant customer, including liquidity problems, changes in ownership, restructuring, bankruptcy or liquidation could cause us to limit or discontinue business with that customer, or require us to assume more credit risk relating to receivables from that customer, which could have a material adverse effect on our business, financial condition and results of operations.

Our largest customer in terms of revenue for the financial year ended 31 March 2012 will cease to be our key customer after the Track Record Period

Our Directors foresee that we will no longer maintain close business relationship with Customer A, which is our largest customer in terms of revenue for the financial year ended 31 March 2012. Customer A is a product sourcing company that provides sourcing for manufacturers in consumer electronics products. The metal parts and components we produced for Customer A during the Track Record Period were mainly sold to some original equipment manufacturers for manufacturing the consumer electronics products of the Ultimate Customer. For the three years ended 31 March 2012, our sales to Customer A in relation to products attributable to the Ultimate Customer amounted to approximately HK$48,508,100, HK$168,912,600 and HK$170,886,800, representing 9.0%, 20.6% and 18.0% of our total revenue, respectively. Based on the unaudited management accounts of our Group, our sales to Customer A in relation to products attributable to the Ultimate Customer decreased by approximately 73.7% from approximately HK$47,411,600 for the three months ended 30 June 2011 to approximately HK$12,456,100 for the three months ended 30 June 2012, representing 22% and 6% of our total revenue for each of the respective periods. **At the beginning of 2012, our Directors became aware that the Ultimate Customer had gradually ceased to engage Customer A for sourcing of the relevant metal parts we produced for Customer A. Such decreasing trend continued and we have not received any purchase orders from Customer A for the relevant metal parts since the end of June 2012. Although from June 2012, we started to serve another two sub-contracting manufacturers of the Ultimate Customer for the manufacturing of similar type of metal parts that we previously produced for Customer A, we have already suffered significant drop in revenue. We expect our sales of similar products to the Ultimate Customer for the year ending 31 March 2013 will reduce by approximately 60%.** Please refer to the section headed "Business – Business Overview – Our customers" in this prospectus for further details.

Except Customer A, there are no other top five customers of our Group in terms of revenue for the Track Record Period which are product sourcing companies or subcontracting manufacturers.

Profit Warning: We may experience a material adverse change in our financial results for the six months ending 30 September 2012 and for the year ending 31 March 2013 which is partly attributable to our recent deteriorating financial performance

Sales revenue decreased by 4.9% from approximately HK$215.4 million for the three months ended 30 June 2011 to approximately HK$204.8 million for the three months ended 30 June 2012. Our revenue is expected to follow this declining trend for the remaining nine months ending 31 March 2013. We suffered from decreasing gross profit margin, where it dropped from 24.6% for the year ended 31 March 2012 to 21.2% for the three months ended 30 June 2012. Our Directors expect such trends will continue to affect our profitability and our gross profit margin for the six months ending 30 September 2012 and for the year ending 31 March 2013 is expected to maintain at similar level. For the year ended 31 March 2012, we had a one-off extraordinary gain on disposal of a non-operating property of HK$26.1 million. Such gain had substantially increased our net profit for that year. Despite the overall drop in our Group's revenue and gross profit, our operating expenses including the distribution and selling expenses, and general and administrative expenses will not be reduced but increase slightly. While the total operating expenses (excluding the listing expenses) will not be increased significantly, the proportion in terms of % to total revenue will increase from approximately 13.5% for the year ended 31 March 2012 to approximately 15.4% for the year ending 31 March 2013. The effective tax rate is expected to increase from 19.6% to 27.3% due to the above mentioned one-off non-taxable gain in respect of the disposal of non-operating property.

Given our sales is expected to reduce and coupled with a decreasing gross profit margin, the gross profit level of our Group is expected to decrease significantly by approximately 16.5%. While there will not be any extraordinary profit to cover our operating expenses, we had budgeted an extra HK$15.8 million to cover our listing expenses for our Global Offering. The total operating expenses is expected to increase due to the above mentioned reasons and coupled with the slight increase in effective tax rate, Shareholders and potential investors are warned that our Group's net profit for the six months ending 30 September 2012 and for the year ending 31 March 2013 will significantly decline as compared with the prior financial year.

We may experience a material adverse change in our financial results for the six months ending 30 September 2012 and for the year ending 31 March 2013 which is partly attributable to the listing expenses incurred in relation to the Global Offering

For the six months ended 30 September 2011, we have incurred listing expenses in relation to the Global Offering in the sum of approximately HK$12.2 million. We have also incurred listing expenses in relation to the Global Offering which will be reflected and recognized in the combined statements for the six months ending 30 September 2012 in the amount of approximately HK$15.8 million. Our Directors would like to emphasise that such amount of listing expenses in the amount of approximately HK$15.8 million is a current estimate for reference only, and the final amount is subject to adjustment based on audit and changes in variables and assumptions. However, our Directors take the view that the amount of listing expenses recognized in the combined statements for the six months ending 30 September 2012 should be at similar level. As such, our Directors expect that we may experience a material adverse change in our financial results for the six months ending 30 September 2012 and for the year ending 31 March 2013 which is partly attributable to this significant non-recurring item of listing expenses incurred in relation to the Global Offering.

We are affected by developments in the industries in which our customers operate

We derive our revenues largely from customers in the following industry sectors: medical and test equipment, finance equipment, consumer electronics, network/data storage and office automation. These industry sectors are cyclical in nature such that any changes in the global macroeconomic environment would also affect our customers' demand for our services. Factors affecting any of these industries in general, or any of our customers in particular, could adversely affect us because our revenue growth largely depends on continued growth of our customers' business in their respective industries. These factors include:

- loss of market share for our customers' products, which may lead our customers to reduce or discontinue purchasing our solutions and to reduce prices, thereby exerting pricing pressure on us;

- seasonality of demand for our customers' products which may cause our manufacturing capacity to be under-utilised for periods of time;

- our customers' failure to successfully market their products, to gain or retain widespread commercial acceptance of their products or to compete effectively in their industries;

- economic conditions in the markets in which our customers operate, in particular, the US, Europe and PRC, including recessionary periods such as the recent global downturn and unforeseen natural disasters; and

- product design changes that may reduce or eliminate demand for the components we supply.

We expect that future sales will continue to depend on the success of our customers, some of which operate in businesses associated with rapid technological change and consequent product obsolescence. If economic conditions and demand for our customers' products deteriorate, we may experience a material adverse effect on our business, operating results and financial condition.

Defect in title ownership for certain of our leased properties may adversely affect our ability to use such properties

One of our four production bases, namely our factory building and staff dormitory currently located in Xili, Nanshan District, Shenzhen (the "**Xili Leased Properties**") were leased by KRP-Shenzhen. Normally KRP-HK receives orders from customers and passes such orders to KRP-Shenzhen to be manufactured at the Xili Leased Properties where the factory building of KRP-Shenzhen is currently located. As such, the revenue of the Xili Leased Properties is calculated based on the revenue of KRP-HK and KRP-Shenzhen. For each of the three years ended 31 March 2012, our revenue derived from KRP-Shenzhen and KRP-HK amounted to approximately HK$92.5 million, HK$231.1 million and HK$227.4 million respectively, representing approximately 17%, 28% and 24% of our Group's total revenue for the respective periods. For illustrative purpose, applying consistent calculation methodologies and assumptions as set out in the section headed "Business – Production Capacity", production capacity of the KRP-Shenzhen factory were approximately 88.7 million, 147.2 million and

155.8 million units respectively for each of the three financial years ended 31 March 2012, each representing over 80% of our Group's total lathing machines production capacity for the corresponding years. As of the Latest Practicable Date, the relevant lessor has not shown to us title ownership documents or construction works planning permit related to the Xili Leased Properties.

As such, our ability to use the Xili Leased Properties could be materially affected due to the defect in title ownership and our business operation may be adversely and materially affected. We may also incur costs in relocating the production facilities at the Xili Leased Properties in the event that relocation of such production facilities is required.

In light of the above, our Directors are of the view that the Xili Leased Properties are crucial to our business operation. Please refer to the section headed "Business – Compliance and regulatory matters – Properties" in this prospectus for further details.

There is a risk that our customers may stop or reduce their outsourcing of items that we manufacture

We depend on outsourcing by our customers and derive revenues from the manufacturing supply chain management services that we provide. Current and prospective customers continuously evaluate our capabilities against other providers as well as against the merits of manufacturing products themselves. Some of our customers have the in-house ability to design or manufacture the products we produce in a downturn our customers may choose to design and manufacture products internally rather than outsource these functions to external providers such as our Company. Our business would be adversely affected if our customers and prospective customers decide to perform some or all these functions internally. Similarly, we depend on new outsourcing opportunities to grow our revenues, and our business would be adversely affected if we are not successful in gaining additional business from these opportunities or if our customers and prospective customers do not outsource additional manufacturing business or reduce such outsourcing.

Many of our customers do not commit to long-term production schedules, which makes it difficult for us to schedule production accurately and achieve maximum efficiency of our manufacturing capacity

Our customers do not commit to long-term contracts. Many of our customers may change production quantities or delay production with little lead-time or advance notice. Therefore, we rely on and plan our production and inventory levels based on our customers' advance orders, commitments or forecasts, as well as our internal assessments and forecasts of customer demand. The volume and timing of sales to our customers may vary due to, among others:

- variation in demand for or discontinuation of our customers' products;
- changes in our customers' manufacturing strategies;
- our customers' attempts to manage their inventory;

- design changes; and

- acquisitions of or consolidation among customers.

The variations in volume and timing of sales make it difficult to schedule production and optimise utilisation of production capacity. This uncertainty may require us to increase staffing and incur other expenses in order to meet an unexpected increase in customer demand, potentially placing a significant burden on our resources. Additionally, an inability to respond to such increases may cause customer dissatisfaction, which may negatively affect our customers' relationships with us.

Further, in order to secure sufficient production scale, we may make capital investments in advance of anticipated customer demand. Such investments may lead to low utilisation levels if customer demand forecasts change and we are unable to utilise the additional capacity. Because fixed costs make up a large proportion of our total production costs, a reduction in customer demand can have a significant adverse impact on our gross profits and operating results. Additionally, we order materials and components based on customer forecasts and orders and suppliers may require us to purchase materials and components in minimum quantities that exceed customer requirements, which may have an adverse impact on our gross profits and operating results.

Our business depends on a stable and adequate supply of raw materials, and we may not be able to secure a stable supply of raw materials

The success of our business depends on our ability to obtain sufficient quantities of quality raw materials, such as copper, aluminium, stainless steel, electrolytic plate and iron on commercially acceptable terms and in a timely manner. For each of the three years ended 31 March 2012, our Group's five largest suppliers accounted for approximately 21.6%, 17.7% and 16.8%, respectively of our Group's purchases. For the same period, our largest supplier accounted for approximately 6.3%, 5.4% and 4.5%, respectively of our total purchases.

The ability to source sufficient raw materials at competitive prices in a timely manner is crucial to our success. Such ability allows us to meet our production requirements while managing our costs. If, for whatever reasons, any of our major suppliers of raw materials cease to supply us with a sufficient amount of raw materials in a timely manner or at commercially reasonable terms, it could cause disruption in our raw material supplies and we may experience material production delays, and our total cost of purchase may increase. In any of these events, our business, financial condition, results of operations and prospects could be materially adversely affected.

Fluctuations in prices of raw materials could negatively impact our operations and may adversely affect our profitability and we may not be able to pass on our increased costs to our customers

We rely mainly on copper, aluminium, stainless steel, electrolytic plate and iron for the production of our metal parts. In particular, electrolytic plate costs accounted for approximately 20.7%, 20.4% and 22.9%, respectively of our Group's purchases for each of the three years ended 31 March 2012. The prices for our raw material during the Track Record Period have been generally rising. Although the price movement of raw materials purchased by us during the Track Record Period followed similar trend as indicated in the relevant price indexes for unprocessed raw materials, the price fluctuations have different magnitude comparing with those price indexes. The reason is that the raw materials purchased by us are usually processed and the price of such raw materials comprises the price of unprocessed raw materials, processing fees and labour costs. As such, the price fluctuation of raw materials in the market may not be directly relevant to the price movement of our raw materials for analysis purpose. Our Group is generally able to pass the increased cost in raw materials to our customers during the Track Record Period. However, we cannot guarantee that our existing customers will continuously absorb all the increased cost for on-going purposes. We also cannot guarantee that we will receive same treatment from new customers.

The table below sets out the cost of our major raw materials as a percentage of our total purchases of raw materials during the Track Record Period:

	For the year ended 31 March					
	2010		**2011**		**2012**	
	(approx.)	*(approx.)*	*(approx.)*	*(approx.)*	*(approx.)*	*(approx.)*
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Electrolytic plate	64,104	20.7	91,537	20.4	114,931	22.9
Stainless steel	30,876	10.0	45,102	10.0	45,096	9.0
Copper	19,639	6.3	34,101	7.6	33,566	6.7
Aluminium	15,988	5.2	22,877	5.1	22,288	4.5
Iron	18,572	6.0	22,700	5.1	21,481	4.3

The table below sets out the average price of our major raw materials purchased during the Track Record Period:

	For the year ended 31 March		
	2010	**2011**	**2012**
	Average price (per kilogramme)	*Average price (per kilogramme)*	*Average price (per kilogramme)*
	HK$	*HK$*	*HK$*
Electrolytic plate	7.47	8.82	9.21
Stainless steel	37.79	41.35	39.91
Copper	54.42	59.84	68.76
Aluminium	31.54	33.94	35.90
Iron	8.48	7.58	7.76

Note: The average price of our major raw materials shown in the table above was based on the unaudited management information of our Group.

With reference to the price volatility of our major raw materials during the Track Record Period, according to the internal analysis of our management, if the purchase price increases or decreases by 18% for electrolytic plate, 10% for stainless steel, 15% for copper, 8% for aluminium and 11% for iron, the Group's profit after tax will be reduced or increased by approximately HK$17.4 million, HK$24.7 million and HK$25.4 million, for the three years ended 31 March 2010, 2011 and 2012 respectively, representing the reduction or increment of profit after tax by 51.8%, 19.7% and 26.9%, respectively.

If the price of our raw material supplies substantially increases, we may incur additional costs to acquire sufficient quantity of these materials to meet our production needs. In addition, if we cannot identify alternative sources of quality raw materials when needed, at acceptable prices or with the required quantity and quality, or at all, the resulting loss of production volume may materially and adversely affect our ability to deliver products to our customers in a timely manner, or at all, and therefore our business, financial condition, results of operations and prospects could be materially and adversely affected.

The impact of any volatility in the prices of raw materials we rely on or the reduction in the demand for certain products caused by such price volatility of raw materials could result in a loss of revenue and profitability and adversely affect our results of operations.

We may not be able to maintain our design, engineering, technological and manufacturing process expertise

The markets for our precision engineering/manufacturing services are characterised by rapidly changing technologies and evolving process developments. The continued success of our business will depend upon our ability to:

- hire, retain and expand our pool of qualified engineering and technical personnel;
- maintain technological leadership in our industry;
- develop and market manufacturing services that meet changing customer needs; and
- successfully anticipate or respond to technological changes in manufacturing processes in a cost-effective and timely manner.

We cannot be certain that we will develop the capabilities required by our customers in the future. The emergence of new technologies, industry standards or customer requirements may render our equipment, inventory or processes obsolete or uncompetitive. We may have to acquire new technologies and equipment to remain competitive. The acquisition and implementation of new technologies and equipment may require us to incur significant expense and capital investment, which could reduce our margins and affect our operating results. If we were to establish or acquire new facilities, we may not be able to maintain or develop the relevant engineering, technological and manufacturing process expertise due to a lack of trained personnel, effective training of new staff or technical difficulties with machinery. Our failure to participate and adapt to our customers' changing technological needs and requirements, or to hire and retain a sufficient number of engineers and ability to maintain our engineering, technological and manufacturing expertise may have a material adverse effect on our business.

Decline in our business performance due to global financial crisis

We have experienced significant fluctuations in our gross profit and net profit in recent years. During the three years ended 31 March 2012, our gross profit amounted to approximately HK$125.5 million, HK$248.6 million and HK$234.5 million respectively, and our net profit amounted to approximately HK$33.5 million, HK$125.5 million and HK$94.4 million, respectively. Unfavourable financial or economic conditions, such as those caused by the recent global financial and economic crisis, including the current Europe debt crisis, have adversely affected our customers' confidence, which may cause declines in our sales. For the three years ended 31 March 2012, our revenue attributable to markets in North America with reference to our product delivery represented about 13.3%, 10.6% and 10.6% of our total revenue respectively, while our revenue attributable to markets in Europe with reference to our product delivery represented about 7.7%, 8.8% and 5.9% of our total revenue respectively. Furthermore, some of our major customers are based in North America and Europe having a PRC market presence. Therefore, our results of operations are largely affected by the level of demand for our products from our customers in North America and Europe which is in turn influenced by a number of factors some of which are beyond our control, including, amongst others, the recent global economic downturn and general consumer confidence. Our Directors cannot assure you that the business of our Group has yet experienced all or most of the adverse effects of the recent global financial crisis. Our gross profit and net profit may continue to fluctuate significantly as a result of the global financial crisis. Based on the unaudited management accounts of our Group, our total revenue for the three months ended 30 June 2012 amounted to approximately HK$204.8 million, which shows a decrease as compared with our total revenue in the sum of approximately HK$215.4 million for the corresponding three months ended 30 June 2011 based on the unaudited management accounts of our Group.

The recent sovereign-debt crisis in Europe and the downgrade of the United States' credit rating in 2011 indicated that the global economic downturn may continue in the foreseeable future. In turn, this may prolong disruptions to the credit markets. Furthermore, any further worsening of the general economic conditions caused by the US credit rating downgrade and the European debt crisis may cause slowing down of orders from the US and European customers, and potential delay and/or default in payment by our customers. As at 31 March 2012, our Group has HK$52.5 million of bank borrowings (representing approximately 46.5% of our Group's total debt) charged with fixed interest rate which is not subject to fluctuation of interest rates. However, if the global financial crisis continues, this could limit our ability to borrow funds from our current or other funding sources or cause the continued access to funds to become more expensive. Furthermore, our business may be exposed to a downturn in sales that might be caused by such tightening of credit conditions, and our business, financial condition, results of operations and prospects may be materially and adversely affected.

We may not be able to develop new products or expand into new markets

The success of our business is dependent upon our ability to continuously develop, in a timely fashion, new products through research and development, diversify revenue streams and introduce new product designs to cater to customers' preferences. Currently, we serve our customers in five major industry segments, namely medical and test equipment industry, finance equipment industry, consumer electronics industry, network/data storage industry and the office automation industry. We may be required to develop new products in order to satisfy any changing requirements of our customers on product designs. If there is any change or worsening of the economic conditions in the markets in which our customers operate, in particular, the US, Europe and the PRC, including recessionary periods such as the recent global downturn, we may need to consider exploring or expanding into new markets depending on the market conditions and prevailing circumstances. Furthermore, we are exploring the opportunities of acquiring plastic mould manufacturers or establishing a joint venture with parties specialising in plastic moulding as part of our strategy of product diversification. Product design and research and development require investments in time, resources and capital expenditure. We cannot assure you that our product development and research efforts will result in the development of innovative production technologies that lead to production technology breakthroughs, or will be completed on time, or will generate expected benefits. Further, we cannot assure you that we will be able to acquire the sole intellectual property rights over our research efforts which are made in collaboration with external parties, or that any newly developed products will be commercially successful. Whether a product is commercially successful depends on a number of factors, such as the absence of other products with similar characteristics or properties and the effectiveness of our sales and marketing and distribution efforts.

If our development efforts do not lead to introduction of new products that meet market demand on a timely basis, or manufacture of products that are innovative or superior to those of our competitors or commercially successful or are well accepted by the market, this may adversely affect our competitiveness, and our business, operational results and financial conditions may as a result be adversely affected.

Business operations at KFM-Shenzhen may be interrupted due to transformation from the previous processing arrangement

During the Track Record Period, some of our Group's products were produced in the KFM-Shenzhen Factory under a processing arrangement since January 1990, pursuant to which the KFM-Shenzhen Factory manufactured products for KFM-HK. For each of the three financial years ended 31 March 2012 during the Track Record Period, the turnover contributed by KFM-HK pursuant to such processing arrangement accounted for approximately 48.7%, 39.7% and 38.7% of our Group's turnover, respectively.

In April 2011, we have set up KFM-Shenzhen, our wholly foreign owned enterprise established in the PRC, for the purpose of transforming our business form in the KFM-Shenzhen Factory so that the business operations in the KFM-Shenzhen Factory were taken up by KFM-Shenzhen. KFM-Shenzhen has been in operation since April 2012 and KFM-Shenzhen Factory has not carried on any business operations after 30 June 2012. KFM-Shenzhen Factory is currently in the process of obtaining clearance from the customs and other authorities. It is currently expected that the deregistration of KFM-Shenzhen Factory by the relevant administration for industry and commerce authorities shall be completed by end of December 2012. Please refer to the section headed "Business – Production facilities and capacity – Processing arrangement" in this prospectus for further details.

However, there is no assurance that the transformation will not have any adverse impact on our Group which includes interruptions to the production. In addition, unforeseeable difficulties arising during the transformation may adversely affect the business operations and financial position of our Group.

With reference to the relevant PRC laws and regulations, our Directors also expect that there would be an increase in our tax expenses as a result of the change in business form. In a hypothetical situation, our value added tax and corporate income tax would have been increased by approximately HK$8,696,000, HK$15,424,000 and HK$25,078,000 respectively during the Track Record Period if the transformation from KFM-Shenzhen Factory to KFM-Shenzhen had taken place at the beginning of the Track Record Period. Please refer to the section headed "Business – Processing Arrangement" in this prospectus for further details.

We are subject to risk of currency fluctuations

Substantially all our costs are denominated in Hong Kong dollars, US Dollars and Renminbi, while our sales are mainly denominated in US dollars and Hong Kong dollars. Any fluctuation in exchange rates may have an adverse effect on our results of operations. Foreign exchange risk to each individual entity within our Group arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Any future exchange rate volatility relating to the Renminbi may give rise to uncertainties in the value of net assets, profits and dividends. Appreciation of the value of the Renminbi may subject us to increased competition from foreign competitors, and depreciation in the value of the Renminbi may adversely affect the value of our net assets and earnings and dividends from our PRC subsidiaries. During the Track Record Period, our net exchange loss for the two years ended 31 March 2010 and 2011 amounted to approximately HK$1,295,000 and HK$491,000 respectively while our net exchange gain for the year ended 31 March 2012 amounted to approximately HK$432,000. For further information please refer to the paragraph headed "Financial Risk Management – Financial Risk Factors – Foreign Exchange Risk" in note 3 and "Other (Losses)/Gains, Net" in note 19 to the Accountant's Report set out in Appendix I of this prospectus.

Failure of our customers to pay the amounts owed to us in a timely manner may adversely affect our financial condition and operating results

We generally provide payment terms ranging from 30 to 90 days. As a result, we generate significant accounts receivable from sales to our customers, representing approximately 32%, 31% and 34% of our current assets as of 31 March 2010, 31 March 2011 and 31 March 2012, respectively. Accounts receivable from sales to customers as of 31 March 2012 amounted to approximately HK$171.5 million.

If any of our customers have insufficient liquidity, we could encounter significant delays or defaults in payments owed to us by such customers, and we may need to extend our payment terms or restructure the receivables owed to us, which could have a significant adverse effect on our financial condition. Any deterioration in the financial condition of our customers will increase the risk of uncollectible receivables. In addition, global economic uncertainty could also affect our customers' ability to pay our receivables in a timely manner or at all or result in customers going into bankruptcy or reorganisation proceedings, which could also affect our ability to collect our receivables.

A material disruption of our operations could adversely affect our business

Our production facilities are subject to operation risks, such as the breakdown or failure of our major equipment, power supply or maintenance, natural disasters (including but not limited to earthquake, fire, flood and storm), industrial accidents and the need to comply with the directives of relevant government authorities, which could therefore lead to temporary, permanent, partial or complete shut-downs in operations.

The occurrence of any of these risks may result in a material adverse effect on our results of operations and if continued, our business prospects. We are required to carry out planned shutdowns of our plants for maintenance, statutory inspections and testing. Our business, financial condition and results of operations may be adversely affected by any disruption of operations at our facilities, whether caused by any of the factors mentioned above or otherwise.

Disturbances in our information systems could have a material adverse effect on our business and results of operations

Our operations, including our research, development, manufacturing, accounting, storage, delivery and product tracing, are highly dependent on our information technology systems. Any failure of our information systems to perform as we anticipate, including through breakdown, malicious attacks, viruses or other factors, could severely impair several aspects of our operations including, but not limited to, logistics, sales, customer service and administration.

Procedures and technical protection have been installed to counter the risk of potential unauthorised access and the dissemination or loss of data in our information systems. However, there is no assurance that such measures will succeed. Any such failure related to the operation of our information systems may have a material adverse effect on our business, financial position and results of operations.

Our business could be adversely and materially affected if we fail to adequately protect our proprietary technology and technical know-how

We rely substantially on proprietary technology, technical know-how and research data to conduct our business. The success of our business depends on our ability to protect our technical know-how and our intellectual property portfolio, and to obtain patents without infringing the proprietary rights of others. Additionally, we cannot ensure that we will be able to enforce our patents even if they are obtained. If we are unable to obtain and protect intellectual property rights embodied within our designs, this could reduce or eliminate the competitive advantages of our proprietary technology, which could harm our business.

We require significant capital investments and a high level of working capital and management resources to sustain our operations, overall growth and expansion plans

We require significant capital investments to sustain our operations and pursue future expansion plans. We also depend on cash generated from our operations as well as access to external financing to operate and expand our business. Our future funding requirements will depend, to a large extent, on our working capital requirements and the nature of our capital expenditures. We need substantial capital expenditures to maintain and continuously upgrade and expand our production facilities, research and development functions, and distribution and marketing networks to keep pace with the competitive landscape, technological advances and changing requirements in our industry.

As part of our strategic development plan, we intend to expand our production capacity through the acquisition of a piece of industrial land in Suzhou for the construction of a new factory for the purpose of further expanding our product segments, namely medical equipment, office automation and finance equipment. Please refer to the section headed "Business – Our Business Strategies" in this prospectus for further details of our expansion plans. Expansions of our production capacity require substantial demands for management and capital resources, such as significant capital expenditures for construction of plants and installation of equipment, and hiring and training of new personnel. If we are unable to generate sufficient cash flows or raise sufficient external financing on attractive terms to fund these activities, we may not have the sufficient resources to manage our existing operations, achieve our desired operating scale or expansion plans, which in turn may adversely impact our competitiveness and, therefore, our results of operations.

Our production capacity might not be able to meet with changing market conditions

We cannot give assurance that our production capacity will be able to meet our obligations in the future. Furthermore, we may not be able to expand our production capacity in response to the changing market conditions. If we fail to meet demand from our customers, we may lose our market share.

Due to the diversity of our products and the customer-specific nature of certain of our products, and given that there is no common production bottleneck and our production lines can be modified to accommodate the production of a wide variety of products, our Directors consider it difficult to estimate our production capacity and utilisation for all different products produced by us during the Track Record Period. Please refer to the section headed "Business – Production Capacity" in this prospectus.

Our operations are heavily dependent on our key management

Our continued success depends, to a significant extent, on the continued services and the performance of our key management members, all of them are included in the section headed "Directors, Senior Management and Staff" in this prospectus and they have substantial experience in the industry for precision engineering and manufacturing services. If one or more of our Directors or members of senior management were unable or unwilling to continue in their present positions, we may not be able to find a suitable replacement or at all, and our business may be disrupted and our financial condition and results of operations may be materially and adversely affected. Competition for senior management and key personnel is intense, the pool of qualified candidates is limited, and we may not be able to retain the services of our Directors and members of senior management or other key personnel, or attract and retain high-quality personnel in the future. In addition, if any Director or member of senior management or any of our other key personnel joins a competitor or forms a competing company, we may lose suppliers, customers and key personnel.

We may be subject to liability in connection with industrial accidents at our manufacturing facilities

Due to the nature of our operations, we are subject to the risks of our employees being exposed to industrial-related accidents at our premises. We cannot assure that industrial accidents, whether due to malfunctions of machinery or other reasons, will not occur in the future at our production facilities. Under such circumstances, our business and financial performance will be adversely affected.

In such an event, we may be liable for loss of life and property, medical expenses, medical leave payments and fines and penalties for violation of applicable PRC laws and regulations. In addition, we may experience interruptions in our operations and may be required to change the manner in which we operate as a result of governmental investigations or the implementation of safety measures due to accidents. Any of the foregoing could adversely affect our business, financial condition and results of operations.

If we fail to maintain an effective quality control system and renew our quality control certifications, our business may be adversely affected

Our products require a high degree of skill and precision as safety and quality assurance. Thus, the effectiveness of our quality control system is our utmost priority to our customers. The quality and safety of our products require us to adopt a stringent quality control system which involves us placing a significant amount of capital and human resources to ensure that every step of the production process is being strictly monitored. Please refer to the section headed "Business – Quality Control" in this prospectus for details of our quality control. If we are unable to maintain our effective quality control system or to renew our quality control certifications, it may result in a decrease in demand for our products and services which would diminish our competitiveness in the precision metal engineering market. Furthermore, we may risk producing products or providing services that are faulty, unsafe or ineffective and cause us to be liable to various product liability claims or other forms of litigation.

Our services may decline and we may be subject to liability claims if we do not properly comply with applicable statutory and regulatory requirements or if we manufacture products containing design or manufacturing defects

We manufacture and design products to our customers' specifications, and, in some cases, our designs, manufacturing processes and facilities may need to comply with applicable statutory and regulatory requirements. We may also have the responsibility to ensure that products we design satisfy safety and regulatory standards including those applicable to our customers and to obtain any necessary certifications. In addition, our customers' products and the manufacturing processes that we use to produce them are often highly complex. As a result, products that we manufacture may at times contain manufacturing or design defects, and our manufacturing processes may be subject to errors or not be in compliance with applicable statutory and regulatory requirements or demands of our customers. Defects in the products we manufacture or design, whether caused by a design, manufacturing or component failure or error, or deficiencies in our manufacturing processes, may result in delayed shipments to customers, replacement costs or reduced or cancelled customer orders. If these defects or deficiencies are significant, our business reputation may also be damaged. The failure of the products that we manufacture or our manufacturing processes and facilities to comply with applicable statutory and regulatory requirements may subject us to legal fines or penalties and, in some cases, require us to shut down or incur considerable expense to correct a manufacturing process or facility. In addition, these defects may result in liability claims against us or expose us to liability to pay for the recall of a product or to indemnify our customers for the costs of any such claims or recalls which they face as a result of using items manufactured by us in their products. Even if our customers are responsible for the defects, they may not, or may not have resources to, assume responsibility for any costs or liabilities arising from these defects, which could expose us to additional liability claims.

Furthermore, we do not maintain any product liability insurance that would help us to cover the costs of any potential product liability claims as such insurance is not compulsory in the PRC and is not in accordance with industry practice. If we incur substantial losses or liabilities and our insurance coverage is unavailable or inadequate to cover such losses or liabilities, our business, financial condition and operating results may be materially and adversely affected.

We place significant reliance on our research and development team and its innovation as well as its ability to expand our technological capabilities

We place significant reliance on our research and development team and its innovation as well as its ability to expand our technological capabilities. Please refer to "Appendix V – Statutory and General Information – Intellectual property rights of our Group" to this prospectus for more details of our patented production equipment and techniques. The sustainability and success of our business largely depend on the innovation and skills of our research and development team. However, we cannot assure you that we will continue, nor can we guarantee that our team's future developments will achieve our anticipated results.

We are required to obtain various licences and permits to operate our business, and the loss of or failure to obtain or renew any or all of these licences and permits could adversely affect our business

In accordance with the PRC laws and regulations, we are required to obtain and maintain various licences and permits in order to commence and operate our business at each of our production facilities. We are required to comply with applicable production safety standards in relation to our production processes. We are also subject to various environmental laws and regulations, including regulations governing the use, storage, discharge and disposal of hazardous substances used in our manufacturing processes. Our production plants and the facilities used are subject to regular and random inspections by the regulatory authorities. Failure to pass these inspections, or the loss of or failure to obtain or renew our licenses and permits, could require us to temporarily or permanently suspend some or all of our production activities, which could disrupt our operations and adversely affect our business.

We did not timely undertake the environmental impact evaluation procedures for our production capacity

A branch factory of KPP-Suzhou (the "**Branch Factory**") was required to undertake the environmental impact evaluation procedures for the construction projects (建設項目環境影響評價手續) and the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project (環保設施竣工驗收手續). In August 2009 when KPP-Suzhou started operating the Branch Factory, the Branch Factory did not undertake such environmental impact evaluation procedures and the corresponding checks and acceptance procedures for the environmental protection facilities in a timely manner. Furthermore, KPP-Suzhou introduced two production lines relating to spraying and screen printing in 2010 without timely completing the construction of the corresponding environmental protection facilities or submitting the corresponding environmental protection facilities to checks and acceptance procedures or achieving the acceptance.

As such, according to the PRC environmental laws and regulations, we may be subject to fine imposed by the relevant regulatory authority in connection with our delay in undertaking such procedures. Please refer to the section headed "Business – Compliance and Regulatory Matters – Environmental Regulations" for further details.

We did not timely make the necessary housing provident fund contributions for some of our employees

Under the PRC laws and regulations, it is required for KRP-Shenzhen and KFM-Shenzhen Factory to undergo certain registration procedures and to make housing provident fund contributions together with their entitled employees with effect from 20 December 2010, and for KRP-Shanghai with effect since its incorporation in 2002. However KRP-Shenzhen, KFM-Shenzhen Factory and KRP-Shanghai did not timely make the necessary housing provident fund contributions for some of the employees.

Our PRC Legal Advisers advised that the relevant respective housing provident fund authorities in the PRC may require KRP-Shenzhen, KFM-Shenzhen Factory and KRP-Shanghai to undergo the necessary registration procedures and make previously unpaid housing provident fund contributions. The relevant respective housing provident fund authorities may impose a maximum penalty of not more than RMB50,000 for failure to comply with the necessary registration procedures. In addition, if KRP-Shenzhen, KFM-Shenzhen Factory and KRP-Shanghai fail to make housing provident fund contribution for all their entitled employees within the time limit, the relevant housing provident fund authority may apply to the court for enforcement of the unpaid amounts. There are no relevant PRC laws or regulations which provide the administrative penalty on the employer of the employees' failure to make their part of the housing provident fund contributions. However, the relevant housing provident fund authority has the right to order the employer to pay the employees' part of the housing provident fund contributions. Please refer to the section headed "Business – Compliance and regulatory matters" in this prospectus for further details.

As such, we may be subject to penalty imposed by the relevant regulatory authorities for our failure to comply with the necessary registration procedures.

Our business operations may be subject to acts of God, acts of war and epidemics or pandemics which are beyond our control and which may cause damage, loss or disruption to our business

Our business is subject to general economic and social conditions in the PRC. Natural disasters, epidemics or pandemics and other acts of God which are beyond our control may adversely affect the economy, infrastructure and livelihood of the people in the PRC. Some cities in the PRC are under the threat of floods, earthquakes, sandstorms, snowstorms, fires or droughts. For instance, a severe snowstorm hit the southern part of the PRC, in particular, Yangtze River Delta in January and February of 2008, resulting in a breakdown of the transportation system in the southern part of the PRC and loss of agriculture products in the said areas. In May and June 2008, a serious earthquake and its successive aftershocks hit Sichuan, leading to a tremendous loss of lives and injury and destruction of assets in the region. In April 2009, a H1N1 Swine Flu broke out in Mexico and spread globally, resulting in a loss of lives and widespread fear.

Our business, results of operations and financial condition may be adversely and materially affected if such natural disasters occur in the PRC. Certain areas of the PRC, including Shenzhen, Shanghai and Suzhou in which our business operate, are susceptible to epidemics, such as SARS or swine or avian influenza. A recurrence of SARS, an outbreak of swine or avian influenza, or any epidemic, in Shenzhen, Shanghai and Suzhou or other areas of the PRC, may result in material disruptions to our operations or a slowdown of the PRC economy, which may materially and adversely affect our business, financial condition and results of operations. Acts of war and terrorism may also injure our employees, cause loss of lives, damage our facilities, disrupt our distribution channels and/or destroy our markets, which may materially affect our sales, costs, overall financial condition and results of operations. The potential for war or terrorist attacks may also cause uncertainty and cause our business to suffer in ways that we cannot predict. Our business, financial condition and results of operations may be materially and adversely affected as a result.

We may face liabilities for infringement of intellectual property rights of third parties

During the Track Record Period, we used certain unlicensed computer software products in the course of our operations in the PRC. We have ceased to use such unlicensed computer software products since September 2011. Please refer to the section headed "Business – Compliance and regulatory matters" in this prospectus for further details.

We cannot assure you that we may not inadvertently infringe the intellectual property rights of others and face liabilities for such infringements in the course of carrying on our business or that third parties may initiate litigation against us claiming infringement of third party intellectual property rights. It is difficult to predict how such disputes would be resolved.

If we are faced with such claim or prosecution in the future, our reputation may be adversely affected. Any adverse decision with respect to any legal proceedings against our Group, resulting in a finding of infringement by our Group, whether or not inadvertent, may result in the imposition of monetary penalties on us. Furthermore, we may also be required to pay damages to the relevant third parties, which may adversely affect our financial results.

RISKS RELATING TO OUR INDUSTRY

We operate in a competitive industry

The entry barriers to the precision metal engineering business are relatively high due to the heavy capital investment requirement. The metal engineering and metal stamping market in the PRC is highly fragmented. We compete with numerous companies including outsource manufacturing companies across the globe and also with in-house capabilities of customers and potential customers. Many of our competitors have international operations and significant financial resources and some may have substantially greater manufacturing, research and design and marketing resources than us. Please refer to the section headed "Industry Overview – Global Trend of Outsource Manufacturing" for further information on the competitive landscape of our industry.

There are no assurances that the competitiveness of our competitors will not improve or that we will be successful in expanding our market share against our competitors. Our competitors may be able to respond more quickly to new or emerging technologies and changes in client requirements and/or demands. Existing and/or increased competition could adversely affect our market share and materially affect our business, financial condition and operating results. Competitors with lower cost structures may have a competitive advantage when bidding for business with our customers. We also expect our competitors to continue to improve the performance of their current products or services, to reduce prices of their existing products or services and to introduce new products or services that may offer greater performance and improved pricing. Additionally, we may face competition from new entrants to our business. Any of these developments could cause a decline in sales and average selling prices, loss of market share of our products or services or result in a compression of our profit margin.

RISKS RELATING TO CONDUCTING BUSINESS IN THE PRC

Changes in the PRC economic, political and social conditions could adversely affect our business, financial condition and results of operations

Substantially all of our business and operations are conducted in the PRC. Accordingly, our business, financial condition, results of operations and prospects are, to a significant degree, subject to the economic, political and social developments in the PRC. The Chinese economy differs from the economies of most developed countries in many respects, including the extent of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the PRC government has implemented measures since the late 1970s emphasizing the utilisation of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in the PRC is still owned by the PRC government. In addition, the PRC government continues to play a significant role in regulating industry development by imposing industrial policies. The PRC government also exercises significant control over economic growth of the PRC through allocation of resources, controlling payment of foreign currency denominated obligations, setting monetary policy and providing preferential treatment to particular industries or companies.

While the economy of the PRC has experienced significant growth over the past decade, growth has been uneven, both geographically and among various sectors of the economy. The PRC government has implemented various measures to guide the allocation of resources. Some of these measures may benefit the overall economy of the PRC, but may also have a negative effect on us. For example, our financial results may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. The PRC government has also recently implemented certain measures, including recent interest rate increases, in an attempt to control the rate of economic growth. These measures may decrease economic activities in the PRC, which in turn could materially and adversely affect our business, financial condition, results of operations and prospects.

The legal system in the PRC is not fully developed and has inherent uncertainties that could limit the legal protections available to our shareholders

Our business and operations are primarily conducted in the PRC and are governed by PRC law, rules and regulations. Our PRC subsidiaries are generally subject to laws, rules, and regulations applicable to foreign investments in the PRC. The PRC legal system is based on the PRC Constitution and is made up of written laws, regulations, directives and local laws and regulations. Prior court decisions may be cited for reference but have limited weight as precedents. Since the late 1970s, the PRC government has significantly enhanced PRC legislation and regulations to provide protection to various forms of foreign investments in the PRC. However, the PRC has not developed a fully-integrated legal system, and recently-enacted laws and regulations may not sufficiently cover all aspects of economic activity in the PRC. As many of these laws, rules and regulations are relatively new, and because of the limited volume of published decisions, the interpretation and enforcement of these laws, rules and regulations involve uncertainties and may not be as consistent and predictable as in other jurisdictions. In addition, the PRC legal system is based in part on government policies and administrative rules that may have a retroactive effect. As a result, we may not be aware of our violations of these policies and rules until some time after the violation. Furthermore, the legal protection available to us under these laws, rules and regulations may be limited. Any litigation or regulatory enforcement action in the PRC may be protracted and may result in substantial costs and the diversion of resources and management attention.

PRC regulation of direct investment and loans by offshore holding companies to PRC entities may delay or limit us from using the proceeds of the Global Offering to make additional capital contributions or loans to our PRC subsidiaries

Any capital contributions or loans that we, as an offshore entity, make to our PRC subsidiaries, including from the proceeds of the Global Offering, are subject to PRC regulations. For example, any of our loans to our PRC subsidiaries cannot exceed the difference between the total amount of investment each of our PRC subsidiaries is approved to make under relevant PRC laws and the registered capital of each of our PRC subsidiaries, and such loans must be registered with the local branch of the SAFE. In addition, our capital contributions to each of our PRC subsidiaries must be approved by the Ministry of Commerce or its local counterpart. We cannot give any assurance that we will be able to obtain these approvals on a timely basis, or at all. Moreover, we may fail to pay up all registered capital of our PRC subsidiaries in a timely manner or at all. If we fail to obtain such approvals or make such payments, our ability to make equity contributions or provide loans to our PRC subsidiaries or to fund their operations may be negatively affected, which may materially and adversely affect our PRC subsidiaries' liquidity and ability to fund their working capital and expansion projects and meet their obligations and commitments.

We may be subject to PRC taxation on our worldwide income

Under the relevant PRC laws and regulations, an enterprise outside of the PRC whose "de facto management bodies" are located in the PRC is considered a "resident enterprise" and will be subject to a uniform 25% enterprise income tax rate on its global income.

Although, there have been no official implementation rules regarding the determination of the "de facto management bodies" for foreign enterprises which are not controlled by PRC enterprises (including companies like ourselves), it is uncertain that the tax authority will make its decision by reference to the rules for foreign enterprises controlled by PRC companies. Since some of our management is currently based in the PRC and is expected to remain in the PRC in the future, we cannot give any assurance that we will not be considered a "resident enterprise" under the relevant PRC laws and regulations and not be subject to the enterprise income tax rate of 25% on our global income. Please refer to the section headed "Regulation – Taxation" in this prospectus for further details.

Our ability to pay dividends and utilise cash resources in our subsidiaries is dependent upon our subsidiaries' earnings and distributions

Our Company is a holding company. Our turnover is generated from our business operations conducted through our subsidiaries. Our Company's ability to make dividend payments and other distributions in cash, pay expenses, service any debts incurred, and finance the needs of other subsidiaries, depends upon the receipt of dividends, distributions or advances from our subsidiaries. The ability of our subsidiaries to pay dividends or other distributions may be subject to their earnings, financial positions, cash requirements and availability, applicable laws, rules and regulations, and restrictions on making payments to our Company contained in financing or other agreements. If any of our subsidiaries incurs debt in its own name, the instruments governing the debt may restrict dividends or other distributions on its equity interest to us. These restrictions could reduce the amount of dividends or other distributions that our Company receives from our subsidiaries, which could in turn restrict our ability to fund our business operations and to pay dividends to our Shareholders. Our Company's future declaration of dividends may not reflect our historical declarations of dividends and will be at the absolute discretion of our Board.

Furthermore, the applicable PRC laws, rules and regulations permit payment of dividends by our PRC subsidiaries only out of their retained earnings, if any, determined in accordance with PRC accounting standards. Our PRC subsidiaries are required to set aside a certain percentage of their after-tax profit based on PRC accounting standards each year to their respective reserve funds in accordance with the requirements of relevant laws and provisions in their respective articles of associations. As a result, our PRC subsidiaries are restricted in their ability to transfer a portion of their net income to us in the form of dividends. Any restriction on the ability of our PRC subsidiaries to pay dividends to us could materially and adversely limit our ability to grow, make investments or acquisitions that could be beneficial to our businesses, pay dividends or otherwise fund and conduct our business.

Distributions by our PRC subsidiaries to our Company in forms other than dividends may be subject to government approval and taxes. Any transfer of funds from our Company to our PRC subsidiaries, either as a shareholder loan or as an increase in registered capital, is subject to registration with, or approval of, the relevant PRC government authorities. In addition, our PRC subsidiaries are not permitted to lend funds directly to each other under the relevant PRC laws and regulations. These limitations on the flow of funds between and amongst us and our PRC subsidiaries could restrict our ability to respond to changing market conditions or appropriately allocate funds to our PRC subsidiaries in a timely manner, or at all.

Government control over currency conversion may affect the value of our Shares and limit our ability to utilise our cash effectively

A substantial part of our turnover is denominated in Hong Kong dollars and U.S. dollars. The PRC government imposes controls on the convertibility of Renminbi into foreign currencies and, in certain cases, the remittance of currency out of the PRC. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and expenditures from trade related transactions, can be made in foreign currencies without prior approval from the SAFE by complying with certain procedural requirements. However, approval from the SAFE or its local branches is required where Renminbi is to be converted into foreign currency and remitted out of the PRC to pay capital expenses such as the repayment of loans denominated in foreign currencies. The PRC government may also at its discretion restrict access in the future to foreign currencies for current account transactions.

Under our current corporate structure, our turnover is primarily derived from dividend payments from our PRC subsidiaries. Shortages in the availability of foreign currency may restrict the ability of our PRC subsidiaries to remit sufficient foreign currency to pay dividends or other payments to us, or otherwise satisfy their foreign currency-denominated obligations. If the foreign exchange control system prevents us from obtaining sufficient foreign currency to satisfy our currency demands, we may not be able to pay dividends in foreign currencies to our Shareholders. In addition, since a significant amount of our future cash flow from operations will be denominated in Renminbi, any existing and future restrictions on currency exchange may limit our ability to purchase goods and services outside of the PRC or otherwise fund our business activities that are conducted in foreign currencies.

RISKS RELATING TO THE GLOBAL OFFERING AND OUR SHARES

There has been no prior public market for our Shares, and an active trading market may not develop

Prior to the Global Offering, no public market existed for our Shares. The Offer Price may differ significantly from the market price for our Shares following the Global Offering. There can be no assurance that an active trading market for our Shares will develop following the Global Offering or, if it does develop, that it will be sustained or that the market price for our Shares will not decline below the initial offer price.

The market price of the Shares could be lower than the Offer Price

The initial price to the public of the Shares sold in the Global Offering will be determined on the Price Determination Date. However, the Shares will not commence trading on the Stock Exchange until they are delivered, which is expected to be the fifth Business Day after the pricing date. Investors may not be able to sell or otherwise deal in the Shares during that period. As a result, holders of the Shares are subject to the risk that the price of the Shares when trading begins could be lower than the Offer Price as a result of adverse market conditions or other adverse developments that may occur during that period.

Further, the Shareholders' interests in our Company may be diluted if our Company issues additional Shares pursuant to the Share Option Scheme. We may also need to raise additional funds in the future to finance business expansion, whether related to existing operations or new acquisitions. If additional funds are raised through the issuance of new equity or equity-linked securities of our Company, other than on a pro rata basis to existing Shareholders, then (i) the percentage ownership of those existing Shareholders may be reduced, and they may experience subsequent dilution and reduction in their earnings per share, and/or (ii) such newly issued securities may have rights, preferences or privileges superior to those of the Shares of the existing Shareholders.

Purchasers of our Shares will experience immediate dilution and may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than our net tangible assets value per Share immediately prior to the Global Offering. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible assets value per Share. In order to expand our business, we may consider offering and issuing additional Shares in the future. Purchasers of our Shares may experience dilution in the net tangible assets value per Share if we issue additional Shares in the future at a price which is lower than our net tangible assets value per Share.

Future sale or major divestment of shares by any of our substantial shareholders could adversely affect the prevailing market price of our Shares

The Shares held by certain substantial shareholders are subject to certain lock-up periods, the details of which are set out in the section headed "Underwriting" in this prospectus. However, we cannot give any assurance that after the restrictions of the lock-up periods expire these shareholders will not dispose of any Shares. Sales of substantial amounts of our Shares in the public market, or the perception that these sales may occur, may materially and adversely affect the prevailing market price of our Shares.

Failure to comply with PRC regulations in respect of the registration of our PRC citizen employees' share options may subject such employees or us to fines and legal or administrative sanctions

Under the relevant PRC laws and regulations, PRC citizens who are granted shares or share options by an overseas-listed company according to its employee share option or share incentive plan are required, through the PRC subsidiary of such overseas-listed company or other qualified agents, i.e. the PRC agent, to register with SAFE or its local branches and complete certain other procedures related to the share option or other share incentive plan. We will assist our domestic employees to comply with the requirements and procedures under the relevant PRC laws and regulations, when they participate in the Share Option Scheme. We and our PRC citizen employees who have been granted share options, or PRC option holders, will be subject to these laws and regulations upon Listing of our Shares. If we or our PRC option holders fail to comply with these laws and regulations, we or our PRC option holders may be subject to fines and sanctions. Please refer to the section headed "Regulation – Foreign exchange regulation" in this prospectus for further details.

We may not be able to pay any dividends on our Shares

We cannot guarantee when, if and in what form dividends will be paid on our Shares following the Global Offering. A declaration of dividends must be proposed by the Board and is based on, and limited by, various factors, including, without limitation, our business and financial performance, capital and regulatory requirements and general business conditions. We may not have sufficient or any profits to enable us to make dividend distributions to our shareholders in the future, even if our financial statements indicate that our operations have been profitable.

Investors should not place undue reliance on facts, forecasts and other statistics in this prospectus relating to the economy and our industry obtained from official resources

Facts, forecasts and other statistics in this prospectus relating to the economy and the industry in which we operate our business on have been collected from materials from official government sources. While we have exercised reasonable care in compiling and reproducing such information and statistics derived from government publications, we cannot assure you nor make any representation as to the accuracy or completeness of such information. Neither we or any of our respective affiliates or advisers, nor the Underwriters or any of its affiliates or advisers, have independently verified the accuracy or completeness of such information directly or indirectly derived from official government sources. In particular, due to possible flawed or ineffective collection methods or discrepancies between published information and market practice, such information and statistics may be inaccurate or may not be comparable to information and statistics produced with respect to other countries. Statistics, industry data and other information relating to the economy and the industry derived from the official government sources used in this prospectus may not be consistent with other information available from other sources and therefore, investors should not unduly rely upon such facts, forecasts and statistics while making investment decisions.

We strongly caution you not to place any reliance on any information contained in press articles or other media regarding the Global Offering

There may have been, prior to the publication of this prospectus, and there may be, subsequent to the date of this prospectus but prior to the completion of the Global Offering, press and media coverage regarding us and the Global Offering. You should rely solely upon the information contained in this prospectus, the Application Forms and any formal announcements made by us in Hong Kong in making your investment decision regarding the Global Offering. We do not accept any responsibility for the accuracy or completeness of any information reported by the press or other media, nor the fairness or appropriateness of any forecasts, views or opinions expressed by the press or other media regarding the Global Offering or us. We make no representation as to the appropriateness, accuracy, completeness or reliability of any such information or publication. Accordingly, prospective investors should not rely on any such information, reports or publications in making their decisions whether to invest in the Global Offering.

Prospective investors in the Global Offering are reminded that, in making their decisions as to whether to purchase our Shares, they should rely only on the financial, operational and other information included in this prospectus and the Application Forms. By applying to purchase our Shares in the Global Offering, you will be deemed to have agreed that you will not rely on any information other than that contained in this prospectus and the Application Forms.