BUSINESS OVERVIEW

Business model

We are an advanced precision metal engineering solution provider in Hong Kong and the PRC deploying advanced production equipment and techniques, and a record holder in receiving 3 prestigious grand awards in the Hong Kong Awards for Industries. We are well received by our customers. We have maintained business relationships with some of our key customers for over 6 years. We take a key role at the early stage of their product design and development cycles by providing value-adding design engineering solutions to them, as part and parcel of our services under our business model. We have earned the ISO9002-1994 certification in quality management standard since 1995. Our broad range of precision engineering skills, coupled with our fast-moving adaptive capabilities, allow us to evolve and differentiate ourselves from traditional original equipment manufacturers.

Our business model principally involves the provision of innovative design engineering solutions and manufacturing services to our customers, of which are mostly internationally renowned companies in the five specialised industry sectors, namely medical and test equipment industry, finance equipment industry, consumer electronics industry, network/data storage industry and the office automation industry. The products of our key customers are generally regarded as highly complex, precise, technologically advanced and innovative products, the manufacture of which requires strong design and production capabilities as well as stringent quality control procedures.

We take great pride in setting a record of winning three prestigious grand awards in the Hong Kong Awards for Industries (formerly known as “Hong Kong Awards for Industry”), including the prestigious “Productivity Grand Award” and “Quality Grand Award” both in 2000 and the “Environmental Performance Grand Award” in 2009, all from the Trade and Industry Department of the Hong Kong Government.

For each of the three years ended 31 March 2010, 2011 and 2012, our revenue was approximately HK$536.6 million, HK$821.1 million and HK$951.4 million respectively, representing a CAGR of approximately 33.2% from 2010 to 2012. Our net profits for such periods were approximately HK$33.5 million, HK$125.5 million and HK$94.4 million respectively.

Set out below is a table that illustrates the segmental breakdown of our Group's revenue by reference to the industries of our customers during the Track Record Period:

	For the financial year ended 31 March					
	2010		2011		2012	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Office automation	183,805	34.3	233,844	28.5	348,702	36.7
Consumer electronics	78,746	14.7	217,571	26.5	226,553	23.8
Medical and test equipment	119,283	22.2	161,519	19.7	199,682	21.0
Finance equipment	44,861	8.4	60,760	7.4	55,475	5.8
Network and data storage	43,397	8.1	49,480	6.0	52,311	5.5
Others	66,521	12.3	97,888	11.9	68,695	7.2
Total	536,613	100.0	821,062	100.0	951,418	100.0

Note: Others include customers from the automotive parts, back-up power supply and other industries.

Our design engineering solutions

We have a strong offering of design engineering solutions to our select group of key customers. Our strong offering has been recognised and accredited by both public organizations and our customers. Please refer to the section headed "Business – Honours and Awards" in this prospectus for further details. We take a key role at the early stage of some of our customers' product design and development cycles. As part and parcel of our services under our business model, we offer our design engineering solutions as well as manufacturing services to our customers. This strategy enables us to not only better understand their needs but also proactively provide innovative and integrated solutions to them. Our value-adding design engineering solutions aim to offer our customers the engineering knowledge, skills and techniques at the beginning of their product design cycles, including the choice of materials, the production process flow and the application of production techniques. This will help them to identify technical issues and provide them with the more cost effective solutions at the initial product design stage, enhance the quality of their products and resolve some of the challenges that they may face during the production process such as product reliability and production efficiency. We have accumulated an extensive engineering knowledge pool through serving customers in various industry sectors for many years. Customers can benefit from our expertise learnt from across industry sectors, in order to enable their new products with better quality, shorter production lead time and cost efficiency. By providing design engineering solutions at the early stage of the customers' product development process, we could also capture potential business opportunities with them, thereby benefiting us and our customers.

Our Directors consider that this capability of integrating our design engineering solutions with our customers in their early product development process has distinguished us from our Group's competitors in the PRC, and enables us to solidify our working relationships with our key customers.

Our manufacturing services

Our offerings for manufacturing services include the provision of a wide range of (1) design and fabrication services of precision metal stamping tools, and (2) manufacturing services of highly complex precision metal products involving metal stamping, cutting, machining, lathing and turning procedures. In addition, we also offer product assembly/integration services and logistics supports to our customers. We believe that our strong mechanical and tooling design expertise and our production capabilities give us key competitive edge which is one of the critical success factors in earning and maintaining our global customer base, and attracting prospective customers who increasingly seek to outsource complex precision metal components to reliable manufacturing partners.

Integrated services

Our design engineering solutions, manufacturing services and assembly services form an integrated component under our business model, aiming to provide our customers with a comprehensive range of services at different stages of their product design and development. We apply our design engineering knowledge and skills in the course of manufacturing products and provide our customers with advice and practical solutions whenever appropriate during the manufacturing process so as to enhance the quality of their products. While the provision of manufacturing services is our primary business, we offer design engineering solutions to our customers as value-added services, which we believe will build up our sustainable competitive advantage. As part and parcel of our services, we do not charge our customers separately for offering design engineering solutions and manufacturing services.

While the products and components manufactured by us are incorporated into our customers' end-products, we are different from traditional original equipment manufacturers and original design manufacturers. For a traditional original equipment manufacturer, it follows passively the design and specifications provided by its customer in the manufacture of products, whereas a traditional original design manufacturer designs as well as manufactures products for sale to its customer. For our Group, we are a precision metal engineering solution provider and take a proactive role at the early stage of our key customers' product design and development cycles by providing value-adding design engineering solutions and specific advice to them to resolve particular design and technical issues, which differentiates ourselves from traditional original equipment manufacturers and original design manufacturers.

Furthermore, the wide range of services offered by our Group as a precision metal engineering solution provider also distinguish us from traditional original equipment manufacturers and original design manufacturers. Such services include the following:

(i) We offer design, prototyping and fabrication of precision metal stamping dies and fixtures. The stamping dies and fixtures made by us are usually used within our Group's manufacturing process while some of them are sold externally to our customers.

(ii) We assist our customers in their design efforts by offering inputs on manufacturing considerations, material selection, selection of surface finishing and other value-added processes.

(iii) We manufacture precision metal products involving metal stamping, cutting, machining, lathing and turning procedures.

(iv) We offer product assembly/integration services and logistics supports to our customers.

(v) We provide after-sale services and technical support to our customers and regularly obtain feedback from our customers on our products and service quality, which enable us to be more responsive to our customers' needs and changing demand.

Our customers

As at the Latest Practicable Date, we have more than 100 customers with headquarters located worldwide, including the PRC, the United States, Singapore, Japan, and certain European countries. More than 100 of our customers are our active customers who placed orders with us on a recurrent basis during the Track Record Period.

We are well received by our clients with reference to the years of our close business relationship with them and the fact that we have been recognised by our customers with numerous awards. Please refer to the section headed "Business – Honours and Awards" in this prospectus for further details.

Our key customers are mostly renowned companies in our five specialised industry sectors, namely medical and test equipment, finance equipment, consumer electronics, network/data storage and office automation industries.

As of the Latest Practicable Date, we have maintained relationships for over 6 years with all our top 5 customers in terms of our sales for the three years ended 31 March 2012.

The products of our key customers are generally regarded as highly complex, precise, technologically advanced and innovative products. For instance, we produced component parts of gas chromatography test equipment to one of our key customers. Gas chromatography is a technique used in analytical chemistry for separating and analysing compounds that can be vaporised without decomposition. Typical uses of gas chromatography include testing the purity of a particular substance or separating the different components of a mixture. For another example, we produced innovative and precise products for our customers. With the ultra thin investment casting impact briquetting method, which is one of the invention patents held by us, we are capable of producing extremely thin metal piece which measures 0.107 mm in thickness for the office automation products produced by our customers.

The following table sets out our key customers in these respective industries:

Industry	Names of key customers	Years of collaboration	Principal techniques applied for manufacturing the customer's products
Medical and test equipment *(Note 1)*	Agilent Technologies (Shanghai) Co., Ltd.*, which is a group member of Agilent Technologies, Inc., an equipment provider in life sciences, chemical analysis, and electronic test and measurement based in the United States. Agilent Technologies, Inc. is a company listed on the New York Stock Exchange.	10	Precision metal stamping (hard tooling), CNC sheet metal processing, turning and machining
	Thermo Fisher Scientific (Shanghai) Instruments Co., Ltd.+, which is a group member of Thermo Fisher Scientific Inc., a provider of life sciences analytical and laboratory equipment based in the United States. Thermo Fisher Scientific Inc. is a company listed on the New York Stock Exchange.	7	Precision metal stamping (hard tooling), CNC sheet metal processing, turning and machining
Finance equipment *(Note 2)*	MEI, Inc.+, a manufacturer of electronic bill acceptors, coin mechanisms and other unattended transaction systems and is based in the United States.	5	Precision metal stamping (hard tooling) and CNC sheet metal processing
	Diebold, Incorporated+, a company based in the United States which is engaged in the sale, manufacture, installation and service of finance equipment. Diebold, Incorporated is a company listed on the New York Stock Exchange.	7	Precision metal stamping (hard tooling), CNC sheet metal processing, turning and machining

Industry	Names of key customers	Years of collaboration	Principal techniques applied for manufacturing the customer's products
Consumer electronics *(Note 3)*	Customer A*	11	Turning and machining
	Advanced Energy Industries (Shenzhen) Co., Ltd.+, a manufacturer of consumer and safety products. Its parent company, Advanced Energy Industries, Inc., is a company listed on the NASDAQ Global Select Market.	4	Precision metal stamping (hard tooling) and CNC sheet metal processing
Network/data storage *(Note 4)*	BDT-Germany*, a company based in Germany which manufactures data storage automation products. *(Note 6)*	8	Precision metal stamping (hard tooling) and CNC sheet metal processing
Office automation *(Note 5)*	Ricoh Asia Industry (Shenzhen) Limited*, a group member of Ricoh Company, Ltd., a company based in Japan which produces digital office equipment and provides advanced document management solutions and services. Its parent company, Ricoh Company, Ltd. is a company listed on the Tokyo Stock Exchange.	19	Precision metal stamping (hard tooling), CNC sheet metal processing, turning and machining
	Fuji Xerox China Procurement Service (Shenzhen) Limited*, a group member of Fuji Xerox Co., Ltd., a company based in Japan and engages in the development, production and sale of xerographic and document-related products. Its parent company, Fuji Film Holdings Corp, is a company listed on the Tokyo Stock Exchange.	14	Precision metal stamping (hard tooling), CNC sheet metal processing, turning and machining

Notes:

1. The medical and test equipment principally includes chemical testers, blood testing equipment, gas chromatography and body monitor machines.

2. The finance equipment principally includes automatic teller machines, bank note sliders, housing of credit card readers.

3. The consumer electronics products principally include metal parts of chargers for mobile devices, portable chargers for tablet personal computers and safety products.

4. The network/data storage products principally include data storage system and network server equipment.

5. The office automation products principally include photocopiers, digital printing machines, barcode printers and facsimile machines.

6. Prior to 1 January 2011, we maintained business relationship with BDT AG, the related company of BDT-Germany. With effect from 1 January 2011, BDT-Germany took over the business of BDT AG in their internal reorganisation.

* (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. constitute the top five customers of our Group in terms of revenue for the financial year ended 31 March 2012

\+ (a) Thermo Fisher Scientific (Shanghai) Instruments Co., Ltd. together with its other group members of Thermo Fisher Scientific Inc.; (b) MEI, Inc. together with its group members; (c) Diebold, Incorporated together with its group members; (d) Advanced Energy Industries (Shenzhen) Co., Ltd. together with its other group members of Advanced Energy Industries, Inc. ranked within the top 20 customers of our Group in terms of revenue for the financial year ended 31 March 2012. These non-top five customers are important customers of our Group, because they and/or their parent companies are internationally well-known and leading players in their respective industry segments, which set high requirement on the quality and reliability of the products or services they source from their suppliers, and belong to the key industry segments we serve.

Certain of the industries of which most of our key customers belong to such as the medical and test equipment industry and the finance equipment industry are growing industry sectors, with expanding market acceptance relatively.

Given the economic growth in the PRC resulting in rapid urbanization and an increase in demand for quality products and services including those in the financial, medical and consumer electronics sectors, these industries are also expected to experience growth in the PRC market. Many of our key customers have built or are building a significant presence in the growing PRC market. As such, we are well positioned to capture the growth potential of these industries through our established collaborative relationships with these key customers.

We also adopt the business strategy of maintaining a balanced and diversified customer base from select industry sectors having independent growth paces. Our Directors believe a diversified customer portfolio in the select industries strengthens our position in two important aspects: (1) this would help minimise potential negative impact on our business when business performance of any of the select industry sectors of our customers fluctuates; and (2) this would maximise the utilisation of our diverse engineering knowledge, skills and production lines which are capable of producing a wide range of products.

However, 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 17.96% of our total revenue, respectively. Based on the unaudited management accounts of our Group for the three months ended 30 June 2012, our sales to Customer A in relation to products attributable to the Ultimate Customer amounted to approximately HK$12,456,100, representing 6.1% of our total revenue for the three months ended 30 June 2012. **At the beginning of 2012, our Directors became aware that the Ultimate Customer had gradually ceased to engage Customer A for sourcing and procurement of the relevant metal parts. The procurement orders we received from Customer A have dropped significantly after that. As a result, our Directors believe that Customer A will cease to be our key customer after the Track Record Period.** Nevertheless, our Directors are aware that starting from June 2012, the Ultimate Customer has directly engaged two of its sub-contracting manufacturers to place purchase orders with us in its supply chain for the manufacturing of similar nature and type of metal parts and components that we have previously produced for Customer A. During the Track Record Period, the two sub-contracting manufacturers had not engaged us to manufacture any products for the Ultimate Customer. The purchase orders placed with us by the two sub-contracting manufacturers in relation to the products for the Ultimate Customer in June and July 2012 in aggregate amounted to approximately HK$7,460,000 and HK$10,715,000 respectively. Based on committed purchase orders and forecasts provided by the Ultimate Customer and the two sub-contracting manufacturers and the reduced amount of orders during transitional period from Customer A to the two sub-contracting manufacturers, our Directors expect the level of sales of similar products to the Ultimate Customer for the year ending 31 March 2013 will reduce by approximately 60% when compared with the previous financial year.

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.

Recognitions

Our Directors believe that the pursuit of awards serves as a valuable opportunity to build up our Group's level of recognition within the precision metal engineering industry and among our key customers. In addition, as many of the awards require rigorous approval processes, the accreditation of awards facilitates the build-up of a quality corporate culture, and internally serves as a motivational driver for our staff and management to strive for providing engineering solutions at continuously escalating standards.

As a result, we have been accredited by both public organizations and our customers for our consistently high product and service quality and our commitments to environmental protection and social responsibilities.

Awards on Quality

As early as 1996, we were already awarded the Hong Kong Awards for Industry – HKPC Productivity Award by the Hong Kong Productivity Council. We were also the proud winner of the prestigious "Productivity Grand Award" and "Quality Grand Award" in 2000 "Hong Kong Awards for Industry" (now known as "Hong Kong Awards for Industries") in the award scheme organised by the Trade and Industry Department of the Hong Kong Government. We have also won the "Environmental Performance Grand Award" in 2009 Hong Kong Awards for Industries. Our achievement in winning the prestigious "Grand Award" for three important categories of the Hong Kong Awards for Industries in which only one "Grand Award" was presented to the most outstanding entrant in each category every year is a testimony of our strength and solidifies us as being one of the most outstanding businesses in the areas of productivity and quality control in Hong Kong and in the PRC.

We obtained the ISO9002-1994 certification in 1995 and BS7799: PART 2:1999 (now known as ISO/IEC 27001:2005) certification in 2003, which demonstrates our long-standing commitment to establishing international management standards.

Throughout the years, we have been accredited by our global customers for our high performance. For example, we received "2003 FXSZ Supplier QCD Outstanding Award", "Diebold Silver Award for Supplier Excellence 2008" and "Konica Minolta Outstanding Supplier Award 2009".

Awards on Environmental Protections

In addition to winning the "Environmental Performance Grand Award" in 2009 Hong Kong Awards for Industries, we have also received other awards and accreditations in recognition of our efforts in environmental protection and awareness, including the Environmental Award granted by the Hong Kong Business Environment Council in 2003, the Hang Seng – Pearl River Delta Environmental Award 2007/08 and the Hang Seng – Pearl River Delta Environmental Grand Award 2008/09. In line with the global trend of preserving the environment, we believe that our outstanding performance in environmental protection is conducive to maintaining a sustainable business relationship with our global customers who measure the performance of their suppliers based not only on the common criteria such as product quality and cost but also on performance in other attributes such as environmental protection.

A more comprehensive list of our awards is set out in the section headed "Business – Honours and Awards" in this prospectus.

Breakdown by Geography

A portion of our revenue was generated from overseas markets. We mainly export our products to Asia (ex-China and Japan), North America, Europe and Japan.

Set out in the table below is the breakdown of our Group's revenue by geographical segment during the Track Record Period with reference to the destination of our product delivery:

	Year ended 31 March					
	2010		2011		2012	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
PRC	289,283	53.9	381,018	46.4	514,185	54.0
Singapore	59,852	11.2	192,148	23.4	192,330	20.2
North America	71,307	13.3	86,994	10.6	100,720	10.6
Japan	49,119	9.2	62,209	7.6	70,389	7.4
Europe	41,336	7.7	71,988	8.8	55,750	5.9
Oceania	2,292	0.4	3,619	0.4	2,607	0.3
South America	712	0.1	688	0.1	494	0.1
Other Asian countries excluding PRC, Singapore and Japan	22,712	4.2	22,398	2.7	14,943	1.5
	536,613	100.0	821,062	100.0	951,418	100.0

Our headquarters and production facilities

Our headquarters is located in Hong Kong and our four production plants (with a total gross floor area of not less than 90,000 sq.m.) are located in Shenzhen (Guanlan and Xili respectively), Suzhou and Shanghai, which are strategically located near some of our key customers whose products are sold inside the PRC and globally.

We plan to develop a new production base in Suzhou and have entered into a memorandum of cooperation with an Independent Third Party to acquire a factory site of not less than 93,000 sq.m. for constructing our own production base. We have also entered into a lease agreement to lease from another Independent Third Party a property with a gross floor area of approximately 19,343.76 sq.m. for a term of two years commencing from 1 November 2011 as our KPP-Suzhou's branch factory.

Our research and development capabilities

Our production development skills are supported by our strong research and development capabilities.

As of the Latest Practicable Date, we had 33 registered patents, including 3 invention patents, 29 utility model patents and 1 design patent. Most of our patents are related to improvement of manufacturing processes by increasing process efficiency and productivity, and reducing cost. All of these patents were developed by us in-house.

In order to enhance our competitiveness in the market, we have signed a strategic collaboration agreement with the Hong Kong Polytechnic University on 19 August 2011 to collaborate on research and development particularly in the areas of fine metal blanking and stamping, laser cutting and related work flows, and logistics support and management.

We are committed to refining our research and development capabilities. In the forthcoming years, we have a blueprint for our research and development which we plan to execute in the following order. In 2013, we target to boost the level of expertise and efficiency of production of all our production bases. More specifically, we plan to introduce semi-automatic and automatic equipment to achieve higher efficiency. Before June 2015, we target to source more new materials in order to lower the costs and improve the quality of our products.

OUR COMPETITIVE STRENGTHS

We believe that our principal strengths, which are outlined below, have driven our revenue growth and will help us expand our market share and capture future growth opportunities.

We have developed close business relationship with certain key customers through providing in-depth services and offer effective design engineering solutions

We have maintained business relationships with some of our key customers for over 6 years. We take a key role at the early stage of their product design and development cycles by providing value-adding design engineering solutions to them, as part and parcel of our services under our business model. A long term close working relationship was thus developed between us and some of our key customers.

We possess the experience, the techniques, and the solid understanding of our customers' businesses which allow us to actively and constructively provide quality precision engineering and design solutions to our customers during the product development cycle. We aim to recommend the best solutions to our customers as their long-term close business partner in order to effectively maximise product quality and production efficiency as well as minimizing cost, and hence improve their competitiveness as well as overall market position in their respective industry sectors.

Throughout our 24 years of operating history, we continuously accumulate our precision engineering knowledge pool, which will in return facilitate our provision of precision engineering and design solution services. In addition, we seek opportunities to cross-share precision engineering expertise we acquired from serving a client from a particular industry sector with valued customers from other industry sectors.

Our Directors believe that our in-depth knowledge pool is essential to the services we provide, and is a crucial factor for the recognition of our position as a close business partner by our key customers.

We possess a broad range of precision engineering capabilities and provide a wide range of services to our diversified customers

We possess the strength of mastering both metal stamping and lathing/machining capabilities within the precision metal engineering industry in the PRC, which is matched by very few competitors in the PRC. As a result, we are capable of carrying out an extensive range of tooling and manufacturing functions. Please refer to the section headed "Business – Production Procedures" in this prospectus for further details of the production techniques used in our precision metal manufacturing process.

We serve a wide variety of customers from highly diversified industry sectors, most of which have their own precision metal engineering design and production specifications. Our broad range of precision engineering capabilities provide the opportunity for ourselves to select the optimal package of precision metal engineering design and production services for our valued customers to meet and exceed their specific needs.

We are capable of producing reliable high precision and high quality products

We place very strong emphasis on our product quality. We are capable of producing a wide range of high precision and highly complex products, such as the components parts for gas chromatography ovens and high-volume automatic document feeders, which exemplifies our advanced production capabilities. We are also committed to maintaining the quality and reliability of our products. For instance, we have proven capability in achieving a monthly record of not more than 10 ppm in our products for one of our customers in the office automation industry sector.

The numerous customer awards accredited to us by our global customers further illustrates our high performance in, among other things, quality and reliability. Please refer to the section headed "Business – Honours and Awards" in this prospectus for a comprehensive list of our awards and accreditations.

We believe that our strong mechanical and tooling design expertise and our production capabilities give us key competitive edge which is one of the critical success factors in earning our global customer base, and maintaining our major customers and attracting prospective customers who increasingly seek to outsource complex precision metal components to reliable manufacturing partners for their product lines.

We have established relationship with our internationally renowned customers

Our key customers are mainly globally renowned companies in the medical and test equipment, finance equipment, consumer electronics, network/data storage and office automation industries, where certain products generally required a high level of complexity and precision, and innovative engineering. Certain of the industries of which most of our key customers belong to such as the medical and test equipment industry and the finance equipment industry are growing industry sectors, with expanding market acceptance relatively. Please refer to the table set out under the section headed "Business – Sales and Marketing – Our customers" in this prospectus for further details of our key customers. As of the Latest Practicable Date, we have maintained relationships for over 6 years with all our top 5 customers in terms of our sales for the three years ended 31 March 2012.

While we have built up a client portfolio in the growing industry sectors, we also adopt the business strategy of maintaining a balanced and diversified customer base from select industry sectors having individual growth paces.

Our Directors believe that our ability to cultivate and maintain long-term customer relationships with a number of these internationally renowned companies is one of the key factors distinguishing us from our competitors and continuously enhances our market reputation and showcases our prestigious industry position. Leveraging on this strength, we will continue to focus our existing and additional resources strategically on customers with growth potential.

Proven reputation in the industry and recognition by our customers

We are proud of setting a record of winning three prestigious grand awards in the Hong Kong Awards for Industries (formerly known as "Hong Kong Awards for Industry"), including the prestigious "Productivity Grand Award" and "Quality Grand Award" both in 2000 and the "Environmental Performance Grand Award" in 2009, all from the Trade and Industry Department of the Hong Kong Government.

Throughout the years, our dedication to consistently high product and service quality and our long-term commitment to environmental protection and social responsibilities excellence have earned us recognitions by both public organisations and our customers.

Please refer to the section headed "Business – Honours and Awards" in this prospectus for a comprehensive list of our awards and accreditations.

We believe our successful track record and established reputation in high quality manufacturing will strengthen our market position and help us secure more business opportunities with our customers.

Strong, stable and experienced management team with extensive industry and management experience

We have a team of carefully selected professionals who possess profound knowledge of and rich experience in design, precision engineering, metal stamping and machining products manufacturing services. Our senior management team is led by Mr. Peter Sun, our Founder and our executive Director, who is a seasoned and visionary entrepreneur and has received numerous awards in recognition of his achievements, including the Young Industrialist Awards of Hongkong in 1999, the Directors of the Year Awards in 2001, the Shenzhen Excellent Young Entrepreneurs both in 2001, the Bauhinia Cup Outstanding Entrepreneur Award in 2002 and the medal of honour from the Hong Kong Government in 2006. Most of our senior management have over 15 years of working relationship with our Group and are well experienced in the precision engineering, metal stamping and machining industry. Further information on the experience and credentials of our management team is set forth in the section headed "Directors, senior management and staff" in this prospectus.

We believe that our Directors and senior management team are capable of optimising our productivity and formulating and implementing strategic changes to capture market opportunities, which is a key to the continued success of our business.

OUR BUSINESS STRATEGIES

Our objective is to maintain our advanced position as a precision metal engineering solution provider in Hong Kong and in the PRC and continue to increase our market share by implementing the following strategies:

Further expand our sales effort to growing business segments and to the PRC market

We generated revenue of approximately HK$199.7 million, HK$55.5 million and HK$226.6 million, and have gross profit margins of 30.9%, 32.8% and 46.5% respectively from sales to customers in medical and test equipment, finance equipment and consumer electronics for the year ended 31 March 2012. Our Directors intend to further strengthen our relationship with our customers which focus on the PRC market, develop the PRC market which is of significant size and further explore business opportunities in growing business segments such as the medical and test equipment, finance equipment and consumer electronics segments.

According to the CCID Report, industry sectors such as the medical and test equipment, and finance equipment segments are generally higher profit margin and/or higher growth business segments for precision engineered metal parts.

Strategically locate and expand our production facilities

To strengthen our market position, we plan to expand our production facilities in strategic locations. By expanding our production bases, our Directors believe that this will ensure that we possess the strength and capacity for future growth in the longer run.

Production facilities in Suzhou

Our existing production plant being leased in Suzhou was strategically located near some of our key customers in the fast-growing markets such as the medical and test equipment, and finance equipment segments. We believe our close proximity in location with such key customers enables us to efficiently respond to their needs.

Since the nature of our production has a relatively short order cycle, it is our practice not to accept new orders which may result in order backlog so as to ensure timely delivery of the products to our customers. Under this situation, if the production capacity in our production plants becomes fully saturated, our ability to take on new business and orders will be limited. As such, our Directors believe that it is important for our Group to plan ahead. In order to allow adequate factory space for future expansion needs when demand builds up, we plan to acquire and develop a new production base in Suzhou (the "**New Suzhou Production Base**") and have entered into a memorandum of cooperation (the "**Memorandum of Cooperation**") with 蘇州高新區管理委員會 (The Management Committee of Suzhou High Technology District*) (the "**Management Committee**") of No. 8 Yunhe Road, Suzhou City, an Independent Third Party, to acquire a factory site of not less than 93,000 sq.m. for constructing the New Suzhou Production Base. The purchase price of the entire piece of land on which three phases of the New Suzhou Production Base will be constructed on, amounts to approximately HK$58 million. Approximately HK$29.2 million shall be refunded back to us after the purchase. Pursuant to the Memorandum of Cooperation, the refund will be given by the Management Committee for the purpose of subsidising our acquisition of the piece of land to encourage the development in the Suzhou High Technology District. It is currently estimated that the entire purchase price of approximately HK$58 million will be paid in the third quarter of 2013. Based on the terms of the Memorandum of Cooperation, the refund will be made in three stages. 40% of the refund will be made within 2 months after the payment of the entire purchase price, 30 % of the refund will be made within one month after the issuance of the construction works commencement permit, and the remaining 30% of the refund will be made within one month after the issuance of the report on completion of construction works by the relevant authority. The entire purchase of land shall be financed by the proceeds from the Global Offering as detailed in the section headed "Future Plans and Use of Proceeds – Use of Proceeds".

The construction and development of the New Suzhou Production Base will comprise three phases. Construction costs for phases 1 and 2, which have not yet been incurred as at the Latest Practicable Date, are estimated to be approximately HK$107.6 million and HK$60.1 million, respectively. For phase 1 of the construction and development, it is currently estimated that construction costs relating to initial work such as planning, design and preliminary works for construction amounted to approximately HK$2.5 million will be incurred between the beginning of 2013 and the first quarter of 2013, while construction costs relating to actual construction amounted to approximately HK$105.1 million will be incurred between third quarter of 2013 and the first quarter of 2014. Approximately HK$14.8 million of the construction costs for phase 1 shall be financed by the proceeds from the Global Offering as detailed in the section headed "Future Plans and Use of Proceeds – Use of Proceeds", whereas the remaining balance of the construction costs for phase 1 and the construction costs for phase 2 shall be funded by a possible mix of internal resources and loan facilities.

For the first phase, construction of factory buildings with a total gross floor area of not less than 30,000 sq.m. is expected to complete by the end of 2014, at which time our existing production facilities in KPP-Suzhou will be moved to the New Suzhou Production Base. New machines to be purchased in phases 1 and 2 are mainly CNC bending machines and punching machines. For phase 1, we expect to spend a total of HK$67.9 million on capital expenditures for the said machinery in 2014 and 2015 which shall be financed by the internal resources and loan facilities. For phase 2, machinery is expected to cost approximately HK$54.6 million, the capital expenditure shall not be required until 2014 or 2015. The purchase of new machines for phase 2 is expected to be financed by internal financial resources or other financing arrangement. Once phase 1 of the New Suzhou Production Base ramps up to full production capacity after the completion of capital expenditure on machinery, the Group's production capacity of CNC bending machines and punching machines shall increase by 2.9 million and 37.3 million units respectively, applying consistent calculation methodologies and assumptions as set out in the section headed "Business – Production Capacity".

Subject to the satisfactory progress of phase 1, we also plan to construct phase 2 of our New Suzhou Production Base in the second half of 2014 which is expected to commence operation in 2016. For phase 2 of the construction and development, it is currently estimated that construction costs amounted to approximately HK$60.1 million will be incurred during the period from the second quarter of 2014 to the beginning of 2016. Details of the third phase shall be decided at a later stage taking into consideration factors such as the then market demand for our Group's products and the utilization rate of phases 1 and 2 of the New Suzhou Production Base.

Moreover, we have entered into a lease agreement to lease from another Independent Third Party a property (the "**Leased Factory**") with a gross floor area of approximately 19,343.76 sq.m. for a term of two years commencing from 1 November 2011 as our KPP-Suzhou's branch factory. The monthly rent for the Leased Factory is RMB290,156.40 (inclusive of management fee). The Leased Factory is located close to the New Suzhou Production Base.

Our Directors expect the business will grow and have to make plans for future expansion. In order to capture long-term future business opportunities in a timely manner, our Directors view the construction and development of the New Suzhou Production Base as the preparation and provision of additional capacity for expansion in the Group's production and operation aspects in the foreseeable future. In the near term, we will gradually move the existing production facilities in Suzhou to the New Suzhou Production Base upon completion of the construction of phase 1 and the overall production capacity of the Group is not expected to increase immediately after such relocation.

Nevertheless, the expansion of our Suzhou production facilities serves several purposes, including but not limited to the following:

(a) The existing production facilities in Suzhou are situated in several separate locations. The development of the New Suzhou Production Base can enable more integrated and centralized business operations in Suzhou. Our Directors believe that this will enhance the production efficiency of our Group.

(b) The existing production facilities of our Group in Suzhou are operating on leased premises, which may be subject to rental increase in the long run. Our Directors believe that the strategy of acquiring a piece of land in Suzhou for the construction and development of the New Suzhou Production Base can minimize the impact of rental increase on our operations and we may enjoy long-term property appreciation. Depending on the market condition after the completion of the first phase of the construction of the New Suzhou Production Base which is expected to complete by the end of 2014, we will consider the options of maintaining the business operations of the existing production bases in Suzhou until the expiry of the lease agreements which will only expire between 2016 and 2020, or surrendering the leases to the landlords before expiry of the lease terms and relocating such production bases to the New Suzhou Production Base if it is appropriate under the circumstances to do so.

Our Directors' planning of the scale and nature of expansion of our Suzhou production facilities are determined based on, among other factors, (i) our Directors' ongoing discussions with our key customers with regard to their upcoming production facilities expansion plans in the PRC; (ii) our historical growth in sales, particularly in consumer electronics, medical and test equipment and the finance equipment segments; (iii) the growth prospects of the industry segments of which our key customers operate in; and (iv) potential demand from new customers, we expect the future increase in demand for our products will exceed our current level of free production capacity.

Based on our management's experience and with reference to information provided by construction contractors and production equipment suppliers, we understand that a substantial amount of time is required for the purchase of land, construction and set up of the factory before our new production facilities can operate at full capacity. Therefore, it is necessary to plan ahead of time and commence the purchase of land and construction work for the new production sites in order to have sufficient capacity to meet future demand. Furthermore, our Directors believe that building our own production facilities instead of leased land will provide us with a higher degree of operational stability in the long run and more flexibility in designing our production lines for efficiency. The increase in our production capacity is expected to lead to cost-saving advantages through the achievement of economies of scale and allow us to meet the additional demand for our products and future expansion of our market coverage. In view of the above, we consider that the current expansion plans at Suzhou are reasonable and beneficial to the Group's long term development as a whole.

Production facilities in Shenzhen

We plan to improve our production capacity in Shenzhen by strengthening our automation capabilities in 2013 which shall be funded by our internal resources.

Business development through integration with our customers' pre-production product development cycle and strengthen our research and development capabilities

We will continue our strategy of collaborating and integrating with our key customers in the early stage of their pre-production product development cycle by offering our mechanical and tooling design expertise and integrated solutions to them. This strategic collaboration can help our key customers to identify technical issues, improve production quality and reduce final cost of their products. We believe that this strategy helps us to forge a closer tie with our customers, creates customer lock-in effect on the production of their new products, and maintain a long lasting close business relationship with our key customers with growth potential to our Group. In pursuing this strategy, we plan to continue strengthening our research and development capabilities by increasing our investments in research and development activities.

During the Track Record Period, we have incurred research and development expenditure amounted to approximately HK$9.0 million, HK$13.4 million and HK$20.1 million, respectively, representing 12.4%, 16.0% and 16.2% of our general and administrative expenses in 2010, 2011 and 2012 respectively. We intend to continue our effort in research and development and expect our research and development expenses will constitute approximately 15% to 18% of our general and administrative expenses each year.

In particular, we plan to further strengthen our research and development capabilities in our production bases. For the year of 2012, an approximately HK$15 million will be spent in the production bases of KFM-Shenzhen and KPP-Suzhou for the purpose of: (i) building up and maintaining a common technical knowledge pool for systemically consolidating and sharing technical findings and innovations across various factories of our Group; (ii) purchasing raw materials for additional research and development and testing; (iii) fees and expenses in relation to the application and registration of potential patents; and (iv) on additional training budget to our technical staff.

We believe that, through continued investment in research and development, we can strengthen mechanical design expertise and develop new machineries that could adapt to market trends and demands, which are conducive to our strategy of integrating with our customers' pre-production product development cycle.

Continue to optimise our production process to reduce reliance on our labour force and to enhance profit margin

We plan to optimise our overall production process by utilising our engineering knowledge and skills, strengthening our research and development capabilities, improving our production techniques and increasing our production automation, with a view to reducing our reliance on labour force and enhancing our profit margin. For example, we use our patented multi-head riveting machines for riveting different parts in metal stamping which can speed up the production process. We have also developed a numerical control multi-point welding automation which is capable of completely welding different points simultaneously without the need to manually adjust the welding points to the welding machine. We will increase the use of robotic arms and adopt automatic features in our equipment for feeding works and reduce reliance on our workers. We believe the optimisation of our overall production process would further increase our capabilities to produce high quality products and reduce our labour cost, thereby enhancing our profit margins.

Enhance our advanced position through acquisitions and strategic cooperation

To maintain our advanced position as a precision metal engineering solution provider in multi-market segments in Hong Kong and the PRC, we intend to seek opportunities for acquisitions of production facilities or strategic cooperation with business partners which can synergise with our Group's business.

We have entered into the BDT Sale and Purchase Agreement with BDT-Germany and BDT-Zhuhai on 29 March 2012 in relation to the acquisition of the BDT Business which involves the assembly of the BDT Products. Pursuant to the BDT Sale and Purchase Agreement, BDT-Germany and our Company have also agreed to move the operation of the BDT Business from BDT-Zhuhai's factory in Zhuhai to and integrate its operations with KFM-Shenzhen by no later than 31 December 2012. Our Directors believe that the acquisition of the BDT Business can synergise with our Group's current operations and can further strengthen our strategic business cooperation with BDT-Germany. Please refer to the paragraph headed "Recent business development" in this section below for further details.

Depending on the market condition in the future and after detailed feasibility study, we are also exploring the opportunities of acquiring plastic mould manufacturers or establishing a joint venture with parties specialising in plastic moulding. We are in negotiation with different parties on such acquisition or cooperation, but no definitive agreement has been entered into. Our Directors anticipate that these initiatives, if they are finalised and implemented, will not affect the proposed use of net proceeds from the Global Offering. We will comply with the applicable requirements under the Listing Rules should there be any further development on these initiatives.

Our Directors believe that by adopting the business integration strategy, we will be able to capture wider market opportunities and be well-positioned to penetrate into new market segments.

PRODUCTS AND SERVICES

Our offerings include the provision of (1) design and fabrication services of precision metal stamping tools; and (2) manufacturing services of precision metal products, components, modules and systems. Our products and services are offered to customers from a wide range of industries, in particular, we have a strategic focus on customers in the five select industry sectors, namely medical and test equipment industry, finance equipment industry, consumer electronics industry, network/data storage industry and the office automation industry. In addition, we also offer product assembly/integration services and logistics supports to our customers. We emphasise on the quality of our precision metal stamping tools and precision metal products that strictly fulfils our customers' specifications and unique requirements to facilitate integration process of their final products.

The table set out below illustrates the segmental breakdown of our Group's revenue by reference to the industries of our customers during the Track Record Period:

	For the year ended 31 March					
	2010		2011		2012	
	HK$'000	*%*	*HK$'000*	*%*	*HK$'000*	*%*
Office automation	183,805	34.3	233,844	28.5	348,702	36.7
Consumer electronics	78,746	14.7	217,571	26.5	226,553	23.8
Medical and test equipment	119,283	22.2	161,519	19.7	199,682	21.0
Finance equipment	44,861	8.4	60,760	7.4	55,475	5.8
Network and data storage	43,397	8.1	49,480	6.0	52,311	5.5
Others	66,521	12.3	97,888	11.9	68,695	7.2
Total	536,613	100.0	821,062	100.0	951,418	100.0

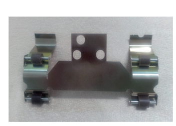
Note:

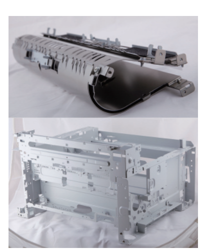
Others include customers from the automotive parts, back-up power supply and other industries.

Set out below illustrates the breakdown of our product segments and the key products produced by us to our major customers during the Track Record Period:

Product segment	**Major customers** *(alphabetically ordered)*
Medical and test equipment	Agilent Technologies (Shanghai) Co., Ltd.
	Tektronix (China) Co., Ltd.
	Thermo Fisher Scientific (Shanghai) Instruments Co., Ltd.
Finance equipment	Diebold, Incorporated
	MEI, Inc.
Consumer electronics	Advanced Energy Industries (Shenzhen) Co., Ltd.
	Customer A
Network/data storage	BDT-Germany
	NEC Platform Technologies Hong Kong Limited
Office automation	Fuji Xerox China Procurement Service (Shenzhen) Limited
	Konica Minolta Business Technologies Manufacturing (HK) Limited
	Ricoh Asia Industry (Shenzhen) Limited

The following table sets out the key products produced by our Group and the key end products in the major product segments:

Product segment	Key products produced by our Group	Key end products
Medical and test equipment	• equipment metal housings and metal mounting parts 	• chemical testers 
Finance equipment	• metal cases of credit card/bank card receiving slots inside the automatic teller machines  • stainless steel parts of bank note counting device 	• bank note sliders of automatic teller machines 

Product segment	Key products produced by our Group	Key end products
Consumer electronics	• metal cases of direct current (DC) power supply system 	• direct current (DC) power supply system 
Network/data storage	• entire storage units housings 	• data storage system 
Office automation	• automatic document feeder trays of the commercial grade photocopiers 	• photocopy machines 

Due to the diversity of the products served in each business segment, we consider that it is not meaningful to provide an estimate of the average length of our production cycle. The table sets out below illustrates the typical production lead time for the key products produced by us in the five major industry segments.

Product segment	Key products produced by our Group	Average production lead time(Note)
Medical and test equipment	• equipment metal housings and metal mounting parts	20 days
	• equipment metal housings and metal mounting parts	35 days
Finance equipment	• metal cases of credit card/bank card receiving slots inside the automatic teller machines	25 days
	• stainless steel parts of bank note counting device	20 days
Consumer electronics	• alternating current (AC) contact pins of power chargers/adapters	25 days
Network/data storage	• entire storage units housing	35 days
Office automation	• automatic document feeder trays of the commercial grade photocopiers	20 days
	• metal frames and mounting structures	25 days

Note:

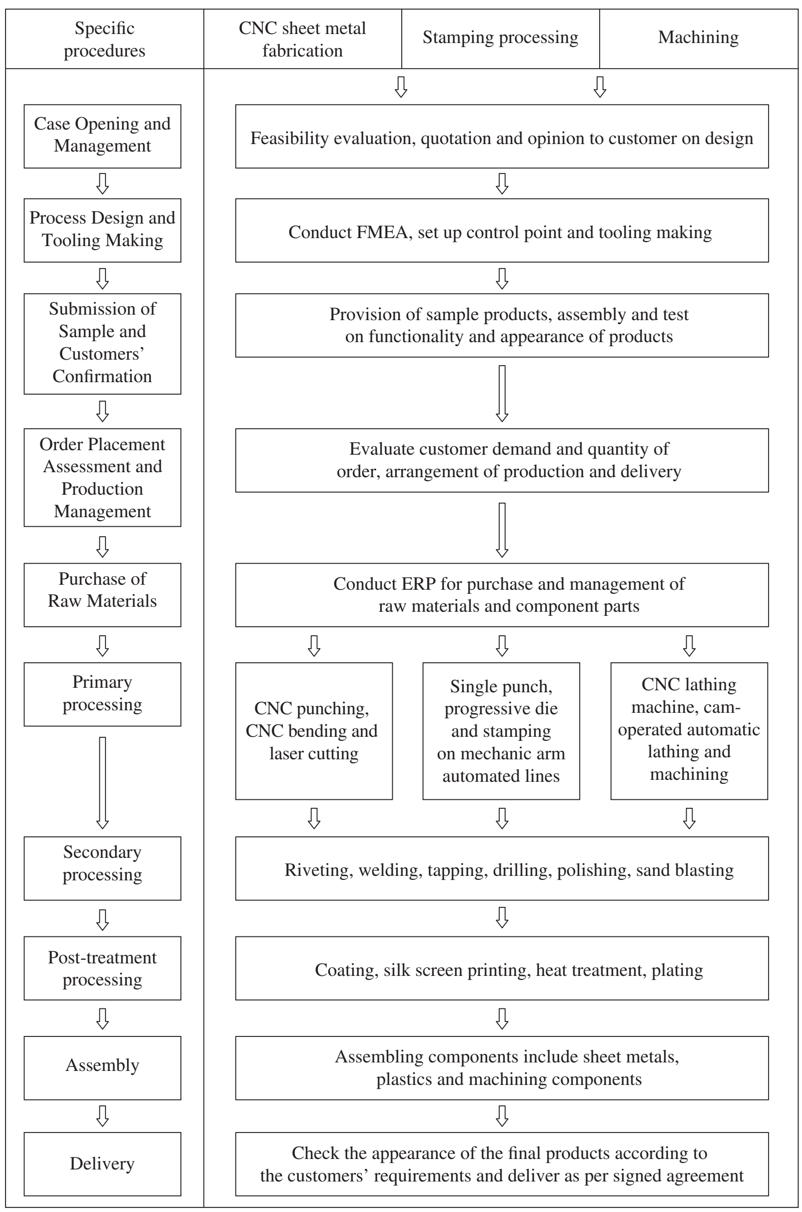
"Production lead time" referred to in the above table means the time interval between the commencement of primary processing and until when the product is available for delivery.

Since the nature of our production has a relatively short order cycle, it is our practice not to accept new orders which may result in order backlog. As such, the Group did not have order backlog as at the end of the Track Record Period.

PRODUCTION PROCEDURES

We have solid experience and distinctive technological know-how which facilitates us to offer a wide range of precision metal stamping tools and highly complex precision metal products to our customers. Our sophisticated production procedures and processes enable us to produce quality products efficiently and in a cost-effective manner.

The following is a flow chart describing our typical production procedures:



Note: Tooling is the process for making tools that are used for the mass production of precision metal products.

PRE-PRODUCTION PROCESS

Case Opening and Management

For new product lines, we work closely with our customers for product development phase at the initial stage, which enables us to not just better understand our customers' needs but also proactively provide innovative and integrated solutions to our customers, and eventually help customers minimise cost and improve functionality and quality. In cases where product development is carried out by our customers, we receive their product specifications and sample drawings. We will then provide them with a quotation. We participate in customers' initial stage of product development by giving feedback on the product design and also conducting research and development of patent-nature technological know-how for particular products or processes. In the next step, our design engineers will conduct feasibility evaluation, which include evaluation of the choice of raw materials and other electrical, mechanical and assembly issues. These steps can enable us to better manage our resources and match with our customers' requirements and to provide an estimated production costs, including the cost of outsourcing certain production parts.

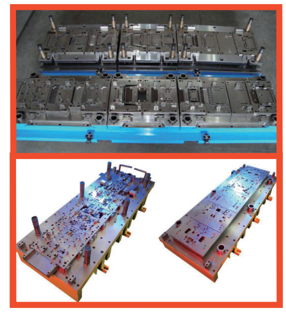
Process Design and Tooling Making

By conducting FMEA, we will have a better understanding on the quality of and cost control for the actual production, our design engineers will subsequently transform the specifications and drawings of our customers into computerized 3D drawings using CAD, CAE and CAM software and to simulate the whole stamping processes and provide solutions on integrating our component with customers' products. The use of computerized 3D drawing system generally shortens the whole design and engineering process. Based on the computerized 3D drawing system, we will generate a physical prototype which will be subject to modifications in order to adhere to our customers' request. The physical prototype together with detailed report on the whole production process and relevant drawings will be passed on to our quality control department for review before it is finalized and confirmed by our customers. We believe using these technologies and methods during the product design process allow us to simulate and detect potential problems before proceeding with mass production, and provide us with greater efficiency through the development process from the conceptual phase to production.

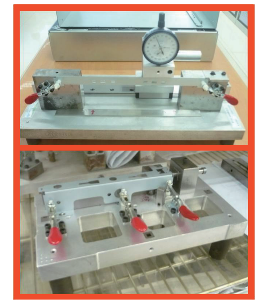
We will use 3D software to design and produce specific tooling equipment, stamping die and fixture to accommodate customers' product requirement and prepare for mass production.

CNC punching tools

Tooling Equipment



Stamping Die



Fixture

The fixtures and stamping dies made by our Group are usually used within our Group's manufacturing process. Some fixtures or stamping dies are sold externally to customers.

We had over 20 years of experience in designing and manufacturing stamping dies for our customers. Our lead-time for production of stamping dies for our customers is about 34 to 45 days on average since the stamping dies that we are engaged to produce are usually large in size which require longer time for design, raw material procurement and product testing.

Submission of Sample and Customers' Confirmation

Upon our provision of the sample products, component parts will be assembled. The functionality and appearance of the sample products will be tested with feedbacks. We will need the customers' confirmation before placing purchase orders.

Order Placement Assessment and Production Management

Once there is an agreement between the customer and us on the product series, quantity and price of the products and arrangement of the delivery, the customer will then place an order. Internally we will prepare resource allocation plan and develop production schedule accordingly. Our customers often request us to produce and deliver our products periodically in batches, therefore we have to develop systematic plans for raw material procurement and production to ensure timely delivery.

Purchase of Raw Materials

Our customers will issue purchase orders where the product series, product quantity, price and delivery schedules will be agreed upon. Each purchase order would need to be submitted to our designated contract assessment team to determine whether our customers' requests can be fulfilled before we commit. The quality of raw materials affects its output, therefore all our newly purchased raw materials would need to pass our internal quality control requirement before they can be accepted as inventory for future use. In order to achieve this, we deploy the ERP system to optimise the management of product batch, quantity, price and cycle time, seeking for timely delivery, lower inventory level and rational pricing.

PRODUCTION PROCESS

Primary processing

Precision metal stamping is the process of bending, forming and cutting a sheet metal into the desired shape and size through the use of a die on a stamping machine. Hard tooling and soft tooling are two commonly used methods for producing stamped metal parts.

Hard tooling

Stamping machine is used in the hard tooling process, in which the dies are manually mounted. It is for the high-speed mass production of stamped metal parts where relatively longer tooling process is required.

Single punch

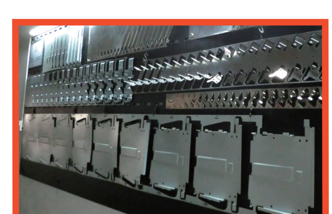
- It usually involves an assembly line of stamping machines.
- Each stamping machine is fixed with a particular die for a particular punching or stamping step in the making of a complete metal component.
- The production process is semi-automatic, in which materials such as a metal sheet from a previous step are fed into the stamping machine manually by workers for each punching or stamping step.

Single Punch

Progressive die

- Roll materials are successively fed into the progressive die under a constant rhythm for stamping through the special die equipment.
- The progressive die is an automatic production process which involves a number of procedures including cutting, punching, bending and stretching. The desired shapes are produced after the roll materials finish cutting, which is the last procedure of the process.

Progressive Press



Progressive Parts

Stamping on mechanic arm automated lines

- Our stamping machines are integrated with robotic and mechanic arms which automatically instead of manually feed sheet metal strip through dies.

Stamping on Mechanic Arm

Robotic Arms Automated Lines

Soft tooling and CNC metalplate processing

Soft tooling is configured by CNC based computer aided manufacturing software programme that enables a speedy production process with flexible tooling design. However, the production speed with soft tooling is still relatively slower than that of hard tooling process but with the benefit of quick change to computer programme for new or revised processes. It is more suitable for low-volume and short product cycle production.

CNC metalplate processing is a technology for quickly producing metal parts without going through the time-consuming hard tooling process, which uses CNC technologies, such as CNC stamping machines, CNC bending machines, CNC laser and mechanical cutting machines to process metal parts.

CNC metalplate processing is another manufacturing process of punching with standard soft tooling, which also features a combination of punch holes and cut openings to produce a variety of configurations, and can therefore be used repeatedly in all sorts of comprehensive manufacturing processes.

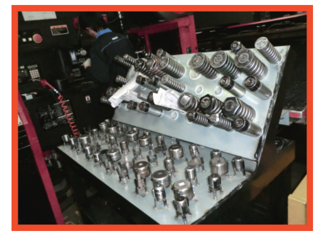
CNC punching

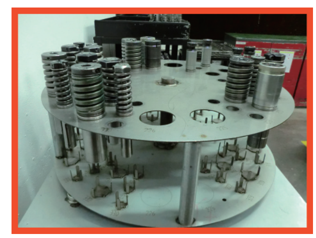
- CNC punching in CNC sheet metal fabrication is the process of using a machine to press a shape to create the metal parts as per design.

- Commonly done by the use of a turret, a computer numerical controlled machine that houses tools and their corresponding dies.

- CNC punching machines then press on the sheet metal with right amount of forces to form any desired shapes, as well as to shear and separate the sheet metal.

CNC Punching





CNC bending

- CNC bending in CNC sheet metal fabrication is the process by which metal is deformed or bent through the use of a CNC machine such as a CNC press brake.

- CNC bending features automatic positioning to produce the desired parts through bending of metal plates according to the requirements.

- CNC programmes can be generated online on the machine user interface or by an offline programming software package.

CNC Bending

Laser cutting

- Laser cutting in CNC sheet metal fabrication is the process of cutting a sheet metal by a CNC cutting machine.

- Can perform the functions of straight cutting, level cutting, spotting holes and drilling etc.

- Laser cutting is a technology that uses a high power laser, which can reach 4,000W, programmed by a computer to cut materials to achieve a high level of precision.

Laser Cutting

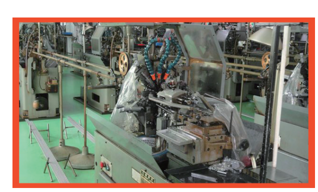
CNC lathing machine

A CNC lathing machine operates with the position and movement of the work piece and its tool controlled by computer programs. It comprises of a mechanical component, a digital control system, a server control system and an air pressure and hydraulic pressure control system, with the core technology of controlling the process by software programming. Its main features include free programming for all kinds of processing, axle and feeder capable of moving on multiple axes according to the specific processing needs and capable to work on complex and curved surfaces.

CNC Lathing Machine

Cam-operated automatic lathing

Cam-operated automatic lathing is a metal cutting operation performed on a lathing machine, in which a work piece is fast spinning while the blade is moving on a plane in a lineal or curvilinear track, so as to remove excess material from a work piece to produce parts in desired shapes. The process is used to shape the inner and outer cylindrical surface, end surface, cone surface, finished surface and screw thread, etc.



Cam-operated Automatic Lathing

Machining

Machining in metal fabrication is the process of removing excessive metal material with power-driven equipment to achieve desired shapes and symmetry. It involves numerous operations, which fall into two main categories, i.e. cam machining and CNC machining, and the following processes include drilling, tapping, knurling, milling, grinding and cylindrical grinding.

Machining Centre

Secondary processing

Products with complex structures and functions of the product require a further and secondary processing as follows:

Welding

- A method to join metals by heating, heat-pressing or the combination of both, filling or unfilling.We use three welding methods in our production process, i.e. argon welding, laser welding and spot welding, with the assistance of robotic arm.

Robotic Argon Welding

Laser Welding

Spot Welding

Riveting

- Riveting is to join metal parts into one complex piece of metal through turning and pressing with specific equipments, which is used in the mass production of office automation products.

- As the process does not produce heat, it enhances the stability and quality of the joined parts, and is used to produce highly precise metal parts.

Riveting

Tapping

- Tapping in metal fabrication is the process of cutting threads using a tap.

- We use tapping machines in our production process for threaded holes.

Automatic Tapping

Drilling

- Apply pressure onto the work piece by forcing the rotating drill against the target material the desired holes on the metal parts or components will be produced.

Drilling

Polishing

- There are two types of polishing, namely, coarse polishing and fine polishing. The purpose of coarse polishing is to remove the grains resulted from the machining process, whereas fine polishing aims to achieve a bright or even shiny surface of the metal parts to the extent as required by the customer's drawings.

Polished Parts

Sand blasting

- Sand blasting is the surface finishing process of propelling very fine bits of materials such as steel grit, copper slag, walnut shells, powdered abrasives at high-velocity to abrade metal surface.

Sand Blasting

Post-treatment Processing

This marks the last step of the production process. We have entered into agreements with some sub-contractors to outsource some of the following processes which we believe are less complicated and with lower profit margins. Such outsourcing processes are coating, heat treatment and plating.

We had engaged a total of 114, 125 and 157 sub-contractors for the post-treatment processing for each of the three years ended 31 March 2012, respectively. Our Group has to engage over 100 sub-contractors as we have four production bases in separate locations and some of the sub-contractors may provide only one type of post-treatment processing such as coating, heat treatment or plating. Furthermore, for each post-treatment processing method, the expertise required from the sub-contractors may vary.

Our Group has a set of procedures in place to select sub-contractors. We will first conduct a preliminary review of the sub-contractor. After assessing the background and suitability of the sub-contractor, we will ask the sub-contractor to produce samples of products according to our specification. The samples will be checked and reviewed by the relevant departments of our Group. Only upon the approval by us will the sub-contractor become a qualified sub-contractor of our Group. We generally entered into master agreements with our sub-contractors, though some of the sub-contractors have not entered into any master agreements with us. For those sub-contractors who have entered into master agreements with us, such master agreements merely set out the basic terms and conditions for the transactions without any commitment on us to place orders with them. Separate orders will be placed by us with the sub-contractors, subject to the terms and conditions set out in such master agreements. Irrespective of whether master agreements have been entered into, we placed orders with our sub-contractors on a case by case basis. We provided our product and quality specifications to our sub-contractors and the sub-contractors arranged transportation and delivery of the finished products to our designated warehouses. The sub-contracting fees are negotiated when orders are placed by our Group with our sub-contractors with reference to the costs of production and the price of the finished products. During the three years ended 31 March 2012, our sub-contracting fees amounted to approximately HK$54.0 million, HK$77.6 million and HK$77.5 million, representing 13.1%, 13.6% and 10.8% of our total cost of sales, respectively. All these sub-contractors are independent from our Group and none of our Directors (or any person who, to the knowledge of the Directors, owns more than 5% of our issued share capital or any of our subsidiaries or any of their respective associates) had any interests in any of these sub-contractors.

Silk screen printing

- Silk screen printing is a printing technique that uses a woven mesh to support an ink-blocking stencil.

Silk Screen Printing

Heat treatment

- Heat treatment is a manufacturing process that combines the alternating action of heat and metal working or vacuum pressure to create hard and brittle metals from high-purity metal powders.

Plating

- Plating is a surface finishing process that deposits a metal on a conductive surface and an ionic metal is supplied with electrons to form a non-ionic coating on a substrate.

- It is used in metal fabrication to achieve desired properties such as abrasion and wear resistance, and corrosion protection to the metal surface that otherwise lacks that property.

Coating

- Coating includes powder-coating and paint-coating, it is a surface treatment process in which liquid or dusts (usually paint or powder) are blown into a thin fog or smoke and allowed to settle upon the surface of metal due to the effect of static electricity and form a solid coating after proper heating. The whole process is in strict compliance with RoHS standards of the European Union for environment protection.

Coating

Assembly process

After the return of the outsourced modules or sub-assembled parts, the component parts will be assembled, and the finished products will be transferred to an independent section for an ongoing reliability test to ensure that our products meet the specifications set out by our customers and have reached the standard to be used by our customers before the right quantity of products to be sent for packaging and delivery.

Assembly

Delivery

After the assembly process, final inspection will be performed before packing and delivering. The appropriate quantity of products will be delivered to customers according to the signed purchase orders or sales agreements.

During the Track Record Period, we have not experienced any incident of fatal accident, nor have we experienced any material adverse impact on our operating performance or financial condition due to any change in production quantities, production delay, product defects which led to delay in shipments or the resulting liability or loss.

PRODUCTION FACILITIES AND CAPACITY

As of the Latest Practicable Date, we operated 4 production bases and they are located in Shenzhen (Guanlan and Xili respectively), Suzhou and Shanghai.

The following table sets forth the details of our production bases and facilities:

Name of the subsidiary	Location of the production base controlled by the respective subsidiaries	Total gross floor area	Main production usage	Main industry segments served	Year of commencement of operation
KFM-Shenzhen *(note)*	Guanlan, Baoan District, Shenzhen	approximately 39,766.88 sq.m.	mainly for production of stamping dies and precision metal stamping products	office automation, medical and test equipment, finance equipment, network/data storage	2011
KRP-Shenzhen	Xili, Nanshan District, Shenzhen	approximately 18,502 sq.m.	mainly for production of precision turning and machining products	consumer electronics	2007
KPP-Suzhou	Technology Industrial Zone, Xin District, Suzhou	approximately 39,840.03 sq.m.	mainly for production of stamping dies and precision metal stamping products	medical and test equipment, finance equipment and office automation	2002
KRP-Shanghai	Nanhui Industrial Zone, Shanghai	approximately 3,476.06 sq.m.	mainly for production of precision turning and machining products	medical and test equipment	2002
Total		101,584.97 sq.m.			

Note: KFM-Shenzhen was set up in April 2011. Prior to the establishment of KFM-Shenzhen, our production base in Guanlan, Baoan District, Shenzhen was run by KFM-Shenzhen Factory under a processing arrangement since 1990. It is our plan to change the business form and to have the business operations of KFM-Shenzhen Factory taken up by KFM-Shenzhen.

Processing Arrangement

As set out in the table above, we currently have four production bases. During the Track Record Period, one of the production bases located at Guanlan, Shenzhen was operated by KFM-Shenzhen Factory under a processing arrangement since January 1990. Our Group placed production orders to KFM-Shenzhen Factory and KFM-Shenzhen Factory provided processing services to us and manufactured the products in accordance with the specifications provided by us.

The salient terms of the processing agreement are summarised below:

Parties to the existing processing agreement

(a) Shenzhen Shunan as the Chinese party and the business agent.

(b) KFM-HK as the foreign party.

Shenzhen Shunan is an Independent Third Party and has no other past or present relationship with our Company, our subsidiaries, their shareholders, directors, senior management or any of the respective associates save for being a party to the processing agreement.

Term

From 5 January 1990 for an initial term of five years, which was subsequently supplemented and renewed, with the supplemental agreement entered into on 28 July 2009 for extension of the term to 30 September 2020.

Primary responsibilities of the contracting parties

(a) the Chinese party shall provide factory premises, labour and water and electricity for production and shall manufacture the products as requested by us; and

(b) the foreign party, being KFM-HK, shall provide raw materials, ancillary materials and packaging materials, machinery and equipment, technical guidance and training to workers and it shall also pay contract processing fee and rental for the factory premises.

According to the relevant PRC laws and regulations, the business agent shall assist the foreign party to handle the procedures for settlement of contract processing fees and import and export procedures.

Contract processing fee

The amount of contract processing fee paid to the KFM-Shenzhen Factory for each of the three years ended 31 March 2012 was approximately HK$101.4 million, HK$116.8

million and HK$140.3 million respectively. The contract processing fee payable to KFM-Shenzhen Factory comprises of a fixed fee and a variable fee. From early 2009 onwards, the fixed fee has been in the amount of HK$436,800 (which includes management fee, part of the rental for the factory premises, and an agreed fee representing part of the salary of the workers), 10% of which shall be payable to the Chinese party, while 3% of the fixed fee and 0.4% of the variable fee shall be payable to the business agent. The variable fee represents the actual expenses of KFM-Shenzhen Factory, including among others, tax expenses, the remaining rental for the factory premises, and other expenses such as utility charges, transportation costs, and workers' benefits and salary (after deducting the amount already paid as part of the fixed fee). The percentages payable to the Chinese party and the business agent were determined by the relevant local provisions.

The contract processing fee for a month will be calculated in the beginning of that month based on the estimate expenses to be incurred in the month, and we have a credit period of 30 days for making payment starting from the beginning of the month. The amount of the contract processing fee will be adjusted subsequently based on the actual expenses incurred in that month. For example, if the actual expenses incurred for a month is less than the estimate contract processing fee paid for that month, the remaining amount will be allocated for use in the following month. On the other hand, if the actual expenses incurred for a month exceed the contract processing fee for that month estimated at the beginning of the month, KFM-Shenzhen Factory will request additional contract processing fee to be paid by KFM-HK as soon as practicable.

Change of business form

Although the term of the current processing agreement will expire on 30 September 2020, in view of achieving greater certainty to the long term continuity of our business model, it is our plan to change the business form and to have the business operations of KFM-Shenzhen Factory taken up by KFM-Shenzhen. Also the change of business form would allow KFM-Shenzhen to directly sell our products to PRC based customers and purchase raw materials from PRC based suppliers without restrictions such as import and export restrictions, which would otherwise apply under the original KFM-Shenzhen Factory. As PRC based manufacturers are maturing in terms of scale and quality, our management considered it is the right timing to apply for the change of business form. Furthermore, as part of the process for changing the business form, the processing agreement would be terminated and KFM-Shenzhen Factory would be deregistered. After the transformation of business form, the products produced shall belong to KFM-Shenzhen and could be sold in the PRC. According to the Transformation Instructions, in order to, among others, attract foreign investment in Shenzhen, the relevant authorities in the Shenzhen municipality and the Guangdong provinciality encourages changes in the business form from the processing arrangement to wholly foreign owned enterprises, by providing necessary guidance and support to assist the transformation of the business form. Also, the Shenzhen Government will provide funding to the eligible independent legal entities (including wholly foreign owned enterprises) which are established in Shenzhen after the transformation. Based on the abovementioned, our PRC Legal

Advisors advised that, as termination of the processing agreements and deregistration of the KFM-Shenzhen Factory are the necessary procedures to complete the transformation, the early termination of the processing agreement would not subject our Group to any administrative punishment nor legal liability.

Transformation and deregistration procedures

According to the Transformation Instructions and the practice in Shenzhen, approval would have to be obtained from the Science, Industry, Trade and Information Technology Commission of Shenzhen Municipality (深圳市科技工貿和信息化委員會) (the "**Commission**") for the termination of the processing agreement and the deregistration of KFM-Shenzhen Factory; and prior to obtaining the approval of the Commission, clearance from the customs authorities and approval from them for the transfer of machinery and equipment and related raw materials to KFM-Shenzhen, confirmation from the tax authorities on the due payment of taxes, confirmation from labour authorities and clearance about the contract processing fee would also have to be obtained. After obtaining the approval from the Commission, customs authorities will handle the termination of the processing agreement, tax and customs registration certificates of KFM-Shenzhen Factory will be deregistered by the relevant tax authorities and customs authorities and then KFM-Shenzhen Factory will be deregistered by the relevant administration for industry and commerce authorities.

Relevant regulations

According to the relevant regulations regarding the transfer of the business form in Shenzhen, KFM-Shenzhen Factory should be deregistered within six months after the setting up of KFM-Shenzhen in April 2011. However, there is no relevant PRC laws or regulations which provides the legal consequences of failure to complete the relevant termination and deregistration process within the required six months period after the setting up of KFM-Shenzhen. As the Commission verbally confirmed to our PRC Legal Advisers through enquiry line in July 2011, the processing factory could still conduct the termination process even though the termination and deregistration process could not be completed within the stipulated period. On 17 July 2012, our PRC Legal Advisers had further visited the counter of the Commission of the Shenzhen Administrative Service Center (the "**Counter**") and the officer at the Counter had once again verbally confirmed the above. As advised by our PRC Legal Advisers, since the enquiry line and the Counter are the official enquiry channels provided by the Commission, there is no reason to cast any doubts on the respective officers who provided the confirmation at the Commission on the enquiry line and the enquiry Counter not being a competent person with appropriate power to give the confirmation on behalf of the Commission.

Also, as the competent authority for the final step on deregistering the processing factory, Guangdong Administration for Industry and Commerce issued a notice on 7 July 2009 which permit the processing factory to deregister with the relevant administration of industry and commerce within one year, and if the deregistration was not completed within one year period, application could be made to extend the period for one year. Therefore, our PRC Legal Advisers are of the view that there should not be any administrative penalties to KFM-Shenzhen Factory and there should unlikely be any legal obstacles for KFM-Shenzhen Factory to complete the termination and deregistration process even though the deregistration process could not be completed within the stipulated period.

As at the Latest Practicable Date, the Company had not applied to or obtain approval from Guangdong Administration of Industry and Commerce to extend the deregistration period because there is no relevant formal procedure for the extension application. As advised by our PRC Legal Advisers, there should not be any legal consequences to the Group if it does not make an application for extension as (a) there is no formal procedure stipulated by the relevant PRC authorities regarding the extension application; and (b) our PRC Legal Advisers has inquired with the Commission and the local administration of industry and commerce in Shenzhen which had verbally confirmed that it is not necessary to obtain approval issued by them respectively regarding the extension. Since the Transformation Instructions do not specifically stipulate that a processing factory cannot obtain the approvals or clearance due to the delay, the PRC Legal Advisers are of the view that there should not be any legal impediment for the Group to obtain the approvals and clearance from the various authorities in relation to the change in business form due to the delay.

As advised by our PRC Legal Advisers, save and except obtaining the relevant approval from the Commission and consent from the contracting party to the processing agreement, namely, Shenzhen Shunan, no other consent has to be obtained for the termination of the processing agreement. As Shenzhen Shunan has already agreed that the business operations of KFM-Shenzhen Factory shall be taken up by KFM-Shenzhen, our Directors do not anticipate any potential objection from Shenzhen Shunan and consider that Shenzhen Shunan would also agree to the termination of the processing agreement. As advised by our PRC Legal Advisers, as Shenzhen Shunan has already agreed that the transfer of business form from KFM-Shenzhen Factory to KFM-Shenzhen, our Group shall not be liable for any breach of contract upon the termination of the processing agreement due to the change in business form; therefore, our Group shall not be liable for any penalty, compensation or amount payable to Shenzhen Shunan.

Current Status

As at the Latest Practicable Date, KFM-Shenzhen Factory has obtained the necessary approvals from the Commission regarding the transfer of its business form and KFM-Shenzhen has also been established, except that the application for approval of the termination of the processing agreement with the Commission has not been made. The application for termination is a separate application to be made after clearances or confirmations from customs and other authorities are obtained.

As confirmed by our Directors, since KFM-Shenzhen Factory is in the process of obtaining clearance from the customs and other authorities, the relevant consents and approvals from the Commission and also from Shenzhen Shunan could not be obtained as at the Latest Practicable Date. It is currently expected that our Group shall obtain the relevant consents from Shenzhen Shunan once clearance from the customs and other authorities are obtained, which is expected to be in or about end of October 2012. The application for approval of the termination of the processing agreement will be made with the Commission in or about mid November 2012 and the approval is expected to be obtained by mid November 2012. After the approval from the Commission is obtained, it is currently expected that deregistration of the tax licenses with the relevant tax authorities and deregistration of the customs with the relevant customs authorities shall be completed by end of December 2012 and deregistration of KFM-Shenzhen Factory by the relevant administration for industry and commerce authorities shall be completed by end of December 2012.

Our Group has not yet completed the termination and deregistration process over one year after the establishment of KFM-Shenzhen. As confirmed by our Directors, our staff has inquired with customs authorities and other authorities in the PRC during the previous year and initially expected that the deregistration process could be finished before one year after the establishment of KFM-Shenzhen. However, due to practical procedural steps to be carried out in various departments including the customs department, a longer time is incurred than we originally estimated. Our Directors confirm that the delay is not due to any dispute or unsettled issues raised by the relevant authorities, but is only the necessary time for the authorities to carry out the approval and process.

As at the Latest Practicable Date, the transfer of business form has not been completed and the actual operations of KFM-Shenzhen Factory had already been taken up by KFM-Shenzhen and there was no material interruption or loss due to the transformation. As at the Latest Practicable Date, all patents from KFM-Shenzhen Factory have been transferred and assigned to KFM-Shenzhen. As to the clearance from the customs, we have obtained the approval of the customs for transferring the machineries and equipment from KFM-Shenzhen Factory to KFM-Shenzhen. However, the clearance of the raw materials is still in the process. The Group expected to obtain the clearance in end of October 2012. As at the Latest Practicable Date, the costs incurred for the transformation of the business mainly consist of, among others, administration and deregistration costs, of approximately RMB139,000.

Major differences/impact before and after the change in business form

	Before the transformation	After the transformation
Operational		
1.	Machineries and equipment is owned by KFM-HK as foreign party to the processing agreement	Machineries and equipment will be injected into KFM-Shenzhen as part of its registered capital and transferred to KFM-Shenzhen
2.	Employees are engaged by KFM-Shenzhen Factory	Subject to employee agreement, they will continue to be engaged by KFM-Shenzhen, and rights and obligations under the original contracts shall be transferred to KFM-Shenzhen, with terms of original contract and length of service remain uninterrupted
3.	Raw materials imported, costs of raw materials to be incurred and the products produced belong to KFM-HK and not KFM-Shenzhen Factory and thus will have to be exported to KFM-HK and products cannot be sold in the PRC without the approval	Sales contract will be entered between KFM-Shenzhen and KFM-HK and raw materials imported, costs of raw materials incurred and the products produced belong to KFM-Shenzhen and products can be sold in the PRC or exported outside
Revenue		
1.	Revenue received would be booked in the KFM-HK accounts	Revenue received would be booked in the KFM-Shenzhen accounts

	Before the transformation	After the transformation
Costs Structure		
1.	KFM-Shenzhen Factory is not a legal person and manufactures products required by KFM-HK, and is exempted from value added tax, urban maintenance and construction tax, additional educational expenses and local additional educational expenses. The exempted statutory VAT tax rate is 3% or 17% depending on taxable sales. The exempted urban maintenance and construction tax is charged at 1% to 7% on the turnover tax suffered. KFM-Shenzhen Factory is, however, subject to corporate income tax. Corporate income tax is charged on the deemed profit of the subcontracting factory (which was calculated at 10% of the contract processing fee) multiplied by the applicable corporate income tax rate. The corporate income tax rate is 20%, 22%, 24% and 25% for the year ended 31 December 2009, 2010, 2011 and 2012, respectively.	KFM-Shenzhen will be subject to corporate income tax, value added tax, urban maintenance and construction tax, additional educational expenses, and local additional educational expenses. Corporate income tax is calculated at the taxable profit times the applicable corporate income tax rate (which is 25% for the year ending 31 December 2012). The statutory VAT tax rate is 17%. The urban maintenance and construction tax is charged at 1% to 7% on the turnover tax suffered.

	Before the transformation	After the transformation
2.	KFM-HK was eligible to treat 50% of its manufacturing profits as not subject to Hong Kong tax before July 2012 by entering into the contract processing arrangement with KFM-Shenzhen Factory.	KFM-HK will no longer be eligible to treat 50% of its manufacturing profits as not subject to Hong Kong tax and it will be required to treat all its profits as subject to Hong Kong tax from July 2012 onward as it was no longer entering into the contract processing arrangement with KFM-Shenzhen Factory. In a hypothetical situation, our VAT and income tax expenses would have been increased by approximately HK$8,696,000, HK$15,424,000 and HK$25,078,000 if the transformation from KFM-Shenzhen Factory to KFM-Shenzhen had taken place at the beginning of the Track Record Period.
Others		
1.	KFM-Shenzhen Factory is not a legal person and cannot apply to be a High and New Technology Enterprise.	KFM-Shenzhen is a legal person and could apply to be a High and New Technology Enterprise upon satisfaction of other requirements. If it is approved to be a High and New Technology Enterprise, it would enjoy preferential tax rate of 15%.

Save as disclosed above, the revenue and pricing policy of goods such as classification of income and unit selling price shall remain the same before and after the transformation. As regards production costs structure, our Group will no longer pay the Chinese party and business agent the fixed and variable fee subsequent to the transfer of business form, which amounted to RMB936,593, RMB979,695, and RMB1,022,298 for each of the three years ended 31 March 2012, representing approximately 0.2%, 0.1%, and 0.1% of our Group's turnover respectively. In addition, production cost was booked in the KFM-HK accounts before the transformation but will be booked in the KFM-Shenzhen accounts after the transformation. Except for the above, our Directors expect that there shall not be any major differences in the production cost structure such as raw material costs, depreciation costs, staff costs, classification of expenses, and unit costs of sales, before and after the transformation.

As advised by our PRC Legal Advisers, under the PRC laws, as KFM-Shenzhen Factory is not a legal person according to the relevant PRC laws and regulations, it would not be held solely liable for any civil liabilities, and any civil liabilities incurred by KFM-Shenzhen Factory would be taken up by the party setting up the KFM-Shenzhen Factory, namely Shenzhen Shunan, in the event that KFM-Shenzhen Factory is not able to settle the liabilities. However, in judicial practice, in light of it being considered as managing the operation of KFM-Shenzhen Factory, KFM-HK could also be held jointly responsible with KFM-Shenzhen Factory for any civil liabilities incurred by KFM-Shenzhen Factory. As advised by our PRC Legal Advisers, according to confirmations from the relevant tax and customs and other governmental authorities, to the best of their knowledge, save as and except already disclosed in the section headed "Compliance and Regulatory Matters" in this prospectus, there is no breach of any other applicable rules, regulations and laws by KFM-Shenzhen Factory, nor is there any penalty, sanctions or regulatory actions against KFM-Shenzhen Factory in any material respect during the Track Record Period and as at the Latest Practicable Date.

As advised by our PRC Legal Advisers, the change in business form as contemplated above will not infringe any applicable PRC laws or regulations.

During the Track Record Period, our Group and our production facilities had not experienced any shut-downs due to breakdown or failure of our major equipment, inadequate power supply or maintenance, natural disasters, or industrial accidents.

Expansion plans

To strengthen our market position, we plan to expand our production facilities in strategic locations. By expanding our production bases, our Directors believe that this will ensure that we possess the strength and capacity for future growth in the longer run.

The new production base in Suzhou is planned to be constructed in 3 phases. Production capacity of our Group is expected to increase by approximately 2.9 million units and 37.3 million units for CNC bending machines and punching machines respectively after the completion of capital expenditure on machinery in 2014 or 2015 in phase 1 of the New Suzhou Production Base. Subject to the satisfactory progress of phase 1, we also planned the phase 2 and phase 3 development of our New Suzhou Production Base in the longer run.

Details of the expansion plans are disclosed in the paragraph headed "Strategically locate and expand our production facilities" under the section headed "Business – Our Business Strategies".

Production capacity

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 for all different products produced by us during the Track Record Period.

Based on the types of products produced by us in each of the five major product segments (namely, medical and test equipment, finance equipment, consumer electronics, network/data storage, and office automation), our Directors considered that during the Track Record Period: (a) lathing machines are the principal machines used for the production processes of lathing, turning and machining in the consumer electronics segment; (b) CNC bending machines are the principal machines used for the production processes of metal stamping and CNC sheet metal fabrication in the medical and test equipment, and finance equipment segments; and (c) punching machines are the principal machines used for the production processes of metal stamping and CNC sheet metal fabrication in the office automation, and network/data storage segments.

The following table shows the approximate annual production capacity of our lathing machines, CNC bending machines and punching machines in terms of units of products produced by such machines during the Track Record Period calculated based on the formula described below.

Lathing machines
For the financial year ended 31 March

	2010		2011		2012	
Name of the subsidiary	**Production Capacity** *(million units)*	**Utilization** *(%)*	**Production Capacity** *(million units)*	**Utilization** *(%)*	**Production Capacity** *(million units)*	**Utilization** *(%)*
KFM-Shenzhen	–	–	–	–	–	–
KRP-Shenzhen	88.7	75.2%	147.2	84.6%	155.8	77.8%
KPP-Suzhou	–	–	–	–	–	–
KRP-Shanghai	17.5	52.8%	16.9	69.0%	19.8	79.6%
Total	106.2	71.5%	164.1	83.0%	175.6	78.0%

CNC bending machines
For the financial year ended 31 March

	2010		2011		2012	
Name of the subsidiary	**Production Capacity** *(million units)*	**Utilization** *(%)*	**Production Capacity** *(million units)*	**Utilization** *(%)*	**Production Capacity** *(million units)*	**Utilization** *(%)*
KFM-Shenzhen	1.6	70.6%	1.6	67.6%	1.6	83.9%
KRP-Shenzhen	–	–	–	–	–	–
KPP-Suzhou	1.8	74.4%	2.0	81.1%	2.3	81.4%
KRP-Shanghai	–	–	–	–	–	–
Total	3.4	72.6%	3.6	75.3%	3.9	82.4%

Name of the subsidiary	Punching machines For the financial year ended 31 March 2010 Production Capacity (million units)	2010 Utilization (%)	2011 Production Capacity (million units)	2011 Utilization (%)	2012 Production Capacity (million units)	2012 Utilization (%)
KFM-Shenzhen	117.8	76.7%	117.8	76.2%	129.5	67.5%
KRP-Shenzhen	–	–	–	–	–	–
KPP-Suzhou	44.3	57.2%	47.8	69.7%	67.7	69.7%
KRP-Shanghai	–	–	–	–	–	–
Total	162.1	71.4%	165.6	74.3%	197.2	68.3%

The figures for the approximate annual production capacity of the machines shown in the table above were determined by identifying the maximum number of products each unit of machine can produce annually, then multiplied by the average number of the relevant type of machines in each year of the Track Record Period.

The utilisation rate is calculated based on a formula, the numerator adopted represents the actual number of hours used in manufacturing by the relevant types of machines. The denominator adopted represents the capacity which is the maximum number of hours which the relevant types of machines can be used for manufacturing, assuming: (a) for the lathing machines, consecutive operations for 20 hours per day and the total number of days each year excluding Sundays and public holidays in the PRC throughout the Track Record Period without taking into account any non-consecutive operations, and (b) for the CNC bending machines and the punching machines, consecutive operations for 18 hours per day and the total number of days each year excluding Sundays and public holidays in the PRC throughout the Track Record Period without taking into account any non-consecutive operations. The difference between the maximum number of hours of operation between (a) lathing machines; and (b) CNC bending machines and punching machines, are mainly due to the following reasons: (i) our Group utilises lathing machines to mainly serve customers in the consumer electronics industry, whose range of products contain relatively less variation than the range of our products produced for the office automation, medical and test equipment, network and data storage, as well as finance equipment segments. As such, our lathing machines require less set-up and reconfiguration time than CNC bending machines and punching machines in general; and (ii) production lines that comprise CNC bending machines and punching machines are more frequently used for testing of new products and designs when compared with our lathing machine production lines. Therefore, CNC bending machines and punching machines have less time available for production per day than lathing machines.

Based on the above, we estimate that: (a) the utilisation rates of our lathing machines for the three years ended 31 March 2010, 2011 and 2012 were about 71.5%, 83.0% and 78.0%; (b) the utilisation rates of our CNC bending machines for each of the three years ended 31 March 2010, 2011 and 2012 were about 72.6%, 75.3% and 82.4%, respectively; and (c) the utilisation rate of our punching machines for each of the three years ended 31 March 2010, 2011 and 2012 were about 71.4%, 74.3% and 68.3%, respectively.

RECENT BUSINESS DEVELOPMENT

Relocation of head office

Our head office in Hong Kong is currently situated at Block A3, 10th Floor, Yee Lim Industrial Centre, 2-28 Kwai Lok Street, Kwai Chung, New Territories, which was leased to us pursuant to the Tenancy Agreement. On 8 March 2012, KFM-HK, our wholly-owned subsidiary, entered into several sale and purchase agreements with an Independent Third Party for the purchase of Unit Nos. 1, 2, 3, 5, 6 and 7 on 31st Floor, One Midtown, No. 11 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong ("**Tsuen Wan Properties**") at a total consideration of HK$25,345,000. The Tsuen Wan Properties have a total saleable area of approximately 367.962 square metres in the building which was completed in June 2012. Please refer to the section headed "Property Valuation" in Appendix III to this prospectus for further details of the Tsuen Wan Properties. We have already paid deposits in the total sum of HK$5,069,000 for the purchase of the Tsuen Wan Properties while the balance of the purchase price to be paid upon completion will be financed by our internal resources. We plan to relocate our head office to the Tsuen Wan Properties in the first quarter of 2013, while the existing head office in Kwai Chung will be used solely as our warehouse after the relocation.

Acquisition of BDT Business

Background

Our Company entered into the BDT Sale and Purchase Agreement with BDT-Germany and BDT-Zhuhai, which is wholly owned by BDT-Germany, on 29 March 2012 in relation to the acquisition by our Company of the BDT Business which involves the assembly of the BDT Products. BDT-Germany and our Company also agreed to relocate the BDT Business from BDT-Zhuhai's factory in Zhuhai, the PRC, and to integrate its operations with KFM-Shenzhen by no later than 31 December 2012. The acquisition was completed on 31 March 2012. Our Group also entered into the BDT Guarantee Agreement and the BDT Manufacturing Agreement with BDT-Germany on 29 March 2012 and 24 July 2012 respectively.

BDT-Germany, a company based in Germany which manufactures data storage automation products, was one of our key customers during the Track Record Period. BDT-Germany is a manufacturer of data storage automation, and our Group has been providing metal engineering services to BDT-Germany during the Track Record Period. According to BDT-Germany's website, BDT-Germany is a development and technology company in the product sectors regarding paper handling and storage automation which has operations in Germany, US, PRC, Mexico, and Singapore. The products produced by us for BDT-Germany mainly are the entire storage unit housings, which are currently being delivered to the factory of BDT-Zhuhai in Zhuhai for product assembly. The entire storage unit housings are then assembled with other components by BDT-Zhuhai for the BDT-Products. During the Track

Record Period, our sales relating to BDT-Products to BDT-Germany amounted to approximately HK$28 million, HK$29 million, and HK$26 million respectively, and our sales relating to other products to BDT-Germany amounted to approximately HK$0.26 million, HK$1.61 million, and HK$6.95 million respectively, for the three years ended 31 March 2012. We entered into the BDT Sale and Purchase Agreement to further strengthen our business cooperation with BDT-Germany, by which we would be involved not only in providing metal engineering services to BDT-Germany, but also be responsible for the assembly and manufacturing of the BDT Products. In line with our Company's strategy, the acquisition of the BDT-Business can synergise with our Group's current operations and enhance our production capabilities. Our Directors further believe that as a result of the synergy from the acquisition of the BDT Business, our transportation cost and packaging cost for the assembly process will be reduced and we are able to provide more comprehensive integrated services to our customers within our own factory premises.

BDT-Germany and BDT-Zhuhai are Independent Third Parties and have no other past or present relationship with our Company, our subsidiaries, their shareholders, directors, senior management or any of the respective associates save for BDT-Germany and BDT-Zhuhai being our customers during the Track Record Period and BDT-Germany and BDT-Zhuhai being parties to the BDT Sale and Purchase Agreement.

Consideration

The consideration payable to BDT-Germany shall be US$4.6 million and which will be payable in various stages:

1. US$2.3 million had been paid in May 2012;

2. US$1.15 million shall be payable on or before 31 December 2012; and

3. US$1.15 million shall be payable within 2 months after the completion of the relocation of the BDT Business from the BDT-Zhuhai's factory in Zhuhai to KFM-Shenzhen.

The Group will utilize existing banking facility to settle the remaining portion of the consideration. We expect to complete the relocation of the BDT Business from the BDT-Zhuhai's factory to KFM-Shenzhen in or about December 2012. The relocation costs payable by our Group consists of computer and equipment costs, and transportation and infrastructure costs which is expected to be approximately US$500,000.

The consideration of US$4.6 million and the discretionary bonus of US$0.4 million was based on (a) valuation of the BDT Business using the discounted cash flow method assuming a long term relationship with BDT-Germany; and (b) a discount to such valuation based on arm's length negotiation between the Company and BDT-Germany. The discounted cash flow valuation of the BDT Business mentioned above also relies on certain assumptions including (i) the Company's incremental net income from the BDT Business which will be service fees less depreciation, general and administrative expenses and income tax; (ii) compliance with and no material change to relevant laws and regulations; (iii) no material and adverse change in the political, legal, economic and financial conditions in the PRC which might affect the profitability of the BDT Business; and (iv) no material change to the interest and exchange rates in the PRC.

The goodwill of approximately HK$24.54 million resulting from the acquisition of the BDT Business is the difference between the consideration and recognised amounts of identifiable assets and liabilities including: (a) the security of receiving metal parts order from BDT-Germany for the BDT Business; (b) the future business opportunities to perform assembly business to other customers; and (c) synergy with the existing business of the Group and the BDT Business including streamlining supportive functions of the BDT Business by the Group, and lowering transportation/packaging costs and production lead time as a result of the acquisition of the BDT Business, as detailed in notes 6 and 27 of the Accountant's Report set out in Appendix I to this prospectus.

BDT-Germany shall also receive a discretionary bonus payment of US$0.4 million in cash or money convertibles at the absolute discretion of our Company and in any event by no later than 30 June 2013. As at the Latest Practicable Date, the Company intends to pay the discretionary bonus of US$0.4 million to BDT-Germany by 30 June 2013 in consideration of BDT-Germany providing continuous support to the operation of the BDT Business.

Business Arrangement

BDT-Germany shall sell and our Company shall purchase the BDT Business as a going concern, which include, among others, the right to assemble BDT Products on behalf of BDT-Germany and BDT-Zhuhai worldwide; and the sole and exclusive sub-assembly right or sub-production rights of the core units of the BDT Products.

Pursuant to the BDT Sale and Purchase Agreement, certain specified assets, such as machineries and equipment and tools for the assembly of the BDT Products, shall be transferred to our Company. BDT-Germany also agreed to grant to our Company the authority to purchase materials for the assembly of the BDT Products. Our Company would have to obtain such authority from BDT-Germany given that we only assemble the BDT Products with some metal parts being produced by our Company (the "**KFM Metal Parts**"). Other materials, including, among others, plastic parts and electronic parts such as power supply parts, cable and motor (the "**Purchase Parts**"), are not provided by us and the purchase of such parts is therefore subject to the choice of BDT-Germany. BDT-Germany will reimburse us the costs for the Purchase Parts, and the direct labour costs for production workers according to production time at rates agreed between BDT-Germany and us, within 14 days after the BDT Products are assembled and delivered to BDT-Germany. During the Track Record Period, our Group had been providing metal engineering services, including the supply of KFM Metal Parts, to BDT-Germany, and the arrangement including the pricing policy regarding supply of KFM Metal Parts will remain the same in the future.

The assembly process of the BDT Products consists of, in general, the following process: (i) receiving and inspection of raw materials; (ii) assembly of the various components into data storage server; (iii) testing of the assembled product; and (iv) packaging for delivery.

The costs structure for the assembly of the BDT Products is mainly composed of the costs of materials used for the assembling of the BDT Products and other potential new products to be introduced by BDT-Germany ("**Direct Material Costs**"), along with other minor costs such as the direct labour costs and depreciation costs. As previously mentioned, the Direct Material Costs and direct labour costs are payable or reimbursed to our Group.

Other than producing BDT Products used by BDT-Germany, the acquired machineries and equipment can also produce products for other customers. To the best knowledge of our Directors, BDT-Germany was the only customer of the BDT Business during the Track Record Period.

Our Group has the relevant expertise, labour and resources for the assembly of the BDT Products. Various staff from KFM-Shenzhen have been assigned to BDT-Zhuhai to undergo on the job training by experienced BDT-Zhuhai personnel. In addition, we plan to dedicate a team of staff to specifically carry out the assembly function for the BDT Products.

Fees Payable

BDT-Germany shall, among others:

1. during the period before the BDT Business is relocated to KFM-Shenzhen, pay a fixed monthly service fee of US$90,000 to our Company; and

2. after the relocation of the BDT Business to KFM-Shenzhen, guarantee that our Group will be entitled to a service fee with references to an agreed percentage of (a) Direct Material Costs (excluding the costs for KFM Metal Parts); and (b) the direct labour costs.

During the period prior to the relocation of the BDT Business to KFM-Shenzhen, BDT-Germany shall be solely responsible for all costs and outgoings in respect of the factory of BDT-Zhuhai. Assembly work has been carried out since 1 April 2012 up to the Latest Practicable Date, and our Company is entitled to a fixed monthly service fee of US$90,000.

It was agreed that the Direct Material Costs which our service fee calculations are based on, shall not be lower than a floor amount ("**Guaranteed DMC**") and shall not be higher than a cap amount ("**Capped Amount**") for each financial year during the 4 year-period starting from the date of the BDT Guarantee Agreement. Such floor and cap amount was set with reference to approximately +/- 5% of the total material purchase cost incurred by BDT-Zhuhai for the assembly of BDT-Products during the financial year immediately preceding the entering of the BDT Sale and Purchase Agreement. The setting of the Guaranteed DMC and the Capped Amount was a commercial term as agreed between the parties involved in order to ensure a minimum amount of business will be given to the Group under the BDT Sale and Purchase Agreement and that service fees payable to the Group by BDT-Germany can be controlled within a maximum amount.

In agreeing to such arrangement, the Directors have taking into consideration, among other things, that KFM-Shenzhen is one of the major suppliers of the KFM Metal Parts to BDT, and an increase in purchase orders under the BDT Sale and Purchase Agreement would provide more business opportunities for the sales of KFM Metal Parts by KFM-Shenzhen. As confirmed by our Directors, in the event that the Direct Material Costs exceeded the Capped Amount significantly, even though our profit margin in relation to the BDT Business may be lowered, our Group will benefit from a larger profit in relation to the selling of the KFM Metal Parts to BDT-Germany for the assembly of the BDT Products. Furthermore, our Directors confirmed that the Capped Amount would not lead to the BDT Business to be potentially operating at a loss even if BDT-Germany increases its orders for the BDT Products significantly in the future. As BDT-Germany guarantees to our Group that the BDT Business will utilize existing facilities and requires no substantial improvement on facilities nor capital investment, our Directors consider that the Capped Amount would not be able to exceed the Direct Material Costs to the level that our Group could operate at a loss.

The current Capped Amount was determined with reference to the Direct Material Costs and the total material purchase costs incurred by BDT-Zhuhai for the assembly of the BDT-Products during the latest full financial year before the entering of the BDT Sale and Purchase Agreement, therefore our Directors would expect the demand for BDT Products may increase, but within a reasonable range compared with previous year. Even in case the Direct Material Costs exceed the Capped Amount significantly, our Directors considered we may have a lower profit margin for the BDT Business, but will not be operating at a loss as the costs for the Purchase Parts and direct labour costs would be reimbursed to our Group along with the payment of the service fee within 14 days after the BDT Products are assembled and delivered to BDT-Germany, and our Group shall mainly incur minor depreciation costs.

The fixed monthly service fee of US$90,000 payable to the Company before relocation of the BDT Business was in consideration of the operational management services provided by our Company's staff at the factory in Zhuhai. After the relocation, the amount of service fee will be based on an agreed percentage of the Purchase Parts and the direct labour costs rather than the volume of products assembled, as the parties considered it would be more accurate to measure the service provided by amount of material processed and the direct labour costs during the assembly rather than based on the finished product. Before the acquisition of the BDT Business, our Group had been supplying precision metal part products to BDT-Germany. These transactions were accounted for in our Group's financial statements as "sales of goods". After the acquisition of the BDT Business, our Group will continue to supply precision metal part products to BDT-Germany which would be accounted for as "sales of goods" in our Group's financial statements. In addition, our Group would also provide product assembly services to BDT-Germany and such transactions would be accounted for as "service fee income" in the financial statements of our Group.

PROCUREMENT OF RAW MATERIALS AND SUPPLIES

Procurement of raw materials

We purchase a variety of raw materials and components for our manufacturing processes. Such raw materials include electrolytic plate, special electrolytic plate, aluminium, iron, copper and stainless steel. Since the quality of our raw materials used in our production process determines the quality of our metal parts and components and the performance of the end products, we sourced our copper and stainless steel from suppliers which are pre-selected by some of our customers. For each of the three years ended 31 March 2012, the total cost of copper, aluminium, stainless steel, electrolytic plate and iron amounted to approximately HK$149.2 million, HK$216.3 million and HK$237.4 million respectively, which accounted for 48.1%, 48.2% and 47.3%, 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 due to the fact 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. During the Track Record Period, our annual average purchase price of electrolytic plate ranged from HK$7.47 per kilogramme to HK$9.21 per kilogramme, our annual average purchase price of aluminium ranged from HK$31.54 per kilogramme to HK$35.90 per kilogramme, our annual average purchase price of stainless steel ranged from HK$37.79 per kilogramme to HK$41.35 per kilogramme, our annual average purchase price of iron ranged from HK$7.58 per kilogramme to HK$8.48 per kilogramme, and our annual average purchase price of copper ranged from HK$54.42 per kilogramme to HK$68.76 per kilogramme.

We sourced our raw materials from suppliers located in both PRC and overseas. We select our suppliers accordingly to criteria such as pricing, quality, reliability and lead time. We usually do not enter into any long-term contracts with our suppliers. We purchase raw materials from our suppliers through purchase agreements initiated by quotations, which generally set forth the types of raw materials to be purchased, the specifications and the price which generally reflects the prevailing market price. In practice, we normally deal with our suppliers under an arrangement made between our customers and us pursuant to which any changes in raw material costs are directly passed on to our customers and we do not assume any raw material price risk. When dealing with a few customers, we may have to negotiate and reach an agreement on sharing the added costs on raw materials. For a particular customer, we may have to bear a portion of the added costs on raw materials, which normally will not be more than 5% of the increased costs on the raw materials. The additional raw material costs borne by our Group in respect of our purchase of raw materials with such particular customer as a percentage of our revenue during the 3 years ended 31 March 2012 were 0.13%, 0.16% and

0.096% respectively. However, our Directors foresee that we will no longer maintain close business relationship with such particular customer after the Track Record Period. As such, our Directors believe that such arrangement on sharing of increased costs on the raw materials will be rarely adopted by our Group after the Track Record Period, and any changes in raw material costs will directly be passed on to our customers as in our normal cases.

Our suppliers

During the Track Record Period, the single largest supplier of our Group accounted for 6.3%, 5.4% and 4.5% respectively of our total purchases, and the five largest suppliers of our Group together accounted for 21.6%, 17.7% and 16.8%, respectively, of our total purchases. Our relationship with our top five suppliers are generally over three years to 17 years and they mainly supplied electrolytic plate, aluminium, iron, copper and stainless steel to us. We have maintained good relationship with our suppliers and have not experienced any difficulties in obtaining supplies of raw materials.

None of our Directors or their associates or any Shareholder who own more than 5% of our issued share capital has, to the best knowledge of our Directors, any interest in any of the five largest suppliers of our Group for the three years ended 31 March 2012.

Our Group's purchases of raw materials were generally settled on an open account basis with a credit term of 30 days to 90 days. The exact term of the credit period depends on a number of criteria such as the length of business relationship, past payment track record and the suppliers' own policy on credit terms. For one of our top five suppliers in terms of our total purchases for the year ended 31 March 2012, that supplier is a designated supplier of one of our major customers and the credit payment term given by that supplier to our Group during the Track Record Period was 15 days, which is shorter than that of our other top five suppliers of 45 days during the Track Record Period.

QUALITY CONTROL

Our Group has implemented a systemic and stringent quality control system throughout our production process. As at the Latest Practicable Date, we had a quality control team consisting of 226 employees. The quality control of each of our production bases is closely monitored by a quality control manager.

Quality certifications

In recognition of our Group's accomplishments in meeting the stringent standards of quality control in its manufacturing process, we have been awarded numerous prizes, internationally recognised industry standards and quality system certifications.

We were the proud winner of the prestigious "Quality Grand Award" in 2000 "Hong Kong Awards for Industry" in the award scheme organised by the Trade and Industry Department of the Hong Kong Government.

We have also obtained ISO9002-1994 since 1995, which shows our proactive compliance with the highest product and service quality standards. We have also accredited the ISO 14001:1996 since 1998 in recognition of our sustainable mode in environmental protection and management. Since 2007, we have been awarded OHSAS18001:1999 which demonstrates our quality in the occupation health and safety assessment for health and safety management systems. Since 2004, we have been awarded ISO/TS 16949:2002, which is quality management system certification granted by the automotive industry to show our continuous improvement on product quality as well as system quality. BS7799: PART2:1999 (now known as ISO/IEC 27001:2005) has been granted since 2003 in recognition of our information safety system management.

Our comprehensive quality control measures applied in different stages as follows:

Quality control of incoming raw materials/production materials

We purchased raw materials from suppliers approved by a specialised team of our Group comprising members of our procurement, quality control and engineering departments. The specialised team conducts sample testing on the incoming raw materials to ensure that their quality and measurement meet the prescribed quality standards of our Group. In addition, the raw materials are tested on their compliance of the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment (RoHS) to ensure that they do not contain any hazardous material which may pollute the environment. In the event that we detect any substandard or defective raw materials, we will return the substandard and defective raw materials to the relevant suppliers and may claim compensation in accordance with the terms of the procurement agreements. If such suppliers are still unable to meet our standards within a certain period, we will stop purchasing from them. In addition, our quality control team regularly visits our suppliers to carry out on-site inspections of our suppliers in order to have better control on product quality.

Quality control in the production process and output

We have compiled a quality control instruction manual and have implemented it at various production stages in an effort to maintain our quality control standard. At an initial stage when our customers have agreed with the quality control testing method and materials to be used for each product, trial production will be carried out and the trial products will be inspected in accordance with the required criteria, such as measurement and appropriate adjustments will be made and inspected by our quality control staff before mass production. At the mass production stage, our quality control team attends to the production lines and conduct random testing to ensure that the product quality adheres to the agreed production benchmarks. Our workers are also required to conduct random checking during the production process.

Upon completion of the production process, the finished products will be transferred to an independent section for random testing and inspection to ensure that our products meet the specifications set out by our customers before delivery to our customers.

Quality control on raw materials and products in inventory

To ensure that the quality of our raw materials meet the prescribed standard before they are used for production, our quality control system requires us to conduct sample testing in raw materials, parts and components which are placed in storage for over three months. For finished products that are stored in our warehouse for over six months, we will also conduct sample testing to ensure that their quality is maintained according to our customers' specifications before delivery. The sample testing results in relation to the raw materials and the finished products are recorded in the form of reports which will be submitted to our internal assessment board to determine whether they are qualified for production or ready for delivery.

Since inception of our Group and up to the Latest Practicable Date, we did not experience any material product liability or other legal claims involving problems relating to the quality of our products.

INVENTORY CONTROL

Our inventory mainly comprises raw materials and finished goods, all of which are stored in our warehouses and workshops. Our logistics department comprised 186 employees as at the Latest Practicable Date, and is responsible for safeguarding the inventory and managing the inventory control according to the instructions of the procurement and materials control department.

Once a purchase order has been confirmed and approved, all data of that order, such as quantity, production specification and delivery date, will be entered into our ERP system which is linked with each department involved in the production process for analysis. Since the production process is sales driven, we only commence production after customers' orders are placed and purchases of raw materials are made according to the pre-determined production schedule. The inventory is thus maintained at the minimum level.

We have put in place the following inventory management procedures to monitor our inventories:

- conduct inventory inspection at our warehouse on a regular basis. This allows us to confirm the accuracy of the information recorded in our inventory management system;

- conduct stock taking on a regular basis to ensure that we keep track of the stock stored in our warehouses and generated during our production process; and

- implement the just in time inventory management system in which raw materials are ordered and received as they are needed or ordered by customers, so as to minimise excess inventory.

During the Track Record Period, our inventory amounted to approximately HK$65.5 million, HK$100.2 million and HK$103.0 million respectively. The inventory turnover days for the same period were approximately 52 days, 53 days and 52 days respectively. We have not made any provisions for inventory obsolescence during the Track Record Period.

SALES AND MARKETING

We sell our products to domestic and worldwide customers. We offer our customers high quality products with competitive prices and excellent service, which has enabled us to rapidly increase our customer base whilst maintaining our customer relationships.

Our customers

As at the Latest Practicable Date, we have more than 100 customers with headquarters located worldwide, including the PRC, the United States, Singapore, Japan, and certain European countries.

Our key customers are mostly globally renowned companies in our five specialised industry sectors, namely medical and test equipment, finance equipment, consumer electronics, network/data storage and office automation industries.

For the three years ended 31 March 2012, sales attributable to our Group's top five customers amounted to HK$250.9 million, HK$420.8 million and HK$510.6 million, representing 46.8%, 51.3% and 53.7%, respectively, of our total revenue. The average years of our relationship with those five largest customers as at 31 March 2012 ranges from 6 years to 18 years.

The following table sets out certain basic information of our major customers:

Product segment	Customer	Principal business
Medical and test equipment	Agilent Technologies (Shanghai) Co., Ltd.*	manufacturer of medical equipment
	Tektronix (China) Co., Ltd.+	manufacturer of test and measurement instruments
	Thermo Fisher Scientific (Shanghai) Instruments Co., Ltd.+	manufacturer of analytical instruments and laboratory equipment

Product segment	Customer	Principal business
Finance equipment	Diebold, Incorporated+	sale, manufacture, installation and service of finance equipment including self-service transaction systems (such as automatic teller machines) and electronic and physical security products
	MEI, Inc.+	manufacturer of electronic bill acceptors, coin mechanisms and other unattended transaction systems
Consumer electronics	Customer A*	manufacturer of smartphones and tablet personal computers
	Advanced Energy Industries (Shenzhen) Co., Ltd.+	manufacturer of consumer and safety products
Network/data storage	BDT-Germany*	manufacturer of data storage automation
	NEC Platform Technologies Hong Kong Limited+	provider of data storage equipment and computing products
Office automation	Fuji Xerox China Procurement Service (Shenzhen) Limited*	development, production and sale of xerographic and document-related products
	Konica Minolta Business Technologies Manufacturing (HK) Limited+	manufacturer of office equipment
	Ricoh Asia Industry (Shenzhen) Limited*	manufacturer of digital office equipment and provider of advanced document management solutions and services

Notes:

* Agilent Technologies (Shanghai) Co., Ltd. together with its other group members of Agilent Technologies, Inc.; Customer A; BDT-Germany; Ricoh Asia Industry (Shenzhen) Limited together with its other group members of Ricoh Company, Ltd.; and Fuji Xerox China Procurement Service (Shenzhen) Limited together with its other group members of Fuji Xerox Co., Ltd. constitute our top five customers of our Group in terms of revenue for the financial year ended 31 March 2012

\+ Non-top five customers of our Group in terms of revenue for the financial year ended 31 March 2011

None of our Directors (or any person who, to the knowledge of the Directors, owns more than 5% of our issued share capital or any of our subsidiaries or any of their respective associates) had any interests in any of our five largest customers during the Track Record Period.

Sales and marketing activities

As at the Latest Practicable Date, we had a sales and marketing team comprising 37 staff grouped in different teams for external liaison and internal coordination.

Our existing customers are secured through the continuous effort of our sales and design engineering teams. In order to expand our Group's customer base, we intend to: (a) expand our sales and marketing team by increasing our staff from existing 37 persons to approximately 85 persons; and (b) offer total design engineering solution package with strong capability of design engineering know-how to our valued customers. We plan to reorganise our sales team from client-oriented to segment-oriented such that more staff will be redeployed to the growing medical and finance segments. We intend to attend more industrial exhibitions in order to further strengthen our market awareness. We plan to offer more training programmes on product knowledge and sales techniques to enhance the overall performance of our sales and marketing staff. We also plan to allocate resources on marketing activities in Shenzhen/Guangdong and Shanghai which we believe will have increasing demand for precision metal stamping products.

Pricing policy and payment terms

Our pricing to all customers is based on a variety of factors, including raw material prices, production costs, overhead sales volume, past relationship and the specifications of different customers. We do not have different pricing strategies for different types of customers. For each specific sales order, our sales department determines the appropriate pricing for that order based on our internal pricing criteria which would be reviewed every three months. Pricing is generally based on cost-plus basis. Orders with special production requirements are jointly reviewed by the relevant departments including our engineering department, purchase department and production department, taking into account the costs of raw materials, the production process involved and whether any sub-contracting work is required. After the review of the orders and coordination by our relevant departments, all the relevant information prepared by various departments will be submitted to our general manager's office for final approval. After our general manager has approved the order, our marketing department will pass the price quotation to the relevant customer for confirmation.

We require our customers to pay a deposit for production of precision metal stamping dies to cover the related development cost. We normally give a credit term of 30 to 90 days for the payment of the balance of the production of the precision metal stamping dies and manufacturing of metal stamping components. However, the exact term of the credit period depends on a number of criteria such as the length of business relationship, past payment track record and the financial strength of the relevant customer.

The actual debtors' turnover periods during the Track Record Period were 61 days, 55 days and 59 days which approximated the abovementioned range of credit period. Most of our major customers usually pay punctually and in accordance with their given credit periods. The account and finance department reviews and approves the credit term of each customer before it is implemented. The sales personnel are responsible for following up outstanding debts, and a portion of their remuneration is determined by a successful collection of debts. As most of our customers have maintained long term business relationships with our Group, the Directors believe that the credit risk of our Group is minimal.

Sales return policy

In the event that we receive any complaints from customers requesting for return of our products, we will follow our sales return policy to handle such complaints. We will check the products concerned against the product specifications and determine whether the request is reasonable and can be accepted. We will discuss and negotiate with our customers on how to resolve the problem amicably. If the request is accepted, we will follow our standard sales return procedures to resolve the matter within 10 working days after receiving the request. We do not maintain any product warranty policy. During the Track Record Period, the amounts incurred by us in relation to the return of our products amounted to approximately HK$5.2 million, HK$4.2 million and HK$6.8 million respectively.

RESEARCH AND DEVELOPMENT

We have a strong and dedicated research and development team. As at the Latest Practicable Date, our research and development team comprised of 129 employees. One of those team members was graduated from universities with a bachelor degree. 94 of those team members obtained college (大專及中專) education. We consider that our research and development capabilities are vital to our Group's competitiveness and sustainable growth in the precision metal engineering industry.

We also believe that our commitment to research and development will further assist us to pursue our strategy in integrating with our key customers in the early stage of their pre-production product development cycle by offering our mechanical and tooling design expertise and integrated solutions to them. This strategic collaboration can help them to identify technical issues, improve production quality and reduce final cost of their products.

Our research and development function is overseen by Mr. Pun Tai Ming, our head of research and development, who has more than 20 years of experience in metal stamping industry.

Our research and development costs for the three years ended 31 March 2012 amounted to approximately HK$9.0 million, HK$13.4 million and HK$20.1 million, respectively, representing 12.4%, 16.0% and 16.2% of our general and administrative expenses respectively.

Our research and development team adopts a streamlined work plan for enhancing our research and development capabilities and undertaking research and development projects. Our team will gather relevant information in relation to the market trends, feedbacks and requests from our customers, and technical issues that our Group has internally encountered. Our team will then compile and organise the information gathered, and will conduct feasibility studies and make recommendation to our management on the research and development projects to be undertaken. After our management decides to undertake a project, our research and development will then proceed with the project and will report the progress of the project to the management on a regular basis. Upon the conclusion of each project, the results will be stored into our engineering knowledge pool, where the knowledge generated from the projects can be shared by our Group.

Leveraging on our expertise acquired from serving customers in various industry sectors, we have accumulated an extensive engineering knowledge pool which enables us to share our experience with our customers across different business segments and to apply and implement our design and engineering knowledge, skills and technique traditionally used in a particular industry sector for customers in other industry sectors.

In order to further strengthen our research and development capabilities and enhance our competitiveness in the market, we have signed a strategic collaboration agreement with the Hong Kong Polytechnic University on 19 August 2011 to collaborate on research and development particularly in the areas of fine metal blanking and stamping, laser cutting and related work flows, and logistic support and management and other projects from time to time agreed by the parties ("**Projects**"). The salient terms of the strategic collaboration agreement are summarized below:

Strategic Collaboration Agreement with Hong Kong Polytechnic University

Term of the strategic collaboration agreement

The term of the strategic collaboration agreement will commence on 19 August 2011 and shall continue for a term of 2 years unless terminated. Either party may terminate the strategic collaboration agreement by 30 days advanced written notice to the other party provided that Projects which have been mutually agreed upon and carried out shall continue as if the strategic collaboration agreement has not been terminated, in so far as such Projects are concerned. Our Directors consider that certain factors such as, among others, (a) change of market situation or demand which may cause the Projects to be obsolete; (b) Projects deliverable timing being unable to match with the market timing; and (c) Projects deliverable quality is expected to be unable to meet the commercial expectations; may be relevant for us to consider whether we would terminate the strategic collaboration.

Consideration/fee payable by our Group

Subject to obtaining alternate source of funding, our Group shall be responsible for funding the costs of the Projects. The parties agree that Hong Kong Polytechnic University shall undertake the Projects via consultancy services on full cost recovery basis. Prior to the commencement of any Project, the parties shall jointly agree on the budget for such Project and enter into a separate consultancy agreement. Consultancy retainer fee will be negotiated and provided by our Group separately. Subject to mutual agreement, both parties will jointly identify, apply and secure alternative funding for broadening the resources for the Projects.

Ownership of technology developed

As our Group is solely responsible for the costs of the Projects delivered under the consultancy arrangement, the intellectual property rights of the deliverables generated from such Projects solely funded by our Group and subject to other exceptions as provided under the strategic collaboration agreement, which includes externally funded Projects and any proprietary materials and background or other industrial or intellectual property that Hong Kong Polytechnic University has supplied to our Group as mentioned below, shall vest in our Group. Intellectual property rights related with externally funded Projects is excluded from the above and the arrangement of ownership for the intellectual property rights will be subject to the provisions as set by the external funding body.

Commercialization arrangement

Both parties agree that our Group has full rights to all intellectual property rights generated from Projects which are solely funded by our Group and to use such intellectual property rights in our business operations, including commercial use and other uses that our Group may consider appropriate from time to time. Our Group shall negotiate with Hong Kong Polytechnic University separately on royalty arrangements if it intends to obtain licence of and use any proprietary materials and background or other industrial or intellectual property that Hong Kong Polytechnic University has supplied to our Group for the purpose of the business, Projects, and performance of the strategic collaboration agreement.

We are committed to refining our research and development capabilities. In the forthcoming years, we have a blueprint for our research and development which we plan to execute in the following order. Before June 2013, we target to boost the level of expertise and efficiency of production of all our production bases. More specifically, we plan to introduce new technologies on tools and stamping dies and develop more semi-automatic and automatic equipment to achieve higher efficiency. Before June 2015, we target to source more new materials in order to lower the costs and improve the quality of our products. We also plan to focus on tackling the general difficulties in the precision metal stamping industry and conduct research on new expertise.

INTELLECTUAL PROPERTY

We rely on a combination of patents, trademarks and contractual rights to protect our industrial and intellectual property rights. As of the Latest Practicable Date, we owned 33 registered invention patents, design patent and utility model patents and 7 registered trademarks in Hong Kong and PRC. We also have 11 patents and 71 trademarks pending approval for registration in Hong Kong and PRC. Our intellectual properties include trade names, domain names, logos, design, machineries and manufacturing techniques we developed in-house. We have confidentiality and non-disclosure covenants in place with our employees, contractors and partners to ensure that ownership of industrial and intellectual property rights are vested in our Group. Please see "Appendix V – Statutory and General Information – 10. Intellectual property rights of our Group" to this prospectus for more information on our intellectual property rights. We are not involved in any litigation or legal proceedings for violation of intellectual property rights, nor are we aware of any violation of the same.

The following table sets out the major intellectual properties which are used in our business operations with brief descriptions of their nature and usage. Please refer to the section headed "Appendix V – Statutory and General Information – 10. Intellectual property rights of our Group – Patents" for further details.

	Patents	Nature and usage	Main industry segments served
1	Ultra thin investment casting impact briquetting method (超薄精密齒形沖壓成型方法)	It is a method for shaping ultra-thin and precise tooth profiles through stamping. It is used for the production of static electricity removers in office automation products such as photocopiers and printers.	office automation
2	Multi-head riveter (多頭拉釘機)	It is a riveting machine integrated with pneumatic, hydraulic, electronic and mechanical technology. It can rivet 54 pieces of rivets on 5 surfaces (namely, bottom surface, left, right, front and rear side surfaces) at one time. It is used for product assembly.	office automation
3	Computerised numerical control bending machine tool locator (數控彎板機靠模定位器)	It is a tool sensor of computerised numerical control bending machine. The tool sensor comprises a conductive contact, a programming device, a knife-position inducer, a display and a switch circuit. It is applied in our stamping process.	network/data storage, medical and test equipment, consumer electronics, and office automation

	Patents	Nature and usage	Main industry segments served
4	Multipoint process monitoring counter (多點重複工步監控計數器)	It is a counter used in production and quality control, especially in monitoring repeated process in production. It is used in the stamping process.	medical and test equipment, finance equipment, and office automation

COMPETITION

The industry which our Group operates in is fragmented. Our Group's customers are headquartered and have operations in various countries around the world. As such, our Group competes with outsource manufacturing companies across the globe and also with in-house capabilities of customers and potential customers. Different outsource manufacturers also have different mix of manufacturing capabilities which may include one or several of the following: metal stamping, turning, lathing, machining, plastic moulding and assembly.

As the competitive landscape of the industry is scattered across different geographical locations, industry players and in-house manufacturing capabilities, there is no meaningful and specific statistics on market shares of a particular industry player readily available. Out of the many competitors in our industry, there are a few that are listed on different stock exchanges which have different mix of products produced and end customer segments served. According to the CCID Report, the size of the global outsource manufacturing industry was approximately US$4,672.3 billion in 2011. Please refer to the sub-section headed "Industry Overview – Global Trend of Outsource Manufacturing" for further information on the competitive landscape of our industry.

Our Directors believe that major obstacles for new entrants to the precision metal stamping design and production industry is the substantial capital requirement for investment in advanced machinery and equipment, the fact that it may take years of building up knowledge pool in design engineering solution skills with cross-industries know-how, the requirement for technical expertise in the manufacturing process, the corporate culture establishment to balance quality and environmental protection, the long lead time of key client's approval of factory and products and well-established business relationship with key and international clients.

Our Directors believe that our Group has the competitive edge over other precision metal stamping manufacturers both from the domestic and overseas markets due to our long operating history with strong customer relationships, our strong research and development team with the eagerness to develop new machineries to strengthen our production process and our expertise and early investment in the medical equipment and information technology equipment.

While we face direct competition from other precision metal stamping manufacturers in the PRC, given our developed and international awareness and on-going enhancement of our technology, our Directors believe that we have extended above and beyond an original equipment manufacturer with accumulated skills as design engineering solution provider and shall be able to excel in our position as one of the most competitive manufacturers in the precision metal stamping business in Hong Kong and the PRC.

EMPLOYEES

We had a total of approximately 2,670, 2,939 and 3,026 full-time employees as of 31 March, 2010, 2011 and 2012, respectively. The following table sets forth the number of our full-time employees by business segment and area of responsibility as of the Latest Practicable Date:

Research and Development/Design	129
Production	2,040
Finance	35
Procurement	36
Product development	82
Quality control	226
Logistics	186
Sales and Marketing	37
Administration/Human Resources	125
Management	61
Total	2,957

In accordance with the applicable laws and regulations in the PRC, we participate in various employee social security plans administered by municipal and provincial governments. Save as disclosed in the paragraph headed "Compliance and Regulatory Matters" in this section, we have made the required contributions to the housing provident funds and the social security funds for our PRC employees at specified percentages of the total salaries, bonuses and certain allowance of our employees, up to a maximum amount specified by the relevant local government from time to time.

We have not had any labour strikes or other labour disturbances that have interfered with our operations, and we believe that we have maintained a good working relationship with our employees. As advised by our PRC Legal Advisers, to the best of their knowledge, save as disclosed in the paragraphs headed "Housing provident fund contributions" and "Comprehensive Insurance" in this section, we have been in compliance in all material respects with applicable employment laws during the Track Record Period.

HONOURS AND AWARDS

Our achievements over the years have been recognised by numerous awards, including the following.

Issuer/Organizer of Awards	Year(s)	Awards/Accreditations
Hong Kong Productivity Council	1996	Hong Kong Awards for Industry – HKPC Productivity Award
Fujitsu	1998	Class A Quality Performance Award
Hewlett – Packard	1998	Supplier Award
Industry Department of Hong Kong (now known as the Trade and Industry Department of Hong Kong)	1998	Industry Department Quality Award
Ricoh	1998	Quality Assurance Certificate
Hong Kong Productivity Council	2000	Hong Kong Awards for Industry: Quality Grand Award
Hong Kong Productivity Council	2000	Hong Kong Awards for Industry: Productivity Grand Award
Fuji Xerox	2002	Fuji Xerox Outstanding Improvement Award
Ricoh	2002	Award for Excellence in Environmental Conservation and Social Contribution*
Hong Kong Business Environmental Council	2003	Hong Kong Awards for Industry: Environmental Performance
Fuji Xerox	2003	Fuji Xerox FXSZ Supplier QCD Outstanding Award
Hong Kong Productivity Council and the Guangdong Intellectual Property Office	2005	Innovation-Knowledge Enterprise Award

Issuer/Organizer of Awards	Year(s)	Awards/Accreditations
MKS	2005	Supplier Award
Federation of Hong Kong Industries	2007/08	Hang Seng – Pearl River Delta Category Awards
Federation of Hong Kong Industries	2007/08	Hang Seng – Pearl River Delta Environmental Award
Diebold	2008	Diebold Silver Award for Supplier Excellence 2008
Federation of Hong Kong Industries and Hang Seng Bank Limited	2008/09	Hang Seng – Pearl River Delta Environmental Grand Award
Business Environment Council	2009	Hong Kong Awards for Industries: Environmental Performance Grand Award
Konica Minolta	2009	Konica Minolta Outstanding Supplier Award
Federation of Hong Kong Industries	2009/10	Green Medal
Action Guiding Committee of Waste Reduction in Pengcheng of Shenzhen*	2010	Outstanding Enterprise of Waste Reduction*
BDT	2010	Environmental Excellence Award in Recognition of Outstanding Regard in Environmental Concerns in 2010
China Association of Enterprises with Foreign Investment/Shenzhen Association of Enterprises with Foreign Investment (中國外商投資企業協會/深圳外商投資企業協會)	2011	National Excellent Enterprise with Foreign Investment/ Excellent Enterprise with Foreign Investment in Tax Payment and Turnover (2010·Shenzhen)* (全國優秀外商投資企業/外商投資雙優企業) (2010年度•深圳)
MKS	2011	Supplier Quality Award for 2010

Issuer/Organizer of Awards	Year(s)	Awards/Accreditations
Ricoh	2012	Special Award for Quality Improvement 2011* (2011年度品質改善特別獎)
The Economic & Information Commission of Guangdong Province/Environment Bureau of The Government of the Hong Kong Special Administrative Region (廣東省經濟和信息化委員會/香港特別行政區政府環境局)	2011	Hong Kong-Guangdong Cleaner Production Partner (Manufacturing) (粵港清潔生產夥伴 (製造業))
Steering Committee of Shenzhen Pengcheng's Reduction of Waste* (深圳市鵬程減廢行動指導委員會)	2011	Pengcheng's Leading Enterprise in Reduction of Waste* (鵬程減廢先進企業)
MKS	2012	Supplier Quality Award for 2011
Ricoh	2012	Certificate of Appreciation of Joint Move Towards Improvement* (共同改善活動感謝狀)

CERTIFICATIONS

Throughout the years, and as early as in 1995, our Group has been earning certifications which solidly prove our work is up to international standards. We are recognised on various fronts which include our quality management system, environmental management system, information security management system and occupational health & safety management system.

Issuer of Certificates	Year(s) of Originally Registered	Certificate(s)
TÜV CERT Certification Body of Rheinisch-Westfälischer TÜV	1995	EN ISO 9002
CCIB Quality Certification Centre	1995	ISO 9002-1994
BSI	1997	BS EN ISO 9001:2000

Issuer of Certificates	Year(s) of Originally Registered	Certificate(s)
DNV Certification B.V., the Netherlands	1998	ISO 14001:1996
BSI Management Systems	2003	BS 7799: PART 2: 1999 (now known as ISO/IEC 27001:2005)
Det Norske Veritas Certification, Inc.	2004	ISO/TS 16949:2002
BSI Management Systems (China)	2007	OHSAS 18001:1999

ENVIRONMENTAL

We are committed to conducting operations to comply with applicable environmental laws and regulations, and endeavour to mitigate the adverse effect of our operations on the environment. We are subject to environmental laws and regulations relating to the operation of our production bases, noise control, air and water emissions, water and ground protection, hazardous substances and waste management. Our Directors have confirmed that the environment is not materially affected as a result of our operations.

Our PRC Legal Advisers are of the opinion that based on the certificates issued by the relevant competent local environmental protection authorities in the PRC and the confirmation made by the Directors, as of the Latest Practicable Date, to the best of their knowledge, save as disclosed in the paragraph headed “Environmental Regulations” in this section, we had complied in all material aspects with the applicable PRC laws and regulations on environmental protection and that we were not subject to any material environmental claims, lawsuits, penalties or disciplinary actions. Please refer to the section headed “Regulations – Environmental Regulations” of this prospectus for details about the environmental protection requirements related to our operations.

To ensure that we comply with the applicable laws and regulations related to environmental protection, we have implemented various environmental policies and we operate an environmental management system which complies with the requirements of ISO 14001 for maintaining our sustainable mode in environmental protection and management. The costs of compliance with applicable environmental rules and regulations for the three years ended 31 March 2012 are approximately HK$364,422, HK$389,776 and HK$522,889 respectively. We expect that our cost for environmental compliance will be approximately HK$601,322 from 1 April 2012 to 31 March 2013.

LEGAL PROCEEDINGS

From time to time, we are subject to legal proceedings, investigations and claims arising in the ordinary course of our business. As of the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us or any of our directors that could have a material adverse effect on our business, financial condition or results of operations.

COMPLIANCE AND REGULATORY MATTERS

As advised by our PRC Legal Advisers, save as disclosed below, we have obtained the relevant approvals, permits, licences and certificates for conducting our businesses and we have complied with the relevant PRC laws and regulations in all material respects during the Track Record Period and up to the Latest Practicable Date.

Properties

Production base of KRP-Shenzhen located in Xili, Nanshan District, Shenzhen

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 KRP-Shenzhen factory, one of the Xili Leased Properties. 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. 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. The factory building of the Xili Leased Properties has a total gross floor area of approximately 14,400 sq.m. and is used by KRP-Shenzhen for production purpose, while the staff dormitory of the Xili Leased Properties has a total gross floor area of approximately 4,102 sq.m. and is used as a dormitory for our factory workers.

Dakan Community Office Xili Street of Nanshan District* (南山區西麗街道大磡社區工作站) (the "**Dakan Community Office**") issued a certificate on 23 March 2011 stating that the construction of the Xili Leased Properties was completed on 1 August 1992 and the lessor was the owner of the Xili Leased Properties.

Based on the Temporary Provisions on Reconstruction of Villages in the Shenzhen City* (深圳市城中村(舊村)改造暫行規定), the Shenzhen Government shall conduct the reconstruction work of old villages and demolish the construction in reconstruction area. Pursuant to a certificate dated 20 September 2011 (the "**Lessor's Certificate**") issued by the lessor of the Xili Leased Properties, the lessor certified that the whole Dakan community (大磡社區), including the area where the Xili Leased Properties are located, has not been included in any such plan for reconstruction within a period of three to five years (the "**Exclusion Period**"), thus can be used by us under the relevant lease agreements. The Lessor's Certificate was submitted to the Xili Subdistrict Office of Shenzhen Nanshan District* (深圳市南山區西麗街道辦事處) (the "**Xili Subdistrict Office**") and the Da Sha He Innovative Corridors Construction Office of the Shenzhen Nanshan District* (深圳市南山區大沙河創新走廊建設辦公室) (the "**Da Sha He Office**"). The Xili Subdistrict Office and the Da Sha He Office added a remark on the Lessor's Certificate on 22 September 2011 and 17 October 2011 respectively, both confirming that the Dakan community is for the time being not included in any such plan for reconstruction. According to the information announced on the official website of the Xili Subdistrict Office, the Xili Subdistrict Office is a government authority for monitoring land planning within the area under its jurisdiction, including the Dakan community. Our PRC Legal Advisers have also made an enquiry with the officers of the Da Sha He Office, who replied that the Da Sha He Office is a government authority for monitoring the reconstruction planning for old villages including those within the Dakan community. Therefore, our PRC Legal Advisers advised us that the Xili Subdistrict Office and the Da Sha He Office have the authority to make the remark on the Lessor's Certificate.

Our PRC Legal Advisers advised us that based on the reasons aforesaid, we can in fact use the Xili Leased Properties under the relevant lease agreements within the Exclusion Period and the possibility that we are required to move out of the Xili Leased Properties within the said period due to reconstruction plan within the Dakan community is not high.

However, pursuant to Shenzhen Special Economic Zone Regulations on Historical Illegal Construction* (深圳經濟特區處理歷史遺留生產經營性違法建築若干規定) promulgated on 19 December 2001 and made effective on 1 March 2002 by the Standing Committee of the Shenzhen People's Congress (深圳市人大常委會), any construction relating to industrial project or amenities of livelihood that, prior to 5 March 1999: (i) contravened the laws or regulations relating to land or planning programme; (ii) failed to obtain approval from the relevant land resources planning department (規劃國土資源部門) and the construction works planning permit; and (iii) illegally occupied any land for construction, is considered as an illegal construction due to historical circumstances (the "**Historical Illegal Construction**"). As a result, as the lessor did not manage to obtain the aforementioned approval or the permit from the relevant authorities for the construction of the Xili Leased Properties which is beyond our Group's control, and the Xili Leased Properties may be deemed as a Historical Illegal Construction.

Furthermore, since 27 May 2009, the Shenzhen Government has conducted general survey on the Historical Illegal Constructions in Shenzhen, and required the owners to report any Historical Illegal Construction to the local Subdistrict Office. The Historical Illegal Construction will be handled by the Shenzhen Government by ways of confirming ownership, demolishing, expropriating or granting temporary use of the properties. The lessor has reported the Xili Leased Properties to the Dakan Community Office and the Xili Subdistrict Office on 5 March 2010. As advised by our PRC Legal Advisers, the Xili Subdistrict Office is the relevant local Subdistrict Office for acceptance of reporting the Xili Leased Properties as a Historical Illegal Construction. To the best knowledge and belief of our Directors, as at the Latest Practicable Date the lessor has not been notified by the relevant authority as to how the Xili Leased Properties will be dealt with by the Shenzhen Government.

Based on the above situation, our PRC Legal Advisers advised us that potential risk of demolition and expropriation of the Xili Leased Properties due to the Historical Illegal Construction still exists.

The lessor of the Xili Leased Properties has issued an undertaking letter dated 8 October 2011 (the "**Lessor's Undertaking**") to KRP-Shenzhen, pursuant to which the lessor covenanted that it will not take any initiative to require KRP-Shenzhen to move out of the Xili Leased Properties during the validity period of the relevant lease agreements. Under the Lessor's Undertaking, the lessor further covenanted to us that if the Xili Leased Properties are required to be removed or expropriated which renders performance of the lease agreements impossible, the lessor will notify KRP-Shenzhen in advance to allow KRP-Shenzhen to move out of the Xili Leased Properties within a reasonable period of time, compensate KRP-Shenzhen for the losses resulting from relocation of the Xili Leased Properties in accordance with the relevant regulations relating to compensation for removal of properties in Shenzhen, and bear the responsibility under the lease agreements. According to the Measures of Shenzhen Municipality on the Management of the Demolition of Houses for Public Infrastructure Construction Projects* (深圳市公共基礎設施建設項目房屋拆遷管理辦法) promulgated on 17 February 2007 and amended on 1 January 2012, as to the demolition of houses for public infrastructure construction projects, the persons responsible for the removal of properties shall provide relocation subsidies to the persons subject to the removal of properties and compensate the relevant persons for expenses incurred for interior renovation of the removed properties. However, the relevant regulation does not explicitly stipulate the amount of subsidies and compensation payable by the persons responsible for the removal of properties. As such, as advised by our PRC Legal Advisers, the amount of compensation payable by the lessor to KRP-Shenzhen is not yet ascertained under the relevant regulations.

Pursuant to the Deed of Indemnity, our Controlling Shareholders have agreed to fully indemnify us for all claims, costs, expenses and losses incurred by us due to the title defect in the Xili Leased Properties and the related relocation of the production base, further details of which are set out in the paragraph headed "16. Estate duty, tax and other indemnities" in Appendix V to this prospectus. Although we may seek indemnity from our Controlling Shareholders, our business reputation may be adversely affected as a result.

Based on the fact that: (a) we can continue to use the Xili Leased Properties under the relevant lease agreements within the Exclusion Period as according to the Lessor's Certificate certifying that the Dakan community has not been included in any plan for reconstruction; (b) the remark made by the Xili Subdistrict Office and the Da Sha He Office on the Lessor's Certificate, both confirming that the Dakan community is for the time being not included in any such plan for reconstruction; our PRC Legal Advisers advised that the possibility that we are required to move out of the Xili Leased Properties within the said period due to reconstruction plan within the Dakan community is not high. In addition, both the lessor and our Group have not received any order from the relevant authorities to vacate the Xili Leased Properties since we started occupying the Xili Leased Properties in November 2006 and up to the Latest Practicable Date.

Based on the PRC Legal Advisers' opinion and our Directors' understanding of this matter, our Directors consider, and the Sole Sponsor also concurs with our view, that the possibility that we are required to move out of the Xili Leased Properties due to reconstruction plan within the Dakan community is not high. As such, and given that our lease term does not expire until October 2016, we intend to continue to lease the Xili Leased Properties until such lease expires. At the same time, to ensure business continuity of our production facilities, we established backup plan to mitigate the potential risk of demolition and expropriation of the Xili Leased Properties due to notice from the Shenzhen Government in relation to the Historical Illegal Construction. Our Directors plan to relocate from the Xili Leased Properties should the potential risk regarding the legality and ownership title of the Xili Leased Properties persist upon expiry of the current lease term (the "**Long Term Relocation Plan**"). We also have a detailed contingency plan in place which can be implemented within two and a half months, in the event that prior to the relocation pursuant to the Long Term Relocation Plan, we receive notification from Xili Subdistrict Office, Da Sha He Office, the Lessor, and/or the relevant building authorities to move out of the Xili Leased Properties (the "**Contingency Plan**").

Long Term Relocation Plan

The following highlights the key steps which our Group plans to perform for the Long Term Relocation Plan:

Time frame (months)	Key Steps
Latest Practicable Date to T-18	• Meet with the landlord of the Xili Leased Properties every half year for update on rental status • Search for potential rental sites for long term relocation
T-18 to T-12	• Determine budget for the relocation • Shortlist potential relocation sites and engage in discussion with the such landlords on the terms of rental

Time frame (months)	Key Steps
	• Perform site inspection
	• Perform legal due diligence on any defective title issues with the property and land
T-12 to T-6	• Select lease site
	• Factory design/layout planning
T-6 to T-2	• Relocation planning
	• Confirm and sign lease contract with landlord
	• New rental site renovation, facility set-up and installation
T-2 to T	• Equipment and production line transfer
T	• Xili Leased Property Lease Term Expiry Date

Our Directors intends to lease a new factory site for the Long Term Relocation Plan. Costs to be incurred as a result of the plan is difficult to estimate as rental prices and renovation costs in a few years time may fluctuate. We will budget for the costs of the relocation in around 12 to 18 months prior to the expiry date of the lease term, and disclose in our interim and annual report should there be any significant costs expected.

Contingency Plan

In the event we receive notice for relocation prior to the completion of the Long Term Relocation Plan, our Group will implement the Contingency Plan. The Contingency Plan will involve relocating the production facilities and production lines at the Xili Leased Properties to KFM-Shenzhen and a leased factory space in Dongguan with total gross area of approximately 4,850 sq.m. (the "**Contingent Lease Property**").

KRP-Shenzhen currently contains facilities and production lines that produce consumer electronics products as well as products for medical equipment and other business segments. Of the total 14,400 sq.m. gross floor area at the factory building, approximately 6,200 sq.m. are utilised for the production of consumer electronics products, and approximately 4,200 sq.m. were used for the production of products for other business segments. In order to ensure our most profitable business segment, namely consumer electronics, has minimal level of interruption during the relocation, our Directors consider to relocate the consumer electronics segment-related production lines and facilities at the Xili Leased Properties into the KFM-Shenzhen factory upon the implementation of the Contingency Plan.

The KFM-Shenzhen factory contains a total of approximately 6,350 sq.m. surface area of warehouse and storage space that can be readily transformed into production area. Currently the storage items at KFM-Shenzhen factory has occupied up to approximately 600 sq.m. of the above warehouse and storage space only. This floor area will be vacant for the purpose of this Contingency Plan. The production lines and facilities for other non-consumer electronics-related segments at the Xili Leased Properties along with the existing storage items placed at the warehouse and storage area at KFM-Shenzhen will move to the Contingent Lease Property. In particular, the storage items will first be relocated to the Contingent Lease Property before the consumer electronics-related production facilities to the KFM-Shenzhen factory. KFM-Shenzhen and the Contingent Lease Property contain sufficient staff dormitory area to accommodate the existing staff currently situated at the Xili Leased Properties.

We have entered into an agreement with the landlord of the Contingent Lease Property to secure our right but not obligation to lease the Contingent Lease Property within 1 year of signing should the Contingency Plan be triggered, please refer to the sub-section below headed "Contingent Lease Property Agreement" for further details. Towards the expiry of the Agreement on Contingent Lease Intention, the Company will seek to either renew the Contingent Lease Property Agreement or engage another lessor for similar arrangement. The Company shall disclose the status of the Contingent Lease Property Agreement (including whether another lessor is engaged and relevant details of such lessor and land) in the Company's interim and annual reports until the earlier of the execution of the Long Term Relocation Plan or the Contingency Plan.

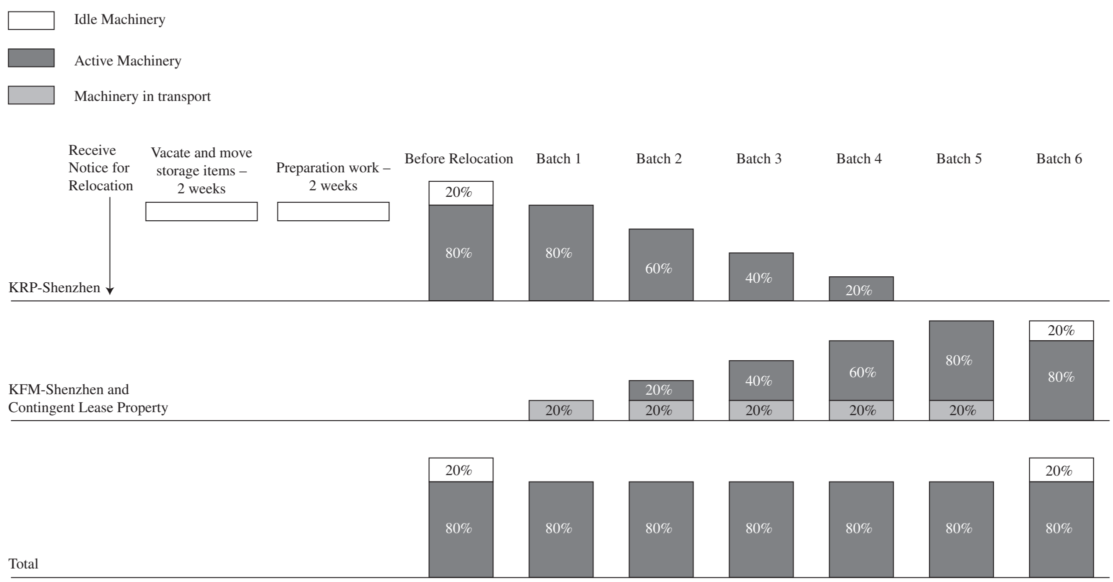
We will execute the relocation of machinery in separate batches on a weekly basis throughout the two months relocation period, and will ensure at least 80% of KRP-Shenzhen's production capacity is in operation and ready for production tasks during such timeframe.

Our Directors estimate that the relocation costs involved in relocating the production lines at the Xili Leased Properties will be approximately RMB6.5 million and the time required for such relocation should not be more than two and a half months. Given the current utilization rate of KRP-Shenzhen's production facilities, our Directors expect that no loss of order will result from the relocation. However, for illustrative purpose only, in the event of an immediate relocation and assuming full utilisation of the production capacity at that time such that the maximum loss in production capacity of KRP-Shenzhen is 20%, the estimated loss of revenue from relocation will be approximately HK$5.8 million, which will be compensated by the lessor.

The maximum potential loss of HK$5.8 million was calculated with reference to KRP-Shenzhen's revenue for the year ended 31 March 2012, assuming a seven-week loss of 20% of production capacity during the relocation. Given the per-batch basis relocation nature of the Contingency Plan, the Company has control over the proportion of its machinery to be relocated under each batch and therefore capacity loss can be controlled at below 20%. Further, KRP-Shenzhen's production facilities' utilization rate during the Track Record Period was on average approximately 79.2%, our Directors consider the assumption of 20% loss to be reasonable as it assumes 100% utilizaton rate at the time when the Contingency Plan is executed, which caters for the worst case scenario such, taking into account the above, the Sponsor's discussion with the Company, the review of the details of the Contingency Plans and the actual probability of the Xili Leased Properties being ordered to relocate, the Sponsor concurs that the Company's estimation of the HK$5.8 million maximum potential loss is not unreasonable.

For illustration purpose only (figures presented below may not represent the actual movement), the Contingency Plan can be implemented in the following manner:

Contingency relocation plan illustration – in terms of % of production capacity



As illustrated in the above chart, the Contingency Plan shall be carried out in various batches and will be completed within two and a half months. At first, storage items currently located at the warehouse and storage space of the KFM-Shenzhen factory to the Contingent Lease Property. Preparation work will then commence to setup the warehouse and storage space of the KFM-Shenzhen factory and the Contingent Lease Property for production purposes, and to dissemble part of existing factory lines. Spare capacity machines shall then be transported to and set up in the KFM-Shenzhen factory and the Contingent Lease Property. The historical utilization rate of the KRP-Shenzhen facilities were around 80% during the Track Record Period. We plan to relocate machinery that constitute around 20% of our production capacity for each batch. We will ensure each batch of machines to be set up and re-activated before another batch of relocation commences. As such, at least 80% of production capacity shall remain available at all times during the relocation.

Based on the above detailed relocation plan, the relevant supporting documentation and the Group's past experience with relocating the KFM-Shenzhen factory as disclosed in the section headed "History and Development", the Sponsor concurs with our view that active production capacity of KRP-Shenzhen's production facilities can be maintained at 80% during the implementation of the Contingency Plan and that the Company has the ability to complete the relocation within two months.

The Contingent Lease Property Agreement

The salient terms of the New Leased Factory Agreement are summarized below:

Parties to the New Leased Factory Agreement

1. 嘉恒電子(東莞)有限公司 as Party A.

2. KRP-Shenzhen as Party B.

Party A shall lease to Party B the premises located at Dongguan Hengli Town Shichong Industrial Zone (東莞橫瀝鎮石涌村) with total gross floor area of approximately 4,850 sq.m. upon request by Party B at any time during the 1-year period from the date of the New Factory Lease Agreement. Upon request by Party B, Party B may renew the lease for a period of 1 year towards the end of the agreement on an annual basis.

During the period of the New Factory Lease Agreement, Party B shall pay to Party A an aggregate deposit in the amount of RMB40,000, which could be deducted from the rental fee if Party B decides to rent the premises.

Party A warrants to Party B that during the period, the premises shall not be leased to any other third party. Detailed terms of the actual lease shall be agreed by the parties if Party B decides to rent the premises according to prevailing market rates.

Party A is an Independent Third Party and has no past or present relationship with our Company, our subsidiaries, their shareholders, directors, senior management or any of the respective associates save for being a party to the New Leased Factory Agreement.

The following table displays the revenue contribution of lathing process on segment revenue and Group total revenue basis as conducted by KRP-Shenzhen to involved segments during the Track Record Period:

	Year ended 31 March					
	2010		2011		2012	
	Percentage of Segment Revenue	Percentage of Group Revenue	Percentage of Segment Revenue	Percentage of Group Revenue	Percentage of Segment Revenue	Percentage of Group Revenue
Consumer Electronics	72.0%	10.6%	84.1%	22.3%	87.3%	20.8%
Medical Equipment	5.3%	1.2%	6.3%	1.2%	5.0%	1.0%
Others	44.3%	5.5%	38.9%	4.6%	28.7%	2.1%
Total		17.3%		28.1%		23.9%

Registered capital of KRP-Shanghai and KPP-Suzhou

KRP-Shanghai

KRP-Shanghai, an indirectly wholly-owned subsidiary of our Company and a wholly foreign owned enterprise, was established under the PRC laws in September 2002. At the time of its establishment, the amount required to be paid up as the original registered capital of KRP-Shanghai was US$2,100,000. Such amount was required to be fully paid up within 2 years from the issue date of its business licence. However, the shareholder of KRP-Shanghai did not timely comply with the requirement to fully pay up the original registered capital within the two-year period.

Given that: (a) the original registered capital had been fully paid up on 3 April 2006; (b) KRP-Shanghai has passed the industry and commerce annual inspection in the previous years; and (c) as such breach was not discovered within two years of its commission, administrative penalty shall not be imposed according to the Administrative Penalty Law of the PRC (中華人民共和國行政處罰法) (the "**Administrative Penalty Law**"), our PRC Legal Advisers are of the view that we will not be fined or penalised for our breach to contribute fully the registered capital of KRP-Shanghai within the required time limit, nor will the legal status of KRP-Shanghai be affected.

KPP-Suzhou

KPP-Suzhou, an indirectly wholly-owned subsidiary of our Company and a wholly foreign owned enterprise, was established under the PRC laws in April 2002. At the time of its establishment, the amount required to be paid up as the original registered capital of KPP-Suzhou was US$5,000,000. Such amount was required to be fully paid up within 3 years from the issue date of its business licence. However, the shareholder of KPP-Suzhou did not timely comply with the requirement to fully pay up the original registered capital within the three-year period.

Given that: (a) the original registered capital had been fully paid up on 22 November 2005; (b) KPP-Suzhou has passed the industry and commerce annual inspection in the previous years; and (c) as such breach was not discovered within two years of its commission, administrative penalty shall not be imposed according to the Administrative Penalty Law, our PRC Legal Advisers are of the view than we will not be fined or penalised for our breach to contribute fully the registered capital of KPP-Suzhou within the required time limit, nor will the legal status of KPP-Suzhou be affected.

Regulations on Foreign Investment

According to our PRC Legal Advisers, pursuant to the Verification and Approval of Foreign-invested Projects Tentative Administrative Procedures (外商投資項目核准暫行管理辦法) promulgated and made effective on 9 October 2004 by the National Development and Reform Commission (國家發展和改革委員會), any joint-venture and business cooperation between domestic and foreign enterprises, wholly foreign owned enterprise, foreign acquisition of domestic enterprise and increase of capital by an foreign-invested enterprise among other investment projects involving foreign investments need to be approved by the relevant regulatory body, namely, the relevant Development and Reform Commission (the "**DRC**").

KRP-Shanghai

KRP-Shanghai did not apply to the DRC for such project approval when it increased its registered capital in August 2006. However, our PRC Legal Advisers advised that the legality and daily operations of KRP-Shanghai shall not be adversely affected, based on the reasons that:

(i) such increase of registered capital by KRP-Shanghai was approved by the relevant Foreign Investment Approval Authority (外商投資審批部門) and the relevant Administration of Industry and Commerce; KRP-Shanghai's change of business registration was also approved by such authorities and since the increase of registered capital up to the Latest Practicable Date KRP-Shanghai has passed the industry and commerce annual inspection in the subsequent years;

(ii) KRP-Shanghai, for the increase of registered capital, has completed the procedures for the registration of changes regarding taxation and foreign exchange among other matters; and

(iii) our PRC Legal Advisers had consulted and obtained the verbal reply from the Shanghai Pudong New District Development and Reform Commission (上海市浦東新區發展和改革委員會) that the city of Shanghai formulated and implemented the Verification and Approval of Foreign-invested Projects Tentative Administrative Procedures in Shanghai (上海市外商投資項目核准暫行管理辦法) in 2008, whereas the increase of registered capital was done by KRP-Shanghai in 2006. When the increase of registered capital was being approved in 2006, the Shanghai Nanhui People's Government (南匯區人民政府) did not compulsorily require KRP-Shanghai to obtain the approval from the relevant DRC, accordingly the relevant DRC is not likely to impose administrative penalty on KRP-Shanghai.

As verbally confirmed by Shanghai Pudong New District Development and Reform Commission, it is not necessary and also unable for KRP-Shanghai to apply for the DRC's approval for the increase in registered capital retrospectively.

KPP-Suzhou

When KPP-Suzhou increased its registered capital in June 2011, it did not apply to the relevant DRC for the project approval. However, our PRC Legal Advisers advised that the legality and daily operations of the KPP-Suzhou shall not be adversely affected, based on the reasons that:

(i) such increase of capital by KPP-Suzhou was approved by the relevant Foreign Investment Approval Authority (外商投資審批部門) and the relevant Administration of Industry and Commerce; its change of business registration was also approved by such authorities; and since the increase of registered capital, KPP-Suzhou has passed the industry and commerce annual inspection in the subsequent years;

(ii) after our PRC Legal Advisers' verbal consultation with Suzhou National Gaoxin Management Committee and Investment Promotion Bureau (蘇州國家高新區管理委員會招商局), the government of Jiangsu Province in practice does not require all foreign-invested enterprises to obtain the relevant project approval from the relevant DRC when they increase their capital. Further, in their opinion KPP-Suzhou does not fall into the area governed by the relevant DRC; and

(iii) KPP-Suzhou has completed the relevant procedures for the registration of changes regarding taxation and foreign exchange.

As verbally confirmed by Suzhou National Gaoxin Management Committee and Investment Promotion Bureau, it is not necessary and also unable for KPP-Suzhou to apply for the DRC's approval for the increase in registered capital retrospectively. Our PRC Legal Advisers further advised that Suzhou National Gaoxin Management Committee and Investment Promotion Bureau is the competent authority to provide such verbal advice based on the verbal reply of the competent department concerning Development and Reform of Suzhou National Gaoxin Development Area.

KRP-Shenzhen

KRP-Shenzhen had not obtained the verification and approval from the relevant DRC when it was established on 15 February 2007 and when it increased its registered capital in April 2010. However, our PRC Legal Advisers advised that the legality and daily operations of the KRP-Shenzhen shall not be adversely affected, based on the reasons that:

(i) our PRC Legal Advisers had consulted the Shenzhen Development and Reform Commission (深圳市發展和改革委員會) which verbally confirmed that it is not necessary for KRP-Shenzhen to apply for or obtain the project approval from the relevant DRC. Instead the relevant investment projects, contracts and constitutional documents can be approved by the relevant Foreign Investment Approval Authority (外商投資審批部門). In this case, the establishment of and the increase of capital by KRP-Shenzhen has already been approved by the relevant Foreign Investment Approval Authority (外商投資審批部門);

(ii) its change of business registration was also approved by the relevant Foreign Investment Approval Authorities and the Administrative of Industry and Commerce and since the increase of registered capital up to the Latest Practicable Date KRP-Shenzhen has passed the industry and commerce annual inspection in the subsequent years; and

(iii) KRP-Shenzhen has completed the relevant procedures for the registration of changes regarding taxation and foreign exchange.

KFM-Shenzhen

KFM-Shenzhen did not apply to the relevant DRC for the verification and approval when it was established on 6 April 2011. However, our PRC Legal Advisers advised that the legality and daily operations of KFM-Shenzhen shall not be adversely affected, based on the reasons that:

(i) our PRC Legal Advisers had consulted the Shenzhen Development and Reform Commission (深圳市發展和改革委員) which verbally confirmed that it is not necessary for KFM-Shenzhen to apply for or obtain the project approval from the relevant DRC. Instead the relevant investment projects, contracts and constitutional documents can be approved by the relevant Foreign Investment Approval Authority (外商投資審批部門). In this case, the establishment of KFM-Shenzhen has already been approved by the relevant Foreign Investment Approval Authority (外商投資審批部門).

(ii) KFM-Shenzhen has completed the relevant procedures for the registration of establishment regarding taxation and foreign exchange.

Housing provident fund contributions

On 20 December 2010, the relevant housing provident fund authority in Shenzhen required enterprises in Shenzhen to undergo the necessary registration procedures within six months from 20 December 2010 and make housing provident fund contributions for their employees. In addition, it is mandatory for enterprises in Shanghai to make housing provident fund contributions only for employees who are urban hukou (城鎮戶口) holders. Therefore, KRP-Shenzhen and KFM-Shenzhen Factory are required 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.

We had commenced procedures to arrange for fulfillment of the housing provident fund payment requirements for our KRP-Shenzhen and KFM-Shenzhen Factory employees. Housing provident fund contributions had been made for some of our employees in Shenzhen within the aforesaid time limit. However, some employees of KRP-Shenzhen and KFM-Shenzhen Factory had yet to make such contributions together with us in a timely manner despite our request for such employees to do so.

The main reasons contributing to our delay in housing provident fund payments for our employees within the aforesaid period include: a) the negotiation process with employees which have yet to make their contributions; and b) the transfer of employment contracts from KFM-Shenzhen Factory to KFM-Shenzhen as a result of the transition as detailed in the section headed "Business – Production facilities and capacity – Processing Arrangement – Change of business form" in this prospectus. Some of the employees of KRP-Shenzhen and KRP-Shanghai were unwilling to make their part of the housing provident fund contributions. Therefore we had engaged in continual negotiations with those employees who were unwilling to make the contributions to persuade them to make their part of the contributions in order to comply with the relevant PRC laws and regulations. For some of the employees of KFM-Shenzhen Factory, due to the lack of understanding of the change in business form, it took time for KFM-Shenzhen Factory to hold consultations to inform the employees the details of the change in business form before the employees agreed to be transferred. As a result, there was a delay on KFM-Shenzhen Factory's part in undergoing the required registration procedures and in making housing provident fund contributions in relation to those employees who lack understanding of the change of business form. As at 31 March 2012, the amount of employees' portion of unpaid housing provident fund contributions of KRP-Shenzhen, KRP-Shanghai and KFM-Shenzhen Factory amounted to approximately RMB930,000.

As of the Latest Practicable Date, our Group has arranged for bank accounts to be opened and registration procedures have been made for all entitled employees of KRP-Shenzhen, KFM-Shenzhen Factory and KRP-Shanghai for making housing provident fund contributions. Housing provident fund contributions for all entitled employees of (i) KRP-Shenzhen and KFM-Shenzhen Factory have been made since November 2011; and (ii) KRP-Shanghai has been made since July 2011 respectively up to the Latest Practicable Date. We have made full provision in the amount of about RMB1.86 million for both of the employer's and the employee's portions of unpaid housing provident fund contributions which covered the period since when the relevant respective housing provident fund authorities required enterprises in Shenzhen and Shanghai to undergo registration to the period before we made such contributions for all entitled employees. The Company will disclose the monitoring progress after the implementation of the remedial actions for the non-compliance in our interim and annual reports.

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.

While up to the Latest Practicable Date, we have not received any notification or orders from the relevant housing provident fund authorities in relation to the opening of housing provident fund accounts and the making of contributions to the previously unpaid housing provident fund, we will proactively communicate with the relevant housing provident fund authorities on the timeframe and procedures in making the previously unpaid housing provident fund contribution in order to rectify the non-compliance. In the event that the relevant housing provident fund authorities require us to make the relevant contributions of the previously unpaid housing provident fund contribution, we will comply with such requirement accordingly. We strive to rectify the non-compliance within 12 months after Listing and we will disclose the progress or results of the rectification in our interim and annual reports. Where necessary, we will seek advice from our legal advisers with respect to other necessary actions to be taken.

Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to provide an indemnity for any loss incurred by our Group as a result of our failure to pay the necessary housing provident fund contributions for our employees, further details of which are set out in the paragraph headed "16. Estate duty, tax and other indemnities" in Appendix V to this prospectus.

Comprehensive Insurance

We are required to make comprehensive insurance contributions for the benefit of our relevant employees in Shanghai. According to the relevant PRC laws and regulations, in Shanghai, if employers fail to make comprehensive insurance contribution on time, the authorities shall order the employers to make comprehensive insurance contributions within a time limit, and if the employers fail to make the contributions within such time limit they will be subject to a) an over due fine of 0.2% each day; and b) a fine amounting to one to two times the unpaid contribution. The relevant authority may also apply to the court for enforcement of the unpaid amounts.

KRP-Shanghai had not contributed to the comprehensive insurance for two of its employees in Shanghai because of disputes regarding employment contracts with the two employees. The Labour Arbitrary Department (勞動仲裁部門) had ordered KRP-Shanghai to make the required contributions retrospectively for April 2008 for one of the employees; and for the period from March 2008 to April 2008 for the other employee. Our Directors confirmed that the said comprehensive insurance contribution has already been paid adequately and retrospectively and no administrative penalty has been imposed on us in respect of this matter as of the Latest Practicable Date. Apart from these two employees, the Group has made comprehensive insurance contribution for all the relevant employees in the PRC. Since the said comprehensive insurance contribution has already been paid adequately and retrospectively, our PRC Legal Advisers are of the view that the probability of any future imposition of administrative penalty on us due to this incident is low.

Our human resources department will be responsible for handling any employment disputes or problem with our staff with a view to settling any dispute with our staff amicably. Our chief financial officer, Mr. Mak Pak Ying Francis is responsible for monitoring this remedial measure and he will directly oversee more significant disputes to ensure minimal impact to the Company.

Environmental Regulations

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. With regard to the Branch Factory, as confirmed by our Directors: (a) it has subsequently undertaken the environmental impact evaluation procedures for the construction projects and the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project; (b) the relevant approval for the environmental impact evaluation procedures for the construction project were obtained in September 2011; and (c) they have undertaken the corresponding checks and acceptance proceeding and obtained the approval letter on 31 December 2011.

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.

According to the PRC environmental laws and regulations, where an enterprise fails to file an application for approval of the construction project environmental impact report (or statement), the competent regulatory authority shall order the enterprise to stop the construction and make up the formalities within a given time period; where the enterprise fails to make up the formalities on expiry of the given time period and start construction without authorisation, it may be subject to a fine in the range of more than RMB50,000 and less than RMB200,000. Where the main body of the project formally goes into production or use without 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, the competent authority shall order the enterprise to stop the production and impose a fine of less than RMB100,000 on the enterprise.

With regard to the two production lines of KPP-Suzhou, as confirmed by our Directors: (a) it has undertaken the environmental impact evaluation procedures for the construction projects and the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project; (b) the relevant approval for the environmental impact evaluation procedures for the construction project was obtained; and (c) it has undertaken the corresponding checks and acceptance proceeding and obtained the approval letter on 29 November 2011. Our Directors also confirmed that no administrative penalty has been imposed on us by any relevant regulatory authority in connection with our not having timely undertaking such procedures.

Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to provide an indemnity for any loss incurred by our Group as a result of our failure to duly obtain the relevant certificates or approvals for the construction and operation of KPP-Suzhou and the Branch Factory, further details of which are set out in the paragraph headed "16. Estate duty, tax and other indemnities" in Appendix V to this prospectus.

Intellectual Property Rights

During the Track Record Period, our Group has used certain unlicensed computer software products in the course of our operations in the PRC. We have rectified the problem and settled the matter with the licensor as we placed order for the licensed computer software products from the licensor in July 2011, completed the installation of the relevant licensed software products in August 2011 and ceased to use the unlicensed software products since September 2011. Therefore, our PRC Legal Advisers advised us that based on the abovementioned remedial action, it is unlikely that we will face civil claims made by the licensor of the computer software due to our use of unlicensed computer software products during the Track Record Period.

As at the Latest Practicable Date, we were not involved in any litigation or arbitration proceedings pending or, to our knowledge, threatened against us in relation to the use of the unlicensed computer software products during the Track Record Period. Pursuant to the Deed of Indemnity, our Controlling Shareholders agreed to provide an indemnity for any loss incurred by our Group as a result of our use of the unlicensed computer software products in the course of our operations in the PRC during the Track Record Period.

Except for the non-compliances disclosed in the subsection headed "Compliance and regulatory matters" in the "Business" section in this Prospectus, our PRC Legal Adviser has advised and confirmed that the Company has complied with the relevant PRC laws and regulations in all material aspects during the Track Record period and up to the Latest Practicable Date.

The table sets out below summarises our non-compliant incidents, measures put in place to prevent recurrence of such incidents and the monitoring process after the implementation.

As at the Latest Practicable Date, remedial actions have been taken and measures have been duly put in place by us to prevent recurrence of all such non-compliant incidents in the future.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
Production base of KRP-Shenzhen located in Xili, Nanshan District, Shenzhen					
The relevant lessor has not shown to us title ownership documents or construction works planning permit related to the Xili Leased Properties	The reason for non-compliance is due to the fact that the lessor did not manage to obtain the necessary approval or the permit from the relevant authorities for the construction of the Xili Leased Properties, which is beyond our Group's control. As advised by our PRC Legal Advisers, as we are not the party who constructed the Xili Leased Properties, we are not liable to any administrative penalty or fine for the defect in title ownership of the Xili Leased Properties, and we are not in a position to apply for or obtain the title ownership documents and the construction works planning permit. Our PRC Legal Advisers further advised us that we can in fact use the Xili Leased Properties under the relevant lease agreements within the Exclusion Period and the possibility that we are required to move out of the Xili Leased Properties within the said period due to reconstruction plan within the Dakan community is not high. Please refer to the above paragraph headed "Production base of KRP-Shenzhen located in Xili, Nanshan District, Shenzhen" in this section for the reasons.	The lessor of the Xili Leased Properties has issued an undertaking letter dated 8 October 2011 (the "**Lessor's Undertaking**") to KRP-Shenzhen, pursuant to which the lessor covenanted that it will not take any initiative to require KRP-Shenzhen to move out of the Xili Leased Properties during the validity period of the relevant lease agreements. Under the Lessor's Undertaking, the lessor further covenanted to us that if the Xili Leased Properties are required to be removed or expropriated which renders performance of the lease agreements impossible, the lessor will notify KRP-Shenzhen in advance to allow KRP-Shenzhen to move out of the Xili Leased Properties within a reasonable period of time, compensate KRP-Shenzhen for the losses resulting from relocation of the Xili Leased Properties in accordance with the relevant regulations relating to compensation for removal of properties in Shenzhen, and bear the responsibility under the lease agreements. We have put in place a contingency plan for relocating our production facilities currently located at the Xili Leased Properties. Our Directors estimate that the relocation costs involved in relocating the production lines at the Xili Leased Properties will be approximately RMB6.5 million and the time required in such relocation will be approximately two months. Please refer to the above paragraph headed "Production base of KRP-Shenzhen located in Xili, Nanshan District, Shenzhen" in this section for further details.	KRP-Shenzhen has obtained the Lessor's Undertaking on 8 October 2011. The contingency plan will be implemented once KRP-Shenzhen receives notification from Xili Subdistrict Office, Da Sha He Office, the Lessor, and/or the relevant building authorities to move out of the Xili Leased Properties.	Mr. Banson Lam, executive Director and general manager (KRP-Shenzhen) Mr. Banson Lam is our executive Director and the general manager of KRP-Shenzhen. Please refer to the section headed "Directors, senior management and staff – Executive Directors" in this prospectus for his experience and qualification.	Our Group will establish appropriate policies and procedures in handling property construction projects and title investigation of properties. Mr. Banson Lam will monitor the implementation of the above measures and will check whether there is any non-compliance.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
Registered capital of KRP-Shanghai and KPP-Suzhou					
KRP-Shanghai not timely making contribution to its original registered capital within the required two-year period	We inadvertently omitted to keep track of the timeframe for making the requisite contribution. According to the relevant PRC laws and regulations, where foreign-invested enterprises had not paid up their registered capital within the prescribed period, the original approval authority shall have the right to revoke the enterprise's approval certificate and the relevant industry and commerce administrative department shall have the right to revoke its business license and make a public announcement. As advised by our PRC Legal Advisers, we will not be fined or penalised for our breach to contribute fully the registered capital of KRP-Shanghai within the required time limit, nor will the legal status of KRP-Shanghai be affected. Please refer to the above paragraph headed "Registered capital of KRP-Shanghai and KPP-Suzhou" in this section for the reasons.	Full payment of the requisite contribution has been made We have developed internal policies and provided training to our staff to ensure their awareness and compliance of the local regulatory matters, including the requirements for passing the industry and commerce annual inspection.	The original registered capital had been fully paid up on 3 April 2006. The internal policies have been implemented in October 2011.	Mrs. Chow Suen Christina, executive Director and Mr. Banson Lam, executive Director and general manager (KRP-Shanghai) Mrs. Chow Suen Christina is our executive Director who is responsible for managing the corporate governance of the Group. Please refer to the section headed "Directors, senior management and staff-Executive Directors" in this prospectus for her experience and qualification.	The policies implemented will be regularly reviewed by our internal audit manager, Mr. Lai Sau Lai James. Our internal audit department will monitor the implementation of the policies and will check whether there is any non-compliance incident from time to time. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To, on a regular basis and will provide annual report to our whole audit committee and management after the Listing. Please refer to the paragraph headed "Measures designed to prevent future non-compliance and improve corporate governance" in this section of this prospectus for the details of Mr. Lai's experience and qualification.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
KPP-Suzhou not timely making contribution to its original registered capital within the required three-year period	We inadvertently omitted to keep track of the timeframe for making the requisite contribution. According to the relevant PRC laws and regulations, where foreign-invested enterprises had not paid up their registered capital within the prescribed period, the original approval authority shall have the right to revoke the enterprise's approval certificate and the relevant industry and commerce administrative department shall have the right to revoke its business license and make a public announcement. As advised by our PRC Legal Advisers, we will not be fined or penalised for our breach to contribute fully the registered capital of KPP-Suzhou within the required time limit, nor will the legal status of KPP-Suzhou be affected. Please refer to the above paragraph headed "Registered capital of KRP-Shanghai and KPP-Suzhou" in this section for the reasons.	Full payment of the requisite contribution has been made. We have developed internal policies and provided training to our staff to ensure their awareness and compliance of the local regulatory matters, including the requirements for passing the industry and commerce annual inspection.	The original registered capital had been fully paid up on 22 November 2005. The internal policies have been implemented in October 2011.	Mrs. Chow Suen Christina, executive Director and Mr. He Lin, general manager (KPP-Suzhou) Mr. He Lin is the general manager of KPP-Suzhou. Please refer to the section headed "Directors, senior management and staff – Senior Management" in this prospectus for his experience and qualification.	The policies implemented will be regularly reviewed by our internal audit manager, Mr. Lai Sau Lai James. Our internal audit department will monitor the implementation of the policies and will check whether there is any non-compliance incident from time to time. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
Regulations on Foreign Investment					
KRP-Shanghai did not apply to the relevant DRC for the project approval when it increased its registered capital in August 2006	There was some oversight in designating competent staff in handling compliance work with respect to the application to the relevant DRC for the verification and approval. The relevant PRC laws and regulations did not stipulate any administrative penalty for failure to apply to the relevant DRC for the project approval. As advised by our PRC Legal Advisers, the risk of penalty is relatively low. As advised by our PRC Legal Advisers, the legality and daily operations of KRP-Shanghai shall not be adversely affected. Please refer to the above paragraph headed "Regulations on Foreign Investment" in this section for the reasons.	As advised by our PRC Legal Advisers, and after consulting the competent authority, it is not necessary and we are unable to make such application retrospectively. We have developed internal policies and provided training to our staff to ensure their awareness of and compliance with the local regulatory matters, including the requirements for passing the industry and commerce annual inspection.	The internal policies have been implemented in October 2011.	Mrs. Chow Suen Christina, executive Director and Mr. Banson Lam, executive Director and general manager (KRP-Shanghai)	The policies implemented will be regularly reviewed and monitored by our internal audit manager, Mr. Lai Sau Lai James. Our internal audit department will monitor the implementation of the policies and will check whether there is any non-compliance incident from time to time. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.
KPP-Suzhou did not apply to the relevant DRC for the project approval when it increased its registered capital in June 2011	It was not necessary for us to obtain the approval from the relevant DRC in local practice. The relevant PRC laws and regulations did not stipulate any administrative penalty for failure to apply to the relevant DRC for the project approval. As advised by our PRC Legal Advisers, the risk of penalty is relatively low. As advised by our PRC Legal Advisers, the legality and daily operations of KPP-Suzhou shall not be adversely affected. Please refer to the above paragraph headed "Regulations on Foreign Investment" in this section for the reasons.	As advised by our PRC Legal Advisers, and after consulting the competent authority, it is not necessary and we are unable to make such application retrospectively. Although it is not necessary and we are unable to make such application retrospectively, we have developed internal policies and provided training to our staff to ensure their awareness of and compliance with the local regulatory matters, including the requirements for passing the industry and commerce annual inspection.	The internal policies have been implemented in October 2011.	Mrs. Chow Suen Christina, executive Director and Mr. He Lin, general manager (KPP-Suzhou)	The policies implemented will be regularly reviewed and monitored by our internal audit manager, Mr. Lai Sau Lai James. Our internal audit department will monitor the implementation of the policies and will check whether there is any non-compliance incident from time to time. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
KRP-Shenzhen had not obtained the verification and approval from the relevant DRC when it was established on 15 February 2007 and increased its registered capital in April 2010	It was not necessary for us to obtain the approval from the relevant DRC in local practice The relevant PRC laws and regulations did not stipulate any administrative penalty for failure to apply to the relevant DRC for the project approval. As advised by our PRC Legal Advisers, the risk of penalty is relatively low. As advised by our PRC Legal Advisers, the legality and daily operations of KRP-Shenzhen shall not be adversely affected. Please refer to the above paragraph headed "Regulations on Foreign Investment" in this section for the reasons.	As advised by our PRC Legal Advisers, and after consulting the competent authority, it is not necessary and we are unable to make such application retrospectively. Although it is not necessary and we are unable to make such application retrospectively, we have developed internal policies and provided training to our staff to ensure their awareness of and compliance with the local regulatory matters, including the requirements for passing the industry and commerce annual inspection.	The internal policies have been implemented in October 2011.	Mrs. Chow Suen Christina, executive Director and Mr. Banson Lam, executive Director and general manager (KRP-Shenzhen)	The policies implemented will be regularly reviewed and monitored by our internal audit manager, Mr. Lai Sau Lai James. Our internal audit department will monitor the implementation of the policies and will check whether there is any non-compliance incident from time to time. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.
KFM-Shenzhen did not apply to the relevant DRC for the verification and approval when it was established on 6 April 2011	It was not necessary for us to obtain the approval from the relevant DRC in local practice The relevant PRC laws and regulations did not stipulate any administrative penalty for failure to apply to the relevant DRC for the project approval. As advised by our PRC Legal Advisers, the risk of penalty is relatively low. As advised by our PRC Legal Advisers, the legality and daily operations of KFM-Shenzhen shall not be adversely affected. Please refer to the above paragraph headed "Regulations on Foreign Investment" in this section for the reasons.	As advised by our PRC Legal Advisers, and after consulting the competent authority, it is not necessary and we are unable to make such application retrospectively. Although it is not necessary and we are unable to make such application retrospectively, we have developed internal policies and provided training to our staff to ensure their awareness of and compliance with the local regulatory matters, including the requirements for passing the industry and commerce annual inspection.	The internal policies have been implemented in October 2011.	Mrs. Chow Suen Christina, executive Director and Mr. Yung Ching Tak, general manager (KFM-Shenzhen) Mr. Yung Ching Tak is the general manager of KFM-Shenzhen with more than 20 years of experience in metal stamping industry.	The policies implemented will be regularly reviewed and monitored by our internal audit manager, Mr. Lai Sau Lai James. Our internal audit department will monitor the implementation of the policies and will check whether there is any non-compliance incident from time to time. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
Housing provident fund contributions					
KRP-Shenzhen and/or KRP-Shanghai not timely providing housing provident funds for certain employees	The reason for non-compliance is due to the negotiation process with employees who have yet to make their contributions. Our PRC Legal Advisers advised that the relevant housing provident fund authority in the PRC may require KRP-Shenzhen and/or KRP-Shanghai to undergo the necessary registration procedures and make previously unpaid housing provident fund contributions. The relevant housing provident fund authority 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 and/or KRP-Shanghai fails to make housing provident fund contribution for all its entitled employees within the time limit, the relevant housing provident fund authority may apply to the court for enforcement of the unpaid amounts. However, as our Group has taken the remedial actions, our PRC Legal Advisers advised that if the authorities order our Group to make housing provident fund contributions within a time limit, and our Group make the contributions within such time limit, the risk of penalty is low.	Our Group has arranged for bank accounts to be opened for all entitled employees of KRP-Shenzhen for making such contributions for the month of November 2011 and onwards and the contributions for all entitled employees of KRP-Shenzhen were made in November 2011. Our Group has also arranged for bank accounts to be opened for all entitled employees of KRP-Shanghai for making such contributions for the month of July 2011 and onwards and the contributions for all entitled employees of KRP-Shanghai were made in July 2011. Our Group has made full provision for both the employer's and employees' portions of unpaid housing provident fund. Internal policies have been put in place to ensure compliance with the regulatory requirements, including the procedures to require our human resources manager to review periodically the total number of staff who are required to make housing provident fund contributions, and our staff at the finance department will seek the confirmation from our human resources manager on the total number of the staff before making payment for the contribution so as to ensure compliance. Our human resources manager will also keep contact with the relevant local authorities if needed to get updated information and regulatory requirements on housing provident fund contributions. To raise the employees' awareness of making their part of the housing provident fund contributions, our Group will regularly issue notices to remind the employees to make their part of the contributions in order to comply with the relevant PRC laws and regulations. Our Group will also provide trainings every quarter to the employees on the importance and procedures of making contributions to the housing provident fund.	Our Group has arranged for bank accounts to be opened for all entitled employees of KRP-Shenzhen for making such contributions for the month of November 2011 and for all entitled employees of KRP-Shanghai for making such contributions for the month of July 2011 and onwards. The internal policies have been implemented in December 2011 for KRP-Shenzhen and in October 2011 for KRP-Shanghai.	Mr. Mak Pak Ying Francis, chief financial officer Mr. Mak Pak Ying Francis is our chief financial officer. Please refer to the section headed "Directors, senior management and staff – Senior management" in this prospectus for his experience and qualification.	The policies implemented will be regularly reviewed and monitored by Mr. Mak Pak Ying Francis. Mr. Mak Pak Ying Francis will check on a monthly basis whether the housing provident fund contributions for all the entitled employees of our Group have been fully and punctually made. He will also monitor whether the notices have been issued regularly and whether trainings have been provided to the employees every quarter.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
KFM-Shenzhen Factory not timely providing housing provident funds for certain employees	The reasons for non-compliance are due to (a) the negotiation process with employees who have yet to make their contributions; and (b) the transfer of employment contracts from KFM-Shenzhen Factory to KFM-Shenzhen as a result of the business form transformation. Our PRC Legal Advisers advised that the relevant housing provident fund authority in the PRC may require KFM-Shenzhen Factory to undergo the necessary registration procedures and make previously unpaid housing provident fund contributions. The relevant housing provident fund authority may impose a maximum penalty of not more than RMB50,000 for failure to comply with the necessary registration procedures. In addition, if KFM-Shenzhen Factory fails to make housing provident fund contribution for all its entitled employees within the time limit, the relevant housing provident fund authority may apply to the court for enforcement of the unpaid amounts. However, as our Group has taken the remedial actions, our PRC Legal Advisers advised that if the authorities order our Group to make housing provident fund contributions within a time limit, and our Group make the contributions within such time limit, the risk of penalty is low.	Our Group has arranged for bank accounts to be opened for all entitled employees of KFM-Shenzhen Factory for making such contributions for the month of November 2011 and onwards and the contributions for all entitled employees of KFM-Shenzhen Factory were made in November 2011. Our Group has made full provision for both the employer's and employees' portions of unpaid housing provident fund. Internal policies have been put in place to ensure compliance with the regulatory requirements, including the procedures to require our human resources manager to review periodically the total number of staff who are required to make housing provident fund contributions, and our staff at the finance department will seek the confirmation from our human resources manager on the total number of the staff before making payment for the contribution so as to ensure compliance. Our human resources manager will also keep contact with the relevant local authorities if need to get updated information and regulatory requirements on housing provident fund contributions. To raise the employees' awareness of making their part of the housing provident fund contributions, our Group will regularly issue notices to remind the employees to make their part of the contributions in order to comply with the relevant PRC laws and regulations. Our Group will also provide trainings every quarter to the employees on the importance and procedures of making contributions to the housing provident fund.	Our Group has arranged for bank accounts to be opened for all entitled employees of KFM-Shenzhen Factory for making such contributions for the month of November 2011 and onwards. The internal policies have been implemented in October 2011.	Mr. Mak Pak Ying Francis, chief financial officer	The policies implemented will be regularly reviewed and monitored by Mr. Mak Pak Ying Francis Mr. Mak Pak Ying Francis will check on a monthly basis whether the housing provident fund contributions for all the entitled employees of our Group have been fully and punctually made. He will also monitor whether the notices have been issued regularly and whether trainings have been provided to the employees every quarter.
Comprehensive Insurance					
KRP-Shanghai not timely making comprehensive insurance contribution for two of its employees	The non-compliance was due to disputes regarding employment contracts with the two employees concerned. Our PRC Legal Advisers advised that since the said comprehensive insurance contribution has already been paid adequately and retrospectively, the probability of any future imposition of administrative penalty on us due to this incident is low.	The employment disputes with the two employees have been settled in 2009 and 2010 respectively and the requisite contribution has been made. Our human resources department will be responsible for handling any employment disputes or problem with our staff with a view to settling any dispute with our staff amicably.	The employment disputes with the two employees have been settled in 2009 and 2010 respectively.	Mr. Mak Pak Ying Francis, chief financial officer	Mr. Mak Pak Ying Francis will directly oversee more significant disputes to ensure minimal impact to the Company.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
Environmental Regulations					
In August 2009 when KPP-Suzhou started operating the Branch Factory, the Branch Factory did not timely undertake the environmental impact evaluation procedures for the construction projects and the corresponding checks and acceptance procedures for the environmental protection facilities required for the construction project	Due to our inadequate understanding of the regulatory requirements, there was some oversight in designating competent staff in handling compliance work in this regard. Please refer to the above paragraph headed "Environmental Regulations" in this section for the legal consequences and potential maximum penalties due to this non-compliance. As advised by our PRC Legal Advisers, the risk of penalty is not high.	The environmental impact evaluation procedures for the construction projects have been completed and approval has been granted by the competent authority on 30 September 2011. The relevant corresponding checks and acceptance procedures have been completed and the approval letter has been obtained on 31 December 2011. We have developed internal policies and procedures (for example, a compliance checklist for construction projects should be prepared to ensure that all relevant rules and regulations are taken into account and complied with) and will train our staff on a regular basis to ensure their awareness of and compliance with the local regulatory matters.	The internal policies have been implemented before January 2012.	Mrs. Chow Suen Christina, executive Director and Mr. He Lin, general manager (KPP-Suzhou)	Our internal audit manager, Mr. Lai Sau Lai James, will maintain regular oversight on the implementation of the policies and procedures. Regular training on regulatory compliance matters will be held. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.
KPP-Suzhou, when introducing two production lines relating to spraying and screen painting, did not timely complete the construction of the corresponding environmental protection facilities or submitting the corresponding environmental protection facilities to checks and acceptance procedures or achieving the acceptance	Due to our inadequate understanding of the regulatory requirements, there was some oversight in designating competent staff in handling compliance work in this regard. Please refer to the above paragraph headed "Environmental Regulations" in this section for the legal consequences and potential maximum penalties due to this non-compliance. As advised by our PRC Legal Advisers, the risk of penalty is not high.	The relevant corresponding checks and acceptance procedures have been completed and the approval letter has been obtained on 29 November 2011. We have developed internal policies and procedures (for example, a compliance checklist for construction projects should be prepared to ensure that all relevant rules and regulations are taken into account and complied with) and will train our staff on a regular basis to ensure their awareness of and compliance with the local regulatory matters.	The internal policies have been implemented before January 2012.	Mrs. Chow Suen Christina, executive Director and Mr. He Lin, general manager (KPP-Suzhou)	Our internal audit manager, Mr. Lai Sau Lai James, will maintain regular oversight on the implementation of the policies and procedures. Regular training on regulatory compliance matters will be held. Our internal audit manager will report directly to the chairman of our audit committee, Mr. Wan Kam To.

Non-compliant incidents	Cause(s) of non-compliance, legal consequences and any potential penalties and financial losses	Remedial actions	Time of implementation of the remedial actions	Personnel in charge of the rectification	Monitoring process after implementation of the remedial actions
Intellectual Property Rights					
Our Group used certain unlicensed computer software products in the course of operations in the PRC during the Track Record Period	Insufficient staff training on regulatory compliance matters and the general lack of awareness of using authorised software products Our PRC Legal Advisers advised us that based on the remedial action taken by us, it is unlikely that we may face civil claims made by the licensor of the computer software due to our use of unlicensed computer software products during the Track Record Period. Therefore the risk of penalty is not high.	We have already purchased and completed installation of authorised licensed computer software products in August 2011 and have ceased to use the unlicensed computer software since September 2011. Internal policies and controls have been put in place to ensure that our employees are not allowed to install any unlicensed computer software products and only Mr. Kok Chung Tat, our information and technology manager is allowed to install computer software products. Our information and technology manager will monitor from time to time whether there is any non-compliant incident and will periodically check on the installation and use of computer software products, while our financial controller will periodically review the effectiveness of the internal polices and controls put in place to prevent the installation and use of unlicensed computer software products.	The internal policies have been implemented in December 2011.	Mrs. Chow Suen Christina, executive Director, Mr. Kok Chung Tat, information and technology manager and Mr. Kwok For Chi, our financial controller and head of internal control department Mr. Kok Chung Tat is our information and technology manager with more than 15 years of experience in the information technology industry. Mr. Kwok For Chi, our financial controller and head of our internal control department. Please refer to the section headed "Directors, senior management and staff – Senior management" in this prospectus for his experience and qualification.	The policies implemented will be regularly reviewed and monitored by Mr. Kok Chung Tat and Mr. Kwok For Chi, the financial controller of our Company. Regular training on regulatory compliance matters will be held.

MEASURES DESIGNED TO PREVENT FUTURE NON-COMPLIANCE AND IMPROVE CORPORATE GOVERNANCE

In order to improve our corporate governance and to prevent future non-compliance, we have adopted or intend to adopt the following measures in the PRC and Hong Kong:

(a) We engaged two internal control consultants to review our Group's internal control policies and procedures in July 2011. One of the internal control consultants ("**Internal Control Consultant A**") conducted follow-up reviews in November 2011 and June 2012, and the other one ("**Internal Control Consultant B**") conducted follow-up reviews in November 2011 and May 2012. The two internal control consultants were engaged to cover different areas of internal controls in their reviews based on their experience and level of expertise.

The scope of work for Internal Control Consultant A focused on key internal controls relating to financial reporting of selected business processes, such as revenue and receivable, purchase and payable, inventory management, financial reporting, human resources and payroll cycle, and cash management. The scope of work of Internal Control Consultant B includes, but not limited to, the following areas: production and quality control management, compliance and environmental protection management, and insurance management. The Directors confirmed that there was no overlap of scope of work, and no disagreement or conflicting view between the two internal control consultants in their respective reviews. Based on their review and recommendations, we adopted the measures and policies to improve our internal control systems and to ensure our compliance with the Listing Rules and the relevant PRC and Hong Kong laws. Also after the Internal Control Consultants performed their follow up reviews in November 2011, May 2012 and June 2012, they have not identified any further issues that would affect the adequacy and effectiveness of the internal controls reviewed and have no further recommendations to make in the respective areas covered in their reviews. Therefore, based on the results of the internal controls reviews and subsequent four follow up reviews, the Directors are satisfied that adequate and effective internal control procedures and policies have been put in place by the Group. For details of the results of our implementation of the measures and policies recommended by the internal control consultants, please refer to the sub-section headed "Business – compliance and regulatory matters" in this prospectus.

(b) We have taken remedial measures to address certain deficiencies in our internal control systems identified by our internal control consultants. We have set up an internal control department and an internal audit department to rectify these issues and monitor the ongoing compliance with the internal control measures put in place.

(i) The internal control department is responsible for designing and reviewing the management systems and internal control measures to ensure the effectiveness and reliability of our management systems and to ensure compliance with laws and regulations. Mr. Kwok For Chi, the financial controller of our Company, heads the internal control department. Please refer to the section headed "Directors, senior management and staff – Senior management" in this prospectus for his experience and qualification. Mr. Kwok previously headed the internal control function of Xing Yuan Power Holdings Company Limited and also acted as external auditor of listed companies where his responsibilities included internal control review and assessment of internal control systems effectiveness of listed companies.

(ii) The internal audit department is responsible for monitoring the operation of the Group to ensure compliance with management systems and internal control measures. Our internal audit manager is Mr. Lai Sau Lai James. He obtained trainings from 中國人力資源和社會保障部教育培訓中心 (Education Centre of the Ministry of Human Resources and Social Security of the PRC*) covering areas relating to internal audit functions and he was qualified by the Education Centre of the Ministry of Human Resources and Social Security of the PRC as a 中國財務審計師 (China's Financial Auditor*). He is also a 中國税務會計師 (Chartered Tax Accountant of China*) and has more than 5 years of experience in external and internal auditing. Mr. Lai is responsible for the internal audit of our Group and is assisted by two supporting staff. Before joining our Group in January 2012, Mr. Lai was engaged by a certified public accountants' firm in Hong Kong as audit senior from October 2006 to January 2012 with main duties including audit assurance in companies, acting as an independent internal auditor of a company listed on the Growth Enterprise Market of the Stock Exchange and internal control review and assessment of manufacturing companies. Mr. Lai reports directly to the chairman of our audit committee, Mr. Wan Kam To, on a regular basis and will provide annual report to our whole audit committee and management after the Listing.

(c) We have engaged and will continue to appoint external professional advisers, including auditors, legal advisers or other advisers to render professional advice as to compliance with the statutory requirements as applicable to our Group from time to time. As at the Latest Practicable Date, we have engaged:

(i) PricewaterhouseCoopers as our auditor and reporting accountant;

(ii) Chiu & Partners as our legal advisers as to Hong Kong Law for Listing, and to be appointed for one year after Listing to be agreed by the parties as confirmed by the Directors; and

(iii) DBS Asia Capital Limited as our compliance adviser to provide advice to our Directors and management team on matters relating to the Listing Rules. The term of appointment of the compliance adviser of our Company shall commence on the Listing Date and end on the date of despatch of the annual report of our Company in respect of its financial results for the first full financial year commencing after the Listing Date and such appointment shall be subject to extension by mutual agreement.

(d) Regular trainings will be provided to all Directors and senior management by our external professional advisers on compliance with the Listing Rules and all relevant laws and regulations, including timely preparation and laying of accounts.

(i) Our Directors and senior management attended a seminar organized by the Company's legal advisers, Chiu & Partners in July 2011 regarding the duties of directors of companies listed in Hong Kong.

(ii) Our Directors received training updates and/or attended a seminar organized by the Company's legal advisers, Chiu & Partners in May and June 2012 regarding corporate governance and relevant amendments to the Listing Rules and Securities and Futures Ordinance.

(e) Our Audit Committee is responsible for overseeing the financial reporting and internal control procedures of our Company. It will also periodically review our compliance status with the PRC and Hong Kong laws after the Listing. Our Audit Committee will exercise its oversight by:

(i) reviewing the Company's internal control and legal compliance;

(ii) discussing the internal control systems with management to ensure that management has performed its duty to have an effective internal control system; and

(iii) considering major investigation findings on internal control matters as delegated by the board of Directors or on its own initiative and management's response to these findings.

The Audit Committee's review result will be published in the Company's annual reports.

(f) In order to prevent any future use of unlicensed computer software products, we have adopted the following measures:

(i) issuing guidance to our employees to prohibit installation of unlicensed computer software on the office computers;

(ii) the installation of computer software products in our computer systems shall only be handled by our staff of the information and technology department; and

(iii) conducting periodic checks on software licensing.

Our Directors are of the view that our Group's internal control measures are adequate and effective under Rule 3A. 15(5) of the Listing Rules. The Sole Sponsor has reviewed the measures and policies adopted by us to improve our internal control systems and to ensure our compliance with the Listing Rules and the relevant PRC and Hong Kong laws, and has discussed with the internal control consultants on the progress of the implementation of the internal control measures adopted by us. Based on this review and discussion with the internal control consultants, the internal control measures have been fully implemented, the Sole Sponsor is also of the view that our Group's internal control measures are adequate and effective under Rule 3A.15(5) of the Listing Rules.

Having considered the above non-compliance incidents of our Group and the above internal control measures and remedial actions taken by us, the Sole Sponsor is of the view that with regard to the above non-compliance incidents, there is no further matter that the Sole Sponsor would consider affecting the suitability of our Directors to become directors of an issuer under Rules 3.08 and 3.09 of the Listing Rules and the suitability of our Company as a listing applicant under Rule 8.04 of the Listing Rules.