KFM KINGDOM HOLDINGS LIMITED

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

ANNUAL REPORT 2014

Our goals are far and high
We cultivate for TOMORROW

www.kingdom.com.hk

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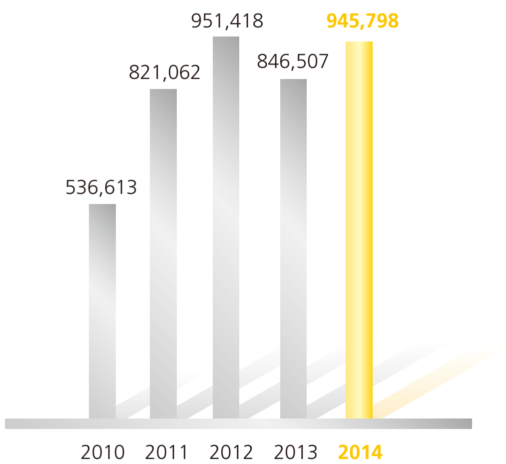
Financial Highlights

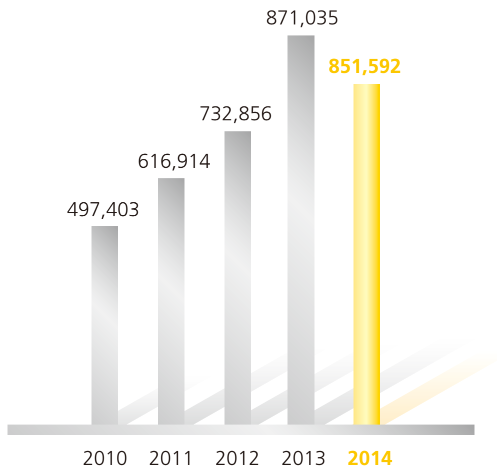
Revenue

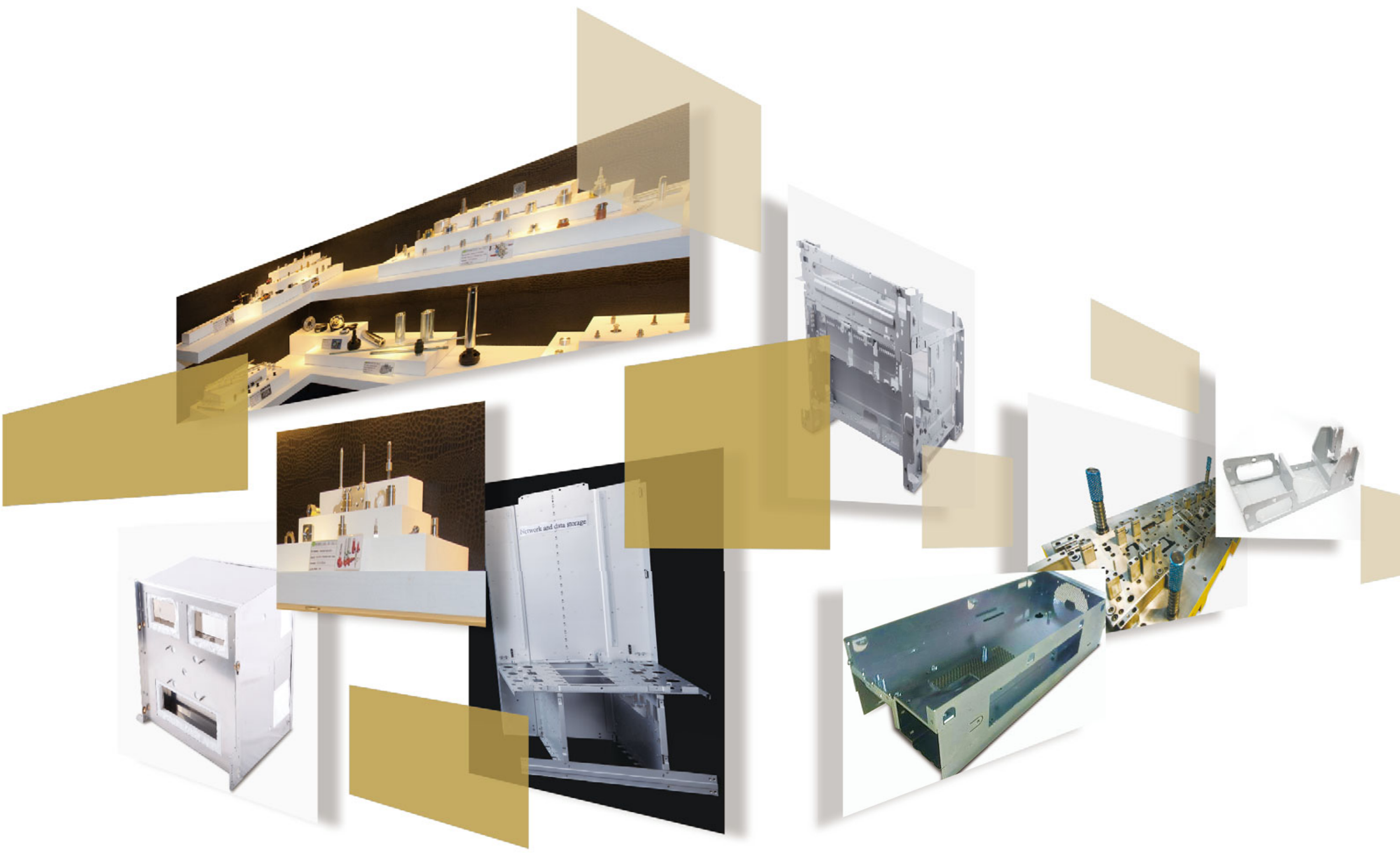
Year ended 31 March
(HK$'000)



Total Assets

As at 31 March
(HK$'000)





Corporate Information

Executive Directors
Mr. Sun Kwok Wah Peter (Chairman)
Mr. Wong Chi Kwok
Mr. Lam Kin Shun
Mrs. Chow Suen Christina

Independent Non-Executive Directors and Audit Committee
Mr. Wan Kam To (Chairman)
Mr. Lam Hon Keung Keith
Prof. Chung Chi Ping Roy

Remuneration Committee
Mr. Lam Hon Keung Keith (Chairman)
Mr. Sun Kwok Wah Peter
Mr. Wan Kam To

Nomination Committee
Mr. Sun Kwok Wah Peter (Chairman)
Mr. Lam Hon Keung Keith
Prof. Chung Chi Ping Roy

Headquarter and Principal Place of Business in Hong Kong
Workshop C, 31/F
TML Tower, 3 Hoi Shing Road, Tsuen Wan
New Territories, Hong Kong

Principal Place of Business in the PRC
Block A, No. 1301 Guanguang Road, Dabu Lane
Guanlan Street, Baoan District, Shenzhen, the PRC

Registered Office
Codan Trust Company (Cayman) Limited
Cricket Square, Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111, Cayman Islands

Company Secretary
Mr. Kwok For Chi

Authorised Representatives
Mr. Sun Kwok Wah Peter
Mr. Kwok For Chi

Compliance Adviser
DBS Asia Capital Limited

Legal Adviser as to Hong Kong Law
Chiu & Partners

Auditor
PricewaterhouseCoopers

Principal Banker
Standard Chartered Bank (Hong Kong) Limited
DBS Bank (Hong Kong) Limited

Cayman Islands Share Registrar and Transfer Office
Royal Bank of Canada Trust Company (Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road, George Town
Grand Cayman KY1-1110
Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office
Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Website
www.kingdom.com.hk

Stock code
3816

Chairman's Statement

Sun Kwok Wah Peter MH
Chairman

On behalf of the Board of Directors of KFM Kingdom Holdings Limited (the "**Company**" and together with its subsidiaries collectively referred to as the "**Group**"), I am pleased to present to you the Group's Annual Report for the financial year ended 31 March 2014.

Financial Performance

The year of 2013/14 was a rewarding year. Through the management's effort and support of our customers and staff, the Group continued the growth.

During the year ended 31 March 2014, our revenue was HK$945.8 million, representing an 11.7% surge against our revenue for the year ended 31 March 2013. The increase in revenue was contributed by a combination of factors. Firstly, our revenue from the metal lathing segment has significantly increased by 24.7%. In the last financial year, one of our end customers switched its procuring agent. Following the end of the transitional period, orders from this Ultimate Customer's (as defined in our Prospectus for global offering dated 28 September 2012 (the "**Prospectus**")) new subcontractors increased continually. Secondly, in the metal stamping segment, we experienced an increased demand from many of our customers which are engaged in the office automation, medical and test equipment, and consumer electronic sectors, mainly fueled with the launch of new product models. These activities derived increasing demand for our products.

For the year ended 31 March 2014, the Group's gross profit was HK$207.9 million. The gross profit margin, reduced slightly from 24.3% as in the comparative year to 22.0%. Surging labour costs resulted from the increased minimum wage in the PRC remained our key business challenge. In the past financial year, due to new legislation being implemented in the provincial region in which we operate, our PRC subsidiaries experienced an average increase in our worker's minimum wage of 9.7% in the twelve months starting April 2013. In response to such surging labour costs, the Group has implemented counter measures, including the introduction of computer controlled automatic robotic arms in some of our production process to reduce the level of human labour usage, continued and on-going enhancement to our production system to increase our overall production efficiency, and restructuring of our product portfolio to move toward higher margin products. These efforts are not short-term, but enduring ones. Management is confident that with these measures, we will be able to control employment expenses to a reasonable level in spite of the unfavourable policy environment.

Business Development

In the past financial year, the Group continued to gain progress in terms of our strategic development. In the financial year 2013/14, we commenced the construction process of the factory premise of our new production base located in Jinshan Road South, Xiangjiang Road West, Suzhou New District, the PRC.

New Suzhou production base is one of the Group's strategic development project laid before our IPO. Our strategy is to develop the new base as a comprehensive production hub to serve customers who are engaged in the medical and test equipment industry in the Yangtze River Delta. The phase one development of the base would provide us a gross floor area of approximately 37,000 sq.m. for expansion of our production capacity. As at the date of this Annual Report, the construction process is undergoing well according to its planned construction schedule. Not seeing any unexpected hindrances, we expect the factory premise of the new base's phase one development will be completed around the end of 2014. Following the relocation work, new Suzhou base will commence full operation in the year 2015.

Apart from the above, in the last financial year, the Group also developed our own kiosk products. With certain advanced features compared to the traditional kiosk products in the market, our kiosks were designed to suit a large variety of customers which are engaged in the retail, hospitality, leisure, telecom, healthcare, education, and transport markets, as well as organisations of public services. In the financial year 2013/14, our own-branded kiosk business achieved some significant business milestones. In the fourth quarter of 2013, we dispatched our first batch of kiosk products to a local institutional customer. In the few months that followed, we received orders from customers which are located in Singapore, Philippines, Brunei, and Thailand. More contracts are in the pipeline. As a high tech and fast growing product segment the kiosk business will become a promising profit driver for the Group in the future.

Prospect and Forward Looking

As the global economy continues to show signs of recovery, and PRC continues a moderate rate of economic growth, we believe the overall economic atmosphere will be beneficial to our customers' business operation and thus providing an optimistic outlook to our own business performance. The Group will continue its effort in production efficiency, and sort out effective cost reduction measures to improve our overall competitiveness.

On the other hand, we are working closely with our customers to co-develop new high value-adding products, and solicit new customers in high value industries. In order to tap into high growth markets, the Group will also explore new business opportunities in high value and high growth industries through mergers and acquisitions.

With our core values of commitment to top product quality, our in-depth understanding of our customers and our emphasis to environmental protection, we are optimistic that these new development projects will become the new profit drivers of the Group.

On behalf of the Board, I would like to take this opportunity to express my gratitude to our shareholders, business partners and our committed employees for their support and dedication which is a vital element to our continuous success in the years to come.

Sun Kwok Wah Peter
Chairman
Hong Kong

24 June 2014

Management Discussion and Analysis

Management Discussion and Analysis

Business Review

In spite of the uncertainty in the United States ("**US**") and European markets which continued to cloud the pace of global recovery of the economy, the Group saw steady and continued improvement in our business performance and business fundamentals during the year ended 31 March 2014.

During the year ended 31 March 2014, the Group recorded revenue which amounted to approximately HK$945.8 million. It shows an increase of approximately HK$99.3 million, or 11.7% as compared to approximately HK$846.5 million for the corresponding period in 2013. The growth in revenue was fueled by a combination of factors. In the metal stamping segment, there was a continued rise in orders from customers engaged in the medical and test equipment sector, office automation sector and consumer electronics sector. The increase in orders was mainly caused by the launching of new product models by these customers. Although the up-trend was partly offset by the Group's exercise to restructure our product portfolio, in which we phased out certain office automation products, the segment generated approximately 7.6% more revenue than the corresponding period last year.

In the metal lathing segment, the Group recorded vibrant growth of approximately 24.7% against the same period last year. During the year ended 31 March 2014, revenue generated by the metal lathing segment was approximately HK$253.6 million, representing a hike of approximately HK$50.3 million as compared to 2013. Such growth was mainly contributed by the rebound of orders from our Ultimate Customer after the fourth quarter of 2012. Apart from this, during the year ended 31 March 2014, the Group was also engaged by certain other subcontractors of the Ultimate Customer to produce other metal components which are used in the products or accessories of our Ultimate Customer.

As part of the Group's strategic plan, the Group's first product assembly facilities started to operate in December 2012. The assembly operation formed part of our strategic downward expansion from the provision of precision metal engineering and processing service, to a one-stop full scale service to our customers. By providing additional value-added service to our customers, we are able to open new windows of business opportunities with our customers, and enhance the Group's competitiveness and profitability. Although it is still in the start-up phase, the product assembly operation had begun to contribute value towards

its strategic objectives. Management is optimistic that the project will further realise its value in years to come.

Apart from the above, the Group was also making progress regarding the development of our Suzhou production base, which is intended to be used as a comprehensive production base to serve nearby customers which are engaged in the medical and test equipment industry. As of the date of this annual report, the construction of the new Suzhou base is in progress. The gross site area of our new Suzhou production base is approximately 52,000 square metres ("**sq.m.**"). When completed, it will provide the Group with a factory premise with a gross floor area of approximately 37,000 sq.m.. Our management is optimistic that, if completed, the new site will provide us with sufficient production capacity to expand into the medical and test equipment industry which has promising profit margin.

Outlook and Strategy

Although under continuing competition, the Group has continued to focus on our business fundamentals and endeavor to mitigate business risks. We believe that the fast expanding PRC precision metal and precision engineering market is still far from saturation and has plenty of room to allow quality and well-managed industry players to expand its market share. Compounded with the expected recovery of the global economy, we are cautiously optimistic about the business environment in the foreseeable future.

In order to capture the opportunity presented before us, the Group shall continue to maintain close relationship with our customers in our traditional market, and sort out effective measures to reduce increasing production cost. The Group will continue our effort in enhancing cost management and production efficiency through the use of robotic automation in our production process in order to counter the increasing staff cost in the PRC and enhance production efficiency.

On the other hand, the Group will continue to explore new business and products in high value and high growth industries, such as the medical and test equipment and the consumer electronics industries. We will closely monitor the construction progress of our Suzhou production base, which is intended to capture the high value medical and test equipment market.

Besides, our Group is also expanding our existing business model to develop our own-branded kiosk products. Being a new industry, the kiosk products have a higher profit margin than the traditional metal stamping products. As at 31 March 2014, we have already signed contracts with various customers located in Hong Kong, Singapore, Thailand and the Philippines in which the Group will deliver different kinds of kiosk products to these customers in the coming years. Management is optimistic that our kiosk products business shall provide a good prospect by contributing revenue and profit to the Group in the financial years to come.

With our solid long term relationship with our major customers, our extensive business knowledge in the industry, and our core values of commitment to top product quality, we would dedicate ourselves to maximise the returns to the shareholders of the Company (the "**Shareholders**").

Financial Review

Revenue

For the year ended 31 March 2014, revenue of the Group reached approximately HK$945.8 million, representing an increase of approximately HK$99.3 million or 11.7% from approximately HK$846.5 million for the corresponding period last year. Set out below is a breakdown of our revenue by business segments:

	2014		2013	
	HK$'000	**%**	HK$'000	%
Metal Stamping	**692,247**	**73.2**	643,244	76.0
Metal Lathing	**253,551**	**26.8**	203,263	24.0
	945,798	**100.0**	846,507	100.0

During the year ended 31 March 2014, the Group had redefined its business segment in order to better describe our business activities and to align with market practice and enhance comparability. Under the new segment classification, our business activities are categorised by the manufacturing process by which we produce products for customers, namely, metal stamping and metal lathing.

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. It includes computer numerical control ("**CNC**") metal plate processing which is also used for producing stamped metal parts. The metal stamping process is usually employed to produce products to customers engaged in various industries, including office automation, medical and test equipment, finance equipment, network and data storage, and consumer electronics. Metal lathing includes two categories of metal production processes, namely cam-operated automatic lathing and CNC lathing. It is a metal cutting operation, in which a work piece is fast spinning while the blade is moving on a plane in a linear 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. The metal lathing process is usually employed to produce products mainly to customers engaged in the consumer electronics and medical and test equipment industries.

Revenue from the metal stamping segment increased by approximately HK$49.0 million or 7.6% from approximately HK$643.2 million for the year ended 31 March 2013 to approximately HK$692.2 million for the year ended 31 March 2014. The improvement was mainly due to a number of our customers introducing new product models to the market during the year ended 31 March 2014 and placed more orders to the Group. However, the increase was partly offset by the phasing out of certain office automation products.

Revenue from the metal lathing segment increased approximately by HK$50.3 million or 24.7% from approximately HK$203.3 million for the year ended 31 March 2013 to approximately HK$253.6 million for the year ended 31 March 2014. The improvement was mainly caused by the rebound of orders from our Ultimate Customer (as defined in our prospectus for global offering dated 28 September 2012 (the "**Prospectus**")) during the year ended 31 March 2014.

As stated in the Prospectus, our Ultimate Customer had gradually ceased to engage one of our major customers for procurement of related metal parts at the beginning of 2012. Instead, from June 2012 onward, the Group started to serve two other sub-contracting manufacturers of the Ultimate Customer to manufacture similar type of metal parts that we previously produced for that major customer. As a result, the Group experienced significant drop in revenue from this segment during the transitional period which happened in the corresponding period last year.

After the transitional period, purchase orders placed by the two sub-contracting manufacturers of the Ultimate Customer gradually increased to normal level. At the same time, the Group was engaged by other customers which are also sub-contracting manufacturers of our Ultimate Customer to produce other metal parts which are ultimately used in the main product and accessory products of the Ultimate Customer. The above factors, combined to contribute to the rebound of our revenue from the metal lathing segment.

Geographically, the PRC, North America, Europe and Japan continued to be the major markets of the Group's products. They accounted for approximately 66.9%, 16.1%, 8.4% and 5.6% of our Group's revenue respectively for the year ended 31 March 2014. Details of revenue generated by different geographical location are set out in note 33(c) to the consolidated financial statements.

Cost of sales

Cost of sales primarily comprises of the direct costs associated with the manufacturing of our products. It consists mainly of direct materials, direct labour, processing fee and other direct overheads. Set out below is the breakdown of our Group's cost of sales:

	Year ended 31 March			
	2014		2013	
	HK$'000	**%**	HK$'000	%
Direct materials	**422,781**	**57.3**	365,347	57.0
Direct labour	**173,269**	**23.5**	145,544	22.7
Processing fee	**74,801**	**10.1**	60,544	9.4
Other direct overheads	**67,085**	**9.1**	69,773	10.9
	737,936	**100.0**	641,208	100.0

During the year ended 31 March 2014, cost of sales of the Group increased by approximately 15.1% or HK$96.7 million as compared to the corresponding period last year. The increase was largely in line with the growth in total revenue. The percentage of cost of sales to the total revenue was approximately 78.0%, representing an increase of 2.3%, as compared to approximately 75.7% in the corresponding period last year. This was primarily due to the continuous increase in average labour costs and processing fee in the PRC.

Gross profit and gross profit margin

During the year ended 31 March 2014, our gross profit was approximately HK$207.9 million, representing an increase of approximately 1.2% as compared to the corresponding period in 2013. It was mainly due to increase in overall sales by approximately 11.7%.

For the year ended 31 March 2014, the gross profit margin of the Group was approximately 22.0% which decreased by 2.3% as compared to approximately 24.3% in the corresponding period in 2013. The decrease in gross profit margin was mainly attributable to the continuous increase in production costs which was partly offset by the change in product mix of the Group.

For the year ended 31 March 2014, the gross profit margin of our metal stamping and metal lathing segment was 15.5% and 39.6% respectively. Although the Group had implemented counter measures, the gross profit margin of both our segments decreased by 2.9% and 3.0%, respectively from the same period last year, mainly due to the continued increase in labour and operating costs in the PRC as explained above.

However, the above effect was partly offset by the increase of revenue from the higher margin metal lathing segment, which improved the Group's overall gross margin by 0.3%. As a percentage of total revenue, the revenue from the metal lathing segment increased from approximately 24.0% for the year ended 31 March 2013 to approximately 26.8% for the year ended 31 March 2014.

For details of the gross profit margin of the Group's two business segments, please refer to note 33(a) to the consolidated financial statements.

Other gains, net

During the year ended 31 March 2014, the Group recorded other gains, net which amounted to approximately HK$0.1 million. In the corresponding period of 2013, the Group recorded other gains, net of approximately HK$7.8 million.

The decrease was due primarily to a one-off gain of HK$9.6 million from the disposal of certain leasehold land and building in Hong Kong during the year ended 31 March 2013.

Distribution and selling expenses

Distribution and selling expenses relate to the expenses incurred for the promotion and selling of our products. It mainly comprised of, among others, salaries and related costs for the sales and marketing staff, travelling and transportation costs, and marketing expenses. Distribution and selling expenses were approximately HK$22.4 million and HK$17.6 million for the year ended 31 March 2014 and 2013, respectively. The increase in distribution and selling expenses was in line with the increase in sales as more resources were being used in our business development.

General and administrative expenses

General and administrative expenses comprised primarily of salaries and related costs for key management, our finance and administration staff, rental expenses, depreciation, audit fees, and professional and related costs incurred by the Group.

The general and administrative expenses of the Group increased from approximately HK$140.1 million for the year ended 31 March 2013 to approximately HK$142.1 million for the year ended 31 March 2014.

The increase was a combined effect of (i) an increase in remuneration of directors, senior and administrative staff; (ii) an increase in the research and development costs; and (iii) additional operational costs which were incurred by a newly established subsidiary. However, the increase was partly offset by the one-off listing expenses of approximately HK$14.5 million incurred for the year ended 31 March 2013 which was not incurred during the year ended 31 March 2014.

Finance costs

Our finance costs of approximately HK$6.7 million for the year ended 31 March 2014 (2013: HK$6.3 million) represented interest expenses on bank borrowings. Increase in finance costs were mainly due to the higher average bank borrowings balance and higher average interest rates for the year ended 31 March 2014, as compared to the corresponding period last year.

Income tax expenses

Our income tax expenses amounted to approximately HK$2.5 million for the year ended 31 March 2014. For the year ended 31 March 2013, income tax was approximately 9.1 million. Our effective tax rate decreased from approximately 18.6% for the year ended 31 March 2013 to approximately 6.7% for the year ended 31 March 2014.

The significant decrease was mainly triggered by two events during the year ended 31 March 2014. Firstly, during the year ended 31 March 2014, our application submitted to the Suzhou Municipal Office, State Administration of Taxation to reduce the withholding tax rate on dividend payment according to a tax treaty between China and Hong Kong was approved. As a result, the Group received a tax refund on the withholding tax previously paid which amounted to HK$3.1 million.

Secondly, our income tax expenses was further lowered by reversal of over-provision of corporate income tax of HK$5.7 million by certain of the Group's Hong Kong and PRC subsidiaries made in prior year.

Profit attributable to equity holders of the Company

For the year ended 31 March 2014, profit attributable to equity holders of the Company amounted to approximately HK$36.4 million, representing a decrease of 9.4% as compared to the corresponding period in 2013. The decrease of net profit was a combined effect of (i) an increase in general and administrative expenses, and distribution and selling expenses during the year ended 31 March 2014; and (ii) the fact that the Group did not incur any one-off gain on disposal of leasehold land and buildings in Hong Kong for the year ended 31 March 2014. The decrease of net profit was partly offset by (i) an increase in the revenue of the Group, which in turn resulted in an increase of the gross profit; and (ii) that there were dividend withholding tax refund of HK$3.1 million and reversal of over-provision of corporate income tax of HK$5.7 million as stated above for the year ended 31 March 2014. Had the gain on disposal of property, plant and equipment of HK$9.6 million not been incurred for the year ended 31 March 2013, the operating profit before income tax for the year ended 31 March 2013 would have been HK$45.7 million which was comparable to HK$43.5 million for the year ended 31 March 2014.

Liquidity, Financial and Capital Resources

Financial resources and liquidity

Our current assets comprise mainly of cash and bank balances, trade and other receivables and inventories. Our total current assets amounted to approximately HK$483.7 million and HK$605.5 million as at 31 March 2014 and 31 March 2013 respectively, which represented approximately 56.8% and 69.5% of our total assets as at 31 March 2014 and 31 March 2013, respectively.

Capital structure

The Group's capital structure is summarised as follow:

	2014 HK$'000	2013 HK$'000
Bank borrowings	**150,450**	209,848
Bank overdrafts	**184**	1,176
Total debts	**150,634**	211,024
Less: Cash and cash equivalent	**(105,390)**	(218,678)
Restricted bank deposit	**(23,400)**	(46,800)
Net debt/(cash)	**21,844**	(54,454)
Shareholders' equity	**515,206**	493,523
Total capitalisation*	**537,050**	493,523
Gearing ratio		
– Total debt to shareholders' equity ratio#	**29.2%**	42.8%
– Net debt to shareholders' equity ratio##	**4.2%**	Net cash

* Total capitalisation is the sum of the net debt and the shareholders' equity

\# Total debt to shareholders' equity ratio is calculated based on total debts divided by shareholders' equity at the end of the respective year

\## Net debt to equity ratio is calculated based on net debt divided by shareholders' equity at the end of the respective year

The Group's primary source of funds came from cash generated from operating activities. The Group had recorded net cash inflow from operating activities of approximately HK$98.9 million and HK$58.0 million for the year ended 31 March 2014 and 2013, respectively.

Details of the Group's bank loans and other borrowings as at 31 March 2014 are set out in Note 19 to the consolidated financial statements.

The capital structure of the Group consists of equity attributable to the equity holders of the Company (comprising issued share capital and reserves) and bank borrowings. The Directors will review the capital structure regularly. As part of such review, the Directors consider the cost of capital and the optimal use of debt and equity so as to maximise the return to the equity holders.

Capital expenditure

During the year ended 31 March 2014, the Group acquired property, plant and equipment and leasehold land and land use rights of approximately HK$141.0 million as compared to the year ended 31 March 2013 of approximately HK$97.6 million.

During the year ended 31 March 2014, the Group purchased a piece of land in Suzhou with net land premium and construction cost incurred which amounted to approximately HK$44.4 million; an office for the Group's headquarters in Hong Kong which amounted to approximately HK$46.5 million; and other property, plant and equipment of approximately HK$50.1 million during the normal and ordinary course of our business.

We financed our capital expenditure through cash flows generated from operating activities, IPO proceeds and bank borrowings.

Charges on the Group's assets

As at 31 March 2014, the Group's bank borrowings and bank overdrafts of HK$99,956,000 (2013: HK$161,024,000) were secured by bank deposits of HK$23,400,000 (2013: HK$46,800,000). The Group's bank borrowings of HK$50,678,000 (2013: nil) were secured by land and building with a carrying amount of HK$46,500,000 (2013: nil).

Foreign currency exposure

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates mainly in Hong Kong and the PRC. The Group's Hong Kong entities are exposed to foreign exchange risk arising from Renminbi, while the Group's PRC entities are exposed to foreign exchange risk arising from United States dollars.

The Group manages its foreign exchange risk by closely monitoring the movement of the foreign currency rates. Save for bank borrowings denominated in Renminbi as discussed below, the Group does not use any derivative financial instruments to manage the foreign exchange exposure arising from the financial assets/liabilities which are denominated in a currency which is not the functional currency of our Group entities.

Derivative financial instruments

In August 2011, the Group entered into one foreign exchange derivative contract to hedge against the foreign exchange exposure in relation to a long-term bank loan denominated in Renminbi. The effective period of the contract is two years and the contract had expired in August 2013.

Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 31 March 2014 are set out in Note 30(a) and Note 30(b) to the consolidated financial statements.

Contingent liabilities

As at 31 March 2014, our Group had no material contingent liabilities as set out in Note 31 to the consolidated financial statements.

Employees and Remuneration Policy

As at 31 March 2014, our Group had a total number of 2,811 full-time employees (2013: 2,792). The Group determined the remuneration packages of all employees based on factors including individual qualifications, contribution to our Group, performance and years of experience of the respective staff.

The Group provides on-going training to our staff in order to enhance their technical skills and product knowledge and to provide them with updates with regard to industry quality and work safety.

The Group maintains good relationships with our employees. We did not have any labour strikes or other labour disturbances that would have interfered with our operations during the year ended 31 March 2014.

As required by PRC regulations, the Group participates in the social insurance schemes operated by the relevant local government authorities.

Use of Proceeds from the share offer

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 October 2012 and raised net proceeds of approximately HK$85.6 million. As at 31 March 2014, the unused proceeds of approximately HK$36.0 million were deposited with licensed banks in Hong Kong and the PRC.

As at 31 March 2014, the net proceeds had been utilised as follows:

	Actual net proceeds HK$ million	Actual utilisation up to 31 March 2014 HK$ million	Balance as at 31 March 2014 HK$ million
For the purchase of a piece of land in Suzhou	**58.0**	**33.6**	**24.4**
For the construction of production facilities in Suzhou (note (1))	**27.6**	**16.0**	**11.6**
	85.6	**49.6**	**36.0**

Note:

(1) The production facilities in Suzhou under development are located at Jinshan Road South, Xiangjiang Road West, Suzhou New District, the PRC.

Corporate Governance Report

The Board (the "**Board**") of Directors (the "**Director**" and each a "**Director**") of the Company is pleased to present this Corporate Governance Report for the year ended 31 March 2014.

Corporate Governance Practices

The Board is always committed to maintaining high standards of corporate governance to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Board is of the view that the Company has complied with the code provision as set out in the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") for the year ended 31 March 2014.

The Company reviews its corporate governance practices regularly to ensure compliance with the CG code.

The Board of Directors

Responsibilities

The Board takes overall responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategic development of the Group, monitoring and controlling the Group's operation and financial performance, internal control and risk management systems. The authority and responsibilities for the day-to-day management and operations of the Group is delegated by the Board to the senior management. The Board is well balanced with directors having sound industry knowledge, extensive corporate and strategic planning experience and/or expertise relevant to the business of the Group. The executive Directors and independent non-executive Directors bring a variety of experience and expertise to the Company.

The Company has subscribed appropriate and sufficient insurance coverage on Directors' liabilities in respect of legal actions taken against Directors arising out of corporate activities.

Board composition

The Board currently comprises seven members, consisting of four executive Directors and three independent non-executive Directors. The biographical details of the Board members are set out on pages 26 to 29 of this Annual Report. The list of Directors (by category) is also disclosed in all corporate communications issued by the Company pursuant to the Listing Rules from time to time.

Throughout the year, the Board has at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional accounting qualifications and financial management expertise, and the independent non-executive Directors represented over one-third of the Board.

The Company has received, from each of the existing independent non-executive Directors, an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent in accordance with the Listing Rules.

Board diversity policy

The Company has adopted a board diversity policy (the "**Policy**") which sets out the approach to achieve and maintain diversity on the Board in order to enhance the quality of its performance.

Pursuant to the Policy, the Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to skills, experience, knowledge, expertise, culture, independence, age and gender.

The nomination committee of the Board will discuss and agree annually measurable objectives for implementing diversity on the Board and recommend them to the Board for adoption and review the Policy that may be required.

Appointments, re-election and removal of Directors

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 22 September 2012, whereas each of the independent non-executive Directors has been appointed for an initial term of two years commencing from 22 September 2012 renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term appointment. Such term is subject to his re-election by the Company at an annual general meeting ("**AGM**") upon retirement.

According to the Articles of Association of the Company, at every AGM of the Company, one-third of the Directors (or if their number is not three or a multiple of three, then the number nearest to but not less than one third) will retire by rotation provided that every Director shall be subject to retirement at least once every three years. Directors to retire in every year will be those who have been the longest in office since their last election but as between persons who became Directors on the same day those to retire shall (unless they otherwise agree between themselves) be determined by lot.

The Articles of Association also provide that any Director appointed by the Board to fill a casual vacancy in Board shall hold office until the first general meeting of the Company after his/her appointment and be subject to re-election at such meeting, and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Chairman and chief executive officer

Under CG Code A2.1, the roles of the Chairman and the chief executive officer should be separated and should not be performed by the same individual. For the year ended 31 March 2014, to further ensure a balance of power and authority, the roles of the Chairman and the chief executive officer have been performed by Mr. Sun Kwok Wah Peter and Ms. Chung Sin Ling, respectively.

The Chairman and chief executive officer have separate defined responsibilities. The Chairman is responsible in leading the Board in forming the Group's strategies and policies and for organising the business of the Board, ensuring its effectiveness and setting its agenda but not involved in the day-to-day business of the Group. The chief executive officer is directly in charge of the daily operations of the Group and is accountable to the Board for the financial and operational performance of the Group. Their respective roles and responsibilities are set out in writing, which have been approved and adopted by the Board.

Directors' continuous training and development

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remains informed and relevant.

The Directors are committed to complying with the CG Code A6.5 on Directors' training. All Directors have participated in continuous professional development and provided a record of training they received during the year to the Company.

Trainings were organised by the Company for Directors to update the Directors on the disclosure of inside information and new developments to the Companies Ordinance.

According to the records provided by the Directors, a summary of training received by the Directors during the year is as follows:

Name of Directors	Type of continuous professional development programmes
Executive Directors	
Mr. Sun Kwok Wah Peter (Chairman)	A,B
Mr. Wong Chi Kwok	A,B
Mr. Lam Kin Shun	A,B
Mrs. Chow Suen Christina	A,B
Independent Non-executive Directors	
Mr. Wan Kam To	A,B
Mr. Lam Hon Keung Keith	A,B
Prof. Chung Chi Ping Roy	A,B

Notes:

A: attending training/seminars

B: reading newspapers, journals, seminar materials and updates relating to the latest development of the Listing Rules and other applicable regulatory requirements

Board and general meetings and attendance

During the year, the Board met regularly to review the financial and operating performance of the Company and to discuss future strategy. Directors may participate either in person or through electronic means of communications.

For the year ended 31 March 2014, the Company has adopted the practice of holding board meetings regularly for at least four times a year in approximately quarterly intervals. At least 14 days' notice is given to all Directors for all regular board meetings and all Directors are given the opportunity to include matters for discussion in the agenda. The agenda and board papers for each meeting are sent to all Directors at least three days in advance of every regular board meeting. All minutes of the board meetings are kept by the company secretary and are available to all Directors for inspection.

At the board meetings, the Board reviewed significant matters including the Company's annual and interim financial statements, proposals for final and interim dividends, annual and interim reports and approved material capital expenditure of the Group.

During the year, the Company has convened six Board meetings and one general meeting. The attendance record for each of the Directors at the board meeting and general meeting are set out below.

	Number of attendance	
Name of Directors	**Board meetings**	**General meeting**
Executive Directors		
Mr. Sun Kwok Wah Peter (Chairman)	6/6	1/1
Mr. Wong Chi Kwok	6/6	1/1
Mr. Lam Kin Shun	6/6	1/1
Mrs. Chow Suen Christina	6/6	1/1
Independent Non-Executive Directors		
Mr. Wan Kam To	6/6	1/1
Mr. Lam Hon Keung Keith	4/6	1/1
Prof. Chung Chi Ping Roy	5/6	1/1

Model Code for Securities Transactions by Directors

The Company has adopted a code for securities transactions by the Directors on terms equivalent to the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules.

The Board confirmed that, having made specific enquiry, the Directors have complied in full with the required standards as set out in the Model Code and its code of conduct during the year ended 31 March 2014 and up to 24 June 2014, the date of this Annual Report.

Board Committees

As an integral part of sound corporate governance practices, the Board has established the following board committees to oversee the particular aspects of the Group's affairs. Each of these committees comprises independent non-executive Directors who are being invited to join as members.

Audit committee

The Company established an audit committee on 22 September 2012 with written terms of reference in compliance with Rule 3.21 and the CG Code as set out in Appendix 14 of the Listing Rules. The primary duties of the audit committee of the Company are mainly to make recommendation to the Board on the appointment and removal of external auditors, review the financial statements and material and provide advice in respect of financial reporting and oversee the internal control procedures of the Company. The full terms of reference are available on the Company's website (www.kingdom.com.hk) and the Stock Exchange's website.

The audit committee currently consists of three independent non-executive Directors. The Chairman of the committee is Mr. Wan Kam To, who has appropriate professional qualifications and experience in accounting matters.

The composition of the audit committee during the year as well as the meeting attendance of the committee members is as follows:

Membership and Attendance of Members	
Members	Attendance/ Number of meetings
Independent Non-executive Directors	
Mr. Wan Kam To (Chairman)	2/2
Mr. Lam Hon Keung Keith	2/2
Prof. Chung Chi Ping Roy	1/2

The audit committee has reviewed the Group's final consolidated financial statements for the year ended 31 March 2013, interim condensed consolidated financial statements for the six months ended 30 September 2013 and has discussed the financial information with the management and the external and internal auditors of the Company during the year before submission to the Board for approval.

Nomination committee

The Company established a nomination committee on 22 September 2012 with written terms of reference in compliance with the CG Code as set out in Appendix 14 of the Listing Rules. The primary duties of the nomination committee of the Company include reviewing the structure, size, and composition of the Board, assessing the independence of independent non-executive Directors, and making recommendations to the Board on matters relating to the appointment of Directors. The full terms of reference are available on the Company's website (www.kingdom.com.hk) and the Stock Exchange's website.

The committee currently comprises two independent non-executive Directors and one executive Director. The committee is chaired by the Chairman of the Board.

The composition of the nomination committee during the year as well as the meeting attendance of the committee members is as follows:

Membership and Attendance of Members	
Members	**Attendance/ Number of meetings**
Executive Director	
Mr. Sun Kwok Wah Peter (Chairman)	1/1
Independent Non-executive Directors	
Mr. Lam Hon Keung Keith	1/1
Prof. Chung Chi Ping Roy	1/1

A meeting was held during the year in which the nomination committee reviewed the composition of the Board and its committees as well as the background and experiences of the board members and evaluated the contributions of the board members to the Group and made recommendation to the Board on the re-appointment of Directors and assessed the independence of independent non-executive Directors.

Remuneration committee

The Company established a remuneration committee on 22 September 2012 with written terms of reference in compliance with Rule 3.25 and the CG Code as set out in Appendix 14 of the Listing Rules. The primary functions of the remuneration committee of the Company are to make recommendation to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group, review performance based remuneration and ensure none of our Directors determine their own remuneration. The full terms of reference are available on the Company's website (www.kingdom.com.hk) and the Stock Exchange's website.

The committee currently comprises two independent non-executive Directors and one executive Director. The Chairman of the committee is Mr. Lam Hon Keung Keith, an independent non-executive Director.

The composition of the remuneration committee during the year as well as the meeting attendance of the committee members is as follows:

Membership and Attendance of Members	
Members	**Attendance/ Number of meetings**
Independent Non-executive Directors	
Mr. Lam Hon Keung Keith (Chairman)	0/1
Mr. Wan Kam To	1/1
Executive Director	
Mr. Sun Kwok Wah Peter	1/1

A meeting was held during the year in which the remuneration committee reviewed the remuneration policies and approved the salaries and bonuses of the executive Directors and senior management. No Director took part in any discussion about his own remuneration. The remuneration committee has communicated with the Chairman of the Company about proposals relating to the remuneration packages of other executive Directors and senior management.

Details of the Directors' emoluments and retirement benefits and remuneration payable to members of senior management are disclosed in the note 24(a) and 24(b) to the consolidated financial statements respectively.

Corporate governance functions

During the year, the Board is also responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

– to develop and review the Group's policies and practices on corporate governance and make recommendations;

– to review and monitor the training and continuous professional development of the Directors and senior management;

– to review and monitor the Group's policies and practices on compliance with the relevant legal and regulatory requirements;

– to develop review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and

– to review the Group's compliance with the CG Code and disclosure requirements in the Corporate Governance Report.

Financial Reporting and Audit

Directors' responsibility for financial statements

The Directors acknowledge their responsibility for preparation of the financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group as at the year end date and of the Group's results and cash flows for the financial year then ended. The Board aims to present a clear and balanced assessment of the Group's performance in the annual and interim reports to the shareholders, and make appropriate disclosure and announcements in a timely manner. Pursuant to code provision C.1.1 of the CG Code, management would provide such explanation and information to the Board as will enable the Board to make an informed assessment of the financial and other information put before the Board for approval. As at the date of this report, the Board is not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern. The financial statements for the year ended 31 March 2014 are properly prepared on the going concern basis in accordance with the applicable statutory requirements and accounting standards.

The responsibilities of PricewaterhouseCoopers, the Company's external auditors, on the Group's financial statements are set out in the section headed "**Independent Auditor's Report**" in this Annual Report.

Auditor's remuneration

For the year ended 31 March 2014, the Group's external auditor provided the following services to the Group:

	HK$'000
Statutory audit services	1,800
Non-audit services	
– Interim review services	400
– Taxation	77
Total	2,277

Internal controls

The Board is responsible for maintaining an adequate system of internal control and reviewing its effectiveness.

The internal control system is designed to facilitate the effectiveness and efficiency of operations, safeguard assets against unauthorised use and disposition, ensure the maintenance of proper accounting records and the true and fairness of the financial statements, and ensure compliance with relevant legislations. It provides reasonable, but not absolute, assurance against material misstatement or loss, and management, rather than elimination, of risks associated with the Group's business activities.

The internal audit department conducts regular and independent reviews of the effectiveness of the Group's internal control system. The audit committee reviews the findings and opinion of the internal audit department on the effectiveness of the Group's internal control system and reports to the Board on such reviews.

Internal audit

The Group has continued to engage the internal audit department to perform internal audits for the Group. The internal audit department performs independent internal audit reviews for all business units and functions in the Group on a systematic and ongoing basis. The frequency of review of individual business units or functions is determined after an assessment of the risks involved. The audit committee endorses the internal audit plan semi-annually. The internal audit department has unrestricted access to all parts of the business and direct access to any level of management including the Chairman of the Company and the Chairman of the audit committee as it considers necessary. It submits regular reports for the audit committee's review in accordance with the approved internal audit plan. Concerns which have been reported by the internal audit department are monitored by management by taking appropriate remedial actions.

Shareholders' Right

Convening of extraordinary general meeting ("EGM") on requisition by shareholders

In accordance with Article 64 of the Articles of Association of the Company, any one or more shareholders ("**Requisitionist(s)**") holding at the date of deposit of the requisition not less than one tenth of the paid up capital of the Company having the right of voting at general meetings shall have the right, by written notice to the Board of Directors or the company secretary of the Company by mail at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong, to require an EGM to be called by the Directors of the Company for the transaction of any business specified in such requisition. Such EGM shall be held within two months after the deposit of such requisition. If the Directors fail to proceed to convene such meeting within twenty-one (21) days of such deposit, the Requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the Requisitionist(s) as a result of the failure of the Directors shall be reimbursed to the Requisitionist(s) by the Company.

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board of Directors of the Company in writing through the company secretary whose contact details are as follows:

The Company Secretary
KFM Kingdom Holdings Limited
Email: edmond@kingdom.com.hk
Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong

The company secretary shall forward the shareholders' enquiries and concerns to the Board of Directors and/or relevant Board committees of the Company, where appropriate, to answer the shareholders' questions.

Procedures for putting forward proposals at general meetings by shareholders

To put forward proposals at a general meeting of the Company, a shareholder should lodge a written notice of his/her/its proposal ("**Proposal**") with his/her/its detailed contact information at the Company's principal place of business at Workshop C, 31/F, TML Tower, 3 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong.

The request will be verified with the Company's branch share registrars in Hong Kong and upon their confirmation that the request is proper and in order, the Board of Directors of the Company will be asked to include the Proposal in the agenda for the general meeting.

The notice period to be given to all the shareholders of consideration of the Proposal raised by the shareholder concerned at the general meeting varies according to the nature of the Proposal as follow:

(a) Notice of not less than 21 clear days and not less than 20 clear business days in writing if the Proposal requires an ordinary resolution or a special resolution of the Company in an annual general meeting of the Company;

(b) Notice of not less than 21 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of a special resolution of the Company in an extraordinary general meeting of the Company; and

(c) Notice of not less than 14 clear days and not less than 10 clear business days in writing if the Proposal requires approval by way of an ordinary resolution of the Company in an extraordinary general meeting of the Company.

Communication with Shareholders

The management endeavours to maintain effective communications with the shareholders and potential investors.

The Company meets the shareholders at the annual general meeting, publish interim and annual reports on the Company's website (www.kingdom.com.hk) and the Stock Exchange, and release press releases on the Company's website to keep the shareholders and potential investors abreast of the Group's business and development.

Constitutional Documents

During the year, there is no change in the Company's constitutional documents.

Updates on Compliance and Regulatory Matters as Disclosed in the Prospectus

Long term relocation plan

As disclosed in our prospectus dated 28 September 2012 (the "**Prospectus**"), 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 Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited ("**KRP-Shenzhen**"). As advised by our PRC legal advisers, there is a potential risk of demolition and expropriation of the Xili Leased Properties as it may be deemed as the historical illegal construction. For details, please refer to pages 186 to 190 of the Prospectus.

As a result, 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**"). Our Directors intend to lease a new factory site for the Long Term Relocation Plan. As disclosed in the Prospectus, we will budget for the costs of the relocation in around 12 to 18 months prior to the expiry date of the lease term of October 2016, and disclose in future interim and annual reports should there be any significant costs expected.

Contingency lease property

As disclosed in the Prospectus, in the event we receive notice for relocation prior to the completion of the Long Term Relocation Plan, the Group will implement the contingency plan, which involves relocating the production facilities and production lines at the Xili Leased Properties to Kingdom Technology (Shenzhen) Company Ltd. ("**KFM-Shenzhen**") and a lease factory space in Dongguan with total gross area of approximately 4,850 square metres (the "**Contingency Lease Property**"). We have entered into an agreement ("**Contingency Lease Property 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 page 190 to 191 of the Prospectus for further details.

Towards the expiry of the Contingency Lease Property Agreement, the Company will seek to either renew the agreement or engage another lessor for similar arrangement.

As at the date of this report, our Directors confirm that both the lessor and the Group have not received any order from the relevant authorities to vacate the Xili Leased Properties. Our Directors also confirm that the Contingency Lease Property Agreement is still effective and we have confirmed with the lessor that the Contingency Lease Property is still available. We shall disclose the status of the Contingency Lease Property Agreement (including whether another lessor is engaged and relevant details of such lessor and land) in future interim and annual reports until the earlier of the execution of the Long Term Relocation Plan or the contingency plan.

The Group has assigned specific staff from the Group's senior management and local management of KRP-Shenzhen to manage the relocation process of the Xili Leased Properties The aforementioned staff will be responsible for locating the appropriate premises and estimation of the costs of the relocation.

Housing provident fund contributions

As at the date of this Annual Report, the status of the unpaid housing provident fund contributions remains unchanged from the disclosure in the 2013 interim report. Please refer to page 18 of the 2013 interim report for further details. Any further material changes to the status of this issue will be disclosed in future financial statements.

Non-Competition

As disclosed in the Prospectus, to further delineate the respective business of Innotech Advanced Products Limited (匯德產品發展有限公司) and its wholly-owned subsidiary Dongguan Tech-in Electrical & Mechanical Products Limited (東莞德鎂精密機電產品有限公司) (together, "**Innotech Group**"), Kingdom Innovative Storage Systems Limited and its wholly-owned subsidiary Innotech Advanced Creative Metal Products (Shenzhen) Limited (匯德創意金屬產品(深圳)有限公司) (together, "**Kingdom Innovative Group**") and the Group from any potential competition from them, Innotech Group and Kingdom Innovative Group entered into a deed of non-competition in favour of the Group on 22 September 2012 pursuant to which the Innotech Group and Kingdom Innovative Group have, among other matters, irrevocably and unconditionally undertaken with us that each of them shall, and shall procure that each of their respective associates (other than the Group) shall not directly or indirectly be engaged in any business in competition with the Group ("**Restricted Activity**"). For further details, please refer to page 226 to 227 of the Prospectus.

It was also disclosed in the Prospectus that each of the Controlling Shareholders (as defined in the Prospectus) entered into a deed of non-competition in favour of the Group on 22 September 2012 pursuant to which each of the Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to us that each of them shall, and shall procure that each of their respective associates (other than the Group) shall not directly or indirectly be engaged in the Restricted Activity. For further details, please refer to page 227 of the Prospectus.

During the year and up to the date of this report, the Company has not been offered and has not rejected any project or business opportunity which falls within the Restricted Activity category referred by the Controlling Shareholders, Innotech Group and Kingdom Innovative Group.

Biographies of Directors and Senior Management

Executive Directors

Mr. Sun Kwok Wah Peter (孫國華), aged 54, one of the founders of the Group, is the Chairman and was appointed as an executive Director on 13 July 2011. He is also a director of certain subsidiaries of the Group. Mr. Sun Kwok Wah Peter has more than 24 years of experience in the metal stamping industry. Since 1981, he participated in his family business in metal kitchenware manufacturing in Hong Kong. He developed his expertise in metal stamping when he first started his metal stamping factory in the name of Kingdom Industrial Company in Kwai Chung in 1987. In 1989, he established Kingdom Fine Metal Limited and established his Shenzhen Shunan Kingdom Contract Processing Factory in 1990. He is responsible for the overall strategic planning and partnership development as well as international key customer relations of the Group.

Mr. Sun Kwok Wah Peter is actively involved in different associations of the industry. He is the honorary Chairman of Hong Kong (SME) Economic and Trade Promotional Association Limited and a member of Innovation and Technology Support Programme Assessment Panel of the Innovation and Technology Fund under Innovation and Technology Commission of the Hong Kong SAR Government.

Mr. Sun Kwok Wah Peter was awarded for his achievements in the industry. He was given the Young Industrialist Awards of Hong Kong by the Federation of Hong Kong Industries in 1999. In 2001, he was awarded as 優秀青年企業家 (Shenzhen Excellent Young Entrepreneurs) by 共青團深圳市委員會 (Communist Youth Shenzhen Committee), 深圳市青年企業家聯合會 (Shenzhen Young Entrepreneurs' Joint Association), 深圳市青年聯合會 (Shenzhen Youth Joint Association), 深圳特區報社 (Shenzhen Special Zone Press Office) and 深圳電視台 (Shenzhen Television) as well as Directors of the Year Awards by the Hong Kong Institute of Directors. In 2002, he received the Bauhinia Cup Outstanding Entrepreneur Award by the Hong Kong Polytechnic University. In 2006, he was awarded the Medal of Honour by the Hong Kong SAR Government.

Mr. Sun Kwok Wah Peter serves numerous positions in various governmental bodies. He has been a member of both Shenzhen Nanshan District Standing Committee of the Chinese People's Political Consultative Conference (the "**CPPCC**") and Anhui Provincial Committee of CPPCC since 2006 and 2003, respectively. He was also the vice chairman of Shenzhen Association of Enterprises with Foreign Investment since 2005. He was the vice-president of Shenzhen Nanshan Foreign Enterprise's Chamber of Commerce between 2005 and 2012 and was appointed as the president in February 2012. He was a member of Hong Kong CPPCC (Provincial) Members Association Limited since 2006.

Mr. Sun Kwok Wah Peter is an active member in different social organisations as well. He is a vice-president of the Hong Kong Young Industrialists Council Foundation Limited and a member of the Vetting Committee for the Professional Services Development Assistance Scheme. Apart from that, he is involved in charitable organisations by being the Founding Chairman of Hong Kong Blind Sports Federation Limited.

In January 2002, Mr. Sun Kwok Wah Peter was awarded associateship (metal industry) by the Professional Validation Council of Hong Kong Industries. He was also appointed as the honorary professor of the 深圳大學工程技術學院 (College of Engineering and Technology of Shenzhen University) in December 2002. Mr. Sun was conferred as a University Fellow by The Hong Kong Polytechnic University in January 2014.

Mr. Sun Kwok Wah Peter is the elder brother of Mrs. Chow Suen Christina, our executive Director.

Mr. Wong Chi Kwok (黃志國), aged 62, first invested in the Group in 1989 and was appointed as an executive Director on 22 September 2012. He is also a director of certain subsidiaries of the Group. He is responsible for advising the Board on strategic planning, partnership development and merger and acquisition strategies, but will not involve in day-to-day management of the Group.

He has over 40 years of experience in the sales, marketing and overall operational management of the printed circuit board manufacturing industry. From 1977 to 1996, he worked in HT (China) Limited and was responsible for setting up the operation of HT Circuits Limited ("**HT Circuits**") in Hong Kong in 1981. He was the general manager of HT Circuits from 1981 to June 1986 and was subsequently promoted as the managing director in July 1986, being responsible for its business planning, finance management and daily operation.

In 1995, HT (China) Limited decided to exit the Hong Kong market and Mr. Wong Chi Kwok then became the major shareholder of HT Circuits after the management buy-out.

Mr. Lam Kin Shun (林健信), aged 56, joined the Group in 1996 and was appointed as our executive Director on 22 September 2012. He is also a director of certain subsidiaries of the Group. He is responsible for managing the operation of Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited and Kingdom Reliance Mechartronic Components (Shanghai) Manufactory Limited as well as supporting the Group's strategic planning.

Mr. Lam Kin Shun has over 15 years of experience in the metal industry specialising in high precision metal turning, machining and lathing processes. In 1996, he co-founded Kingdom (Reliance) Precision Parts Manufactory Limited and he has been responsible for the overall financial management, operation, market development and technological improvement of the company.

Mrs. Chow Suen Christina (周孫汛玲) (formerly known as Ms. Suen Pui Pui (孫蓓蓓)), aged 53, joined the Group since 1987 and was appointed as our executive Director on 22 September 2012. She is also a director of certain subsidiaries of the Group. She is responsible for managing the corporate governance of the Group as well as liaising with local banks and financial institutions and overseeing and ensuring the general working capital level and gearing ratio of the Group are in a healthy and stable condition.

Mrs. Chow Suen Christina has over 20 years of experience in finance, administration and system control. Prior to joining the Group, she was the senior executive and accountant of Ocean Enterprise Textiles Limited between 1983 and 1984. She works in Kingdom Fine Metal Limited since 1987 and has been responsible for the company's finance, accounts, administration as well as internal control.

Mrs. Chow Suen Christina is the younger sister of Mr. Sun Kwok Wah Peter.

Independent non-executive Directors

Mr. Wan Kam To (尹錦滔), aged 61, was appointed as our independent non-executive Director on 22 September 2012. Mr. Wan Kam To graduated from Hong Kong Polytechnic University (previously known as Hong Kong Polytechnic) in 1975 with a Higher Diploma in Accountancy. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Mr. Wan Kam To has been a practicing accountant in Hong Kong for over 30 years and has extensive experience in auditing and advisory work. He joined Coopers & Lybrand in 1975 and was admitted to the firm's partnership in 1992. In 1997, the firm merged with Pricewaterhouse and became PricewaterhouseCoopers. Mr. Wan Kam To remained in the firm's partnership until his retirement in June 2008.

He is a member of the Council of the Open University of Hong Kong and serves as a member of the board of directors in several charitable and service organisations.

Mr. Wan Kam To is currently an independent director of Mindray Medical International Limited (NYSE: MR), which is a company listed on the New York Stock Exchange of USA and RDA Microelectronics, Inc. (NASDAQ: RDA), which is a company listed on NASDAQ.

Mr. Wan Kam To is also currently an independent non-executive director of several companies listed on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**"), namely China Resources Land Limited (stock code: 1109), Dalian Port (PDA) Company Limited (stock code: 2880), Fairwood Holdings Limited (stock code: 52), and Huaneng Renewables Corporation Limited (stock code: 958). Mr. Wan served as an independent non-executive director of Real Gold Mining Limited (stock code: 246) briefly in 2011 and GreaterChina Professional Services Limited (stock code: 8193) from May 2011 to November 2013.

He was appointed as an independent non-executive director of S. Culture International Holdings Limited (stock code: 1255), Shanghai Pharmaceuticals Holding Company Limited (stock code: 2607), Harbin Bank Co., Ltd. (stock code: 6138) and Kerry Logistics Network Limited (stock code: 636), with effect from 1 May 2013, 5 June 2013, 8 October 2013 and 25 November 2013, respectively.

Mr. Lam Hon Keung Keith (林漢強) *OBE, JP*, aged 74, was appointed as our independent non-executive Director on 22 September 2012. He was an articled clerk of Messrs. M.K. Lam & Co. Solicitors & Notaries between May 1962 and April 1967. He is a fellow member of the Institute of Directors and Chartered Management Institute since June 1981 and September 2006, respectively. He was once the second vice president of the management committee of the Stock Exchange. He was the executive director of Hembly International Holdings Limited (now known as New Environmental Energy Holdings Limited) (stock code: 3989), a company listed on the Stock Exchange, from June 2006 to December 2009, responsible for business advisory and strategic planning. Mr. Lam Hon Keung Keith has also been an independent non-executive director of Wah Ha Realty Company Limited (stock code: 278), a company listed on the Stock Exchange, since November 1993.

Mr. Lam Hon Keung Keith is active in various social bodies and institutions. In 1984, he was appointed as an unofficial member of the Legislative Council of Hong Kong. From 2000 to 2006, he was a member of the Social Welfare Advisory Committee. He was also appointed as the chairman of the Hospital Governing Committee of the Hong Kong Buddhist Hospital since 1988 and the vice-chairman of the Hong Kong Buddhist Association since 2001.

Prof. Chung Chi Ping Roy (鍾志平) *BBS, JP*, aged 61, was appointed as our independent non-executive Director on 22 September 2012. Prof. Chung is a prominent industrialist and entrepreneur with over 40 years in electronic & electrical appliances industry. Prof. Chung is highly dedicated to the advancement of industry and was the Chairman of the Federation of Hong Kong Industries from July 2011 to July 2013. In addition, Prof. Chung holds positions on a number of Hong Kong SAR Government advisory committees and is also an active member of many social committees and associations.

Prof. Chung holds a Doctoral Degree in Engineering from the University of Warwick, United Kingdom and Doctoral Degree in Business Administration from City University of Macau. He was appointed as an Industrial Professor by the University of Warwick, United Kingdom in December 2010. He was awarded an Honorary Doctoral Degree in Business Administration by the Hong Kong Polytechnic University in 2007 and awarded an Honorary Doctorate Degree by the University of Newcastle, New South Wales, Australia in 2006. He was awarded the Bronze Bauhinia Star (BBS) Medal by the Hong Kong SAR Government on 1 July 2011. He was also appointed as Justice of Peace by the Hong Kong SAR Government on 1 July 2005 and won the Hong Kong Young Industrialists Award in 1997.

Prof. Chung is a non-executive Director and a co-founder of Techtronic Industries Company Limited (stock code: 669). Prof. Chung is also an independent non-executive director of Kin Yat Holdings Limited (stock code: 638), TK Group (Holdings) Limited (stock code: 2283) and Fujikon industrial Holdings Limited (stock code: 927) since 30 January 1997, 27 November 2013 and 1 April 2014, respectively.

Senior Management

Ms. Chung Sin Ling (鍾倩玲) *B.Eng(EE), MBA, CPEng, MIEAust., MIEEE*, aged 52, was appointed as the chief executive officer on 1 April 2013. She had been an advisor to the Board of the Company from July 2010 to March 2013. She has over 26 years of experience in management, marketing, business development, strategic planning and investment field. Before joining the Company, Ms. Chung was the chief executive officer of EuAuto Technology Ltd. ("**EuAuto**"), an electric vehicle company in Hong Kong, and the general manager of Innovech Technology Limited (a subsidiary of EuAuto), where she had worked for more than 6 years. From June 2000 to December 2003, she held senior positions in a telecom consultancy firm and a wireless data solution corporation. Prior to such, Ms. Chung served in several managerial positions in PCCW (formerly known as Cable & Wireless – Hong Kong Telecom) and Motorola AirCommunications Limited Ms. Chung holds a Bachelor of Science degree in Electrical Engineering at the Seattle University, and a Master of Business Administration degree at the University of South Australia. She is a Chartered Professional Engineer of the Institution of Engineers Australia and a member of the Institute of Electrical and Electronic Engineers.

Mr. Kwok For Chi (郭科志), aged 44, joined the Group and was appointed as the financial controller of the Company on 15 February 2012. He was subsequently promoted as the chief financial officer of the Company on 1 January 2013. Mr. Kwok For Chi has over 15 years of experience in financial management and auditing. Prior to joining the Group, Mr. Kwok For Chi served as the chief financial officer and company secretary of Xing Yuan Power Holdings Company Limited from December 2010 to February 2012. Prior to that Mr. Kwok For Chi served as the financial controller of 北京華夏創業房地產開發有限公司 (Beijing Huaxia Real Estate Development Company Limited) from October 2006 to December 2008, and served as the group controller of the Finance and Investment Centre of Hopson Development Holdings Limited (stock code: 754), a company listed on the Stock Exchange, from April 2008 to November 2009. Mr. Kwok For Chi also worked with KPMG from August 1994 to October 2006.

Mr. Kwok For Chi received his bachelor's degree in business administration in accounting from the Hong Kong University of Science and Technology in November 1994. Mr. Kwok For Chi is a member of the Hong Kong Institute of Certified Public Accountants.

Mr. He Lin (賀林), aged 52, is the general manager of the Group. He is primarily responsible for market planning and product research and development of Kingdom Precision Product (Suzhou) Company Limited and Kingdom Technology (Shenzhen) Company Limited. He graduated with a bachelor's degree from 瀋陽航空航天大學 (Shenyang Aerospace University) in July 1984. Prior to joining the Group in 1991, he worked at 上海航空電器有限公司 (Factory 118) in Shanghai between August 1984 and December 1991 as an engineer. He served various positions in the Group and he was appointed as the general manager of Kingdom Precision Product (Suzhou) Company Limited in April 2002 being responsible for the management of the company.

Mr. He Lin is the nephew-in-law (表外甥女婿) of Mr. Sun Kwok Wah Peter and Mrs. Chow Suen Christina.

Report of the Directors

The Board of Directors (the "**Board**") have pleasure in presenting their report and the audited consolidated financial statements of the Group for the year ended 31 March 2014.

Principal Activities

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the provision of precision metal stamping and lathing services, and manufacturing and sales of fine metal products. Details of the principal activities of the Company's subsidiaries are set out in note 9 to the consolidated financial statements.

An analysis of the Group's turnover and operating result by new business segments for the year ended 31 March 2014 is set out in note 33 to the consolidated financial statements.

Results

The results of the Group for the year ended 31 March 2014 are set out in the consolidated statement of comprehensive income on page 47.

Dividend

The Board has recommended the payment of a final dividend of HK0.5 cents per share (2013: HK2.0 cents) for the year ended 31 March 2014 which will be payable to the shareholders of the Company (the "**Shareholders**") whose names appear on the register of members of the Company (the "**Register of Members**") on Thursday, 4 September 2014 subject to the Shareholders' approval in the annual general meeting of the Company to be held on Thursday, 28 August 2014 (the "**AGM**").

On 26 November 2013, the Board declared an interim dividend of HK1.3 cents per share (2013: nil) in respect of the six months ended 30 September 2013 which was paid in January 2014.

For the year ended 31 March 2013, final dividends totaling to HK$12,000,000 were declared and fully paid in September 2013.

On 2 May 2012 and 26 June 2012, our Group declared dividends of HK$53,646,000 and HK$31,582,000 respectively to its then shareholders and the dividend has been fully paid by the Group.

Property, Plant and Equipment

Details of movements in property, plant and equipment during the year are set out in note 5 to the consolidated financial statements.

Borrowings and Interest Capitalised

Particular of borrowings of the Group as at 31 March 2014 is set out in note 19 to the consolidated financial statements.

Interest and other borrowing costs capitalised by the Group (if any) are set out in note 25 to the consolidated financial statements.

Share Capital

Details of the share capital of the Company are set out in note 15 to the consolidated financial statements.

Reserves
Details of the movement in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity on pages 48 of this Annual Report and note 16 to the consolidated financial statements.

Distributable Reserves
As at 31 March 2014, the Company's reserves available for distribution to shareholders amounted to approximately HK$30.2 million, comprising retained profit of HK$4.1 million and share premium of HK$26.1 million. Under Cayman Islands law, a company may not pay a dividend, or make a distribution out of share premium account unless immediately following the date on which the payment is proposed to be made, the company is able to pay its debts as they fall due in the ordinary course of business.

Retirement Benefit Schemes
Details of retirement schemes of the Group are set out in notes 23 to the consolidated financial statements.

Donations
Donation made by the Group during the year amounted to approximately HK$20,000 (2013: HK$170,000).

Financial Summary
A summary of the results and other assets and liabilities of the Group for the last five financial years is set out on pages 103 to 104 of this Annual Report.

Directors
The directors of the Company during the year and up to the date of this report were:

Executive Directors:

Mr. Sun Kwok Wah Peter (Chairman)
Mr. Wong Chi Kwok
Mr. Lam Kin Shun
Mrs. Chow Suen Christina

Independent Non-Executive Directors:

Mr. Wan Kam To
Mr. Lam Hon Keung Keith
Prof. Chung Chi Ping Roy

At the annual general meeting held on 27 August 2013, Mr. Sun Kwok Wah Peter, Mr. Lam Kin Shun and Mr. Lam Hon Keung Keith were re-elected as Directors of the Company. Mr. Wong Chi Kwok, Mrs. Chow Suen Christina, Mr. Wan Kam To and Prof. Chung Chi Ping Roy held office throughout the year.

In accordance with the Company's Articles of Association, Mr. Wong Chi Kwok, Mrs. Chow Suen Christina and Mr. Wan Kam To shall retire from office and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Biographical details of Directors are set out on pages 26 to 29 of this Annual Report.

Independent Confirmation

The Company has received annual confirmations of independence from each of the existing independent non-executive Directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**"). The Company considers that all the independent non-executive Directors are independent in accordance with the Listing Rules.

Director Remuneration

The remuneration of the Directors is determined with reference to the Director's duties, responsibilities, performance and the results of the Group. Details of the remuneration of the Directors are set out in note 24 to the consolidated financial statements.

Directors' Service Contracts

Each of the executive Directors has entered into a service contract with the Company pursuant to which they agreed to act as executive Directors for a term of three years commencing from 22 September 2012 until terminated by not less than three months' notice in writing served by either party. After the expiry of the current term, the executive Director may continue to be appointed by the Company, subject to terms and conditions to be agreed between the parties.

Each of the independent non-executives Directors has been appointed for an initial term of two years commencing from 22 September 2012 renewable automatically for successive term of one year each commencing from the next day after the expiry of the then current term of appointment, unless terminated by not less than three months' notice in writing served by either the independent non-executive Director or the Company expiring at the end of the initial term or at any thereafter.

Directors' Interests in Contracts of Significance

No contract of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Arrangement for Directors to Acquire Shares or Debentures

At no time during the year was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Directors' Interests in Competing Business

During the year ended 31 March 2014 and up to the date of this report, none of the Directors of the Company are considered to have direct or indirect interests in businesses which compete or are likely to compete with businesses of the Group pursuant to the Listing Rules.

Non-Competition Undertaking

The Group has entered into several Deeds of Non-Competition with the Controlling Shareholders (as defined in the Prospectus) and related companies. Details of the Deed of Non-Competition was set out in page 25 of this Annual Report.

Share Option Scheme

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

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

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

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

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

During the year ended 31 March 2014, no option was granted, exercised, cancelled, lapsed or outstanding under the Share Option Scheme. As at the date of this Annual Report, the total number of shares available for issue under the Share Option Scheme was 60,000,000, representing 10% of the issued share capital of the Company.

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

As at 31 March 2014, the interests and/or short positions of the Directors or chief executive of the Company in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "**SFO**")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions which they were taken or deemed to have taken under such provisions of the SFO), and/or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in Appendix 10 to the Listing Rules are set out as follows:

Name of Director	Name of group member/associated corporation	Capacity/Nature of interest	Number and class of securities (note 1)	Approximate shareholding percentage
Mr. Sun Kwok Wah Peter ("**Peter Sun**")	Company	Interest of controlled corporation/Interests of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Mr. Wong Chi Kwok ("**David Wong**")	Company	Interests of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Mr. Lam Kin Shun ("**Banson Lam**")	Company	Interests of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Peter Sun	Kingdom International Group Limited ("**KIG**")	Beneficial owner	4,670 Shares (note 4)	46.70%
David Wong	KIG	Beneficial owner	1,244 Shares	12.44%
Banson Lam	KIG	Beneficial owner	867 Shares	8.67%

Notes:

1. The letter "L" denotes our Directors' long position in the shares of our Company or the relevant associated corporation.

2. These shares were held by KIG, which is owned as to 46.70% by Mr. Peter Sun, among the 4,670 shares (representing 46.70% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 220 shares (representing 2.20% of the total issued share capital of KIG) were held by him as trustee on trust for the share award plan of KIG, as to 12.44% by Mr. David Wong, as to 12.44% by Mr. Yau Lam Chuen, as to 9.12% by Mr. Yung Ching Tak, as to 8.67% by Mr. Banson Lam, as to 6.17% by Mr. Chan Lin On and as to 3.09% by Mr. Yeung Man Chiu.

3. Pursuant to the confirmation of concert party arrangement dated 26 September 2011 entered into by Mr. Peter Sun, Mr. David Wong, Mr. Yau Lam Chuen, Mr. Yung Ching Tak, Mr. Banson Lam, Mr. Chan Lin On and Mr. Yeung Man Chiu, they have confirmed that they are parties acting in concert in the operation and management of Kingdom Precision Product Limited ("**KPP-HK**"), Kingdom Precision Product (Suzhou) Company Limited ("**KPP-Suzhou**"), Kingdom (Reliance) Precision Parts Manufactory Limited ("**KRP-HK**"), KRP-Shenzhen, Kingdom Reliance Mechatronic Components (Shanghai) Manufactory Limited ("**KRP-Shanghai**"), Kingdom Fine Metal Limited ("**KFM-HK**") and KFM-Shenzhen since 13 March 2002, being the date of incorporation of KPP-HK. Accordingly, each person under the concert party arrangement is taken to be interested in the shares the other party under such concert party arrangement is interested under the SFO.

4. Among the 4,670 shares (representing 46.70% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 220 shares (representing 2.20% of the total issued share capital of KIG) were held by him as trustee on trust for the share award plan of KIG.

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

As at 31 March 2014, the following persons (other than a Director or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name of Shareholder	Name of group member/associated corporation	Capacity/Nature of interest	Number and class of securities (note 1)	Approximate shareholding percentage
KIG	Company	Beneficial owner	450,000,000 Shares (L)	75%
Ms. Kwok Wing Yi (note 4)	Company	Interest of spouse	450,000,000 Shares (L)	75%
Ms. Mak Kam Fung (note 5)	Company	Interest of spouse	450,000,000 Shares (L)	75%
Ms. Lo Ka Wai (note 6)	Company	Interest of spouse	450,000,000 Shares (L)	75%
Mr. Yau Lam Chuen	Company	Interest of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Ms. Tsang Mo Jan (note 7)	Company	Interest of spouse	450,000,000 Shares (L)	75%
Mr. Yung Ching Tak	Company	Interest of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Ms. Wen Shi Fang (note 8)	Company	Interest of spouse	450,000,000 Shares (L)	75%

Name of Shareholder	Name of group member/associated corporation	Capacity/Nature of interest	Number and class of securities (note 1)	Approximate shareholding percentage
Mr. Chan Lin On	Company	Interest of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Ms. Pang Sau Ying (note 9)	Company	Interest of spouse	450,000,000 Shares (L)	75%
Mr. Yeung Man Chiu	Company	Interest of Concert Party (note 3)	450,000,000 Shares (L) (note 2)	75%
Ms. Wan Wing Sze (note 10)	Company	Interest of spouse	450,000,000 Shares (L)	75%

Notes:

1. The letter "L" denotes the corporation/person's long position in our Shares.

2. These shares were held by KIG, which is owned as to 46.70% by Mr. Peter Sun, among the 4,670 shares (representing 46.70% of the total issued share capital of KIG) in KIG held by Mr. Peter Sun, 220 shares (representing 2.20% of the total issued share capital of KIG) were held by him as trustee on trust for the share award plan of KIG, as to 12.44% by Mr. David Wong, as to 12.44% by Mr. Yau Lam Chuen, as to 9.12% by Mr. Yung Ching Tak, as to 8.67% by Mr. Banson Lam, as to 6.17% by Mr. Chan Lin On and as to 3.09% by Mr. Yeung Man Chiu.

3. Pursuant to the confirmation of concert party arrangement dated 26 September 2011 entered into by Mr. Peter Sun, Mr. David Wong, Mr. Yau Lam Chuen, Mr. Yung Ching Tak, Mr. Banson Lam, Mr. Chan Lin On and Mr. Yeung Man Chiu, they have confirmed that they are parties acting in concert in the operation and management of KPP-HK, KPP-Suzhou, KRP-HK, KRP-Shenzhen, KRP-Shanghai, KFM-HK and KFM-Shenzhen since 13 March 2002, being the date of incorporation of KPP-HK. Accordingly, each person under the concert party arrangement is taken to be interested in the Shares the other party under such concert party arrangement is interested under the SFO.

4. Ms. Kwok Wing Yi is the spouse of Mr. Peter Sun.

5. Ms. Mak Kam Fung is the spouse of Mr. David Wong.

6. Ms. Lo Ka Wai is the spouse of Mr. Banson Lam.

7. Ms. Tsang Mo Jan is the spouse of Mr. Yau Lam Chuen.

8. Ms. Wen Shi Fang is the spouse of Mr. Yung Ching Tak.

9. Ms. Pang Sau Ying is the spouse of Mr. Chan Lin On.

10. Ms. Wan Wing Sze is the spouse of Mr. Yeung Man Chiu.

Continuing Connected Transactions

On 22 September 2012, the Group has entered into several continuing connected transactions agreements with certain connected person of the Company under the Listing Rules. Pursuant to these agreements, the Group shall conduct continuing connected transactions with those parties in the course of conducting the Group's Business.

During the year ended 31 March 2014, the details of such transactions, which also constitutes related party transaction set out in note 32 to the consolidated financial statements, are set out as follows:

Tooling master agreement

Date: 22 September 2012

Parties: (1) Innotech Advanced Product Limited ("**Innotech**") and its subsidiaries ("**Innotech Group**") as supplier (Innotech was owned as to 71% by Gold Joy (HK) Industrial Limited ("**Gold Joy**") that was owned as to 52.94% by Mrs. Chow Suen Christina, our executive Director, 17.65% by Mr. Yau Lam Chuen, one of our Controlling Shareholders, 17.65% by Mr. David Wong, our executive Director and one of our Controlling Shareholders, and 11.76% by Mr. Yung Ching Tak, one of our Controlling Shareholders. As Mrs. Chow Suen Christina, a connected person, owned 52.94% of the share capital of Gold Joy, Gold Joy is a connected person under Rule 14A.11(4) of the Listing Rules.

(2) KFM Group Limited (on its own behalf and as trustee for the benefit of other members of the Group), a 100%-owned subsidiary of the Company, as purchaser

Terms: the Group agreed to purchase tooling and moulding products from the Innotech Group during the term of the Tooling Master Agreement from 1 April 2012 to 31 March 2015

Price: Negotiated with reference to the then prevailing market prices of the raw materials and accessories required for the manufacturing of the tooling and moulding products concerned, as well as, where applicable, prevailing market prices of similar products, and in good faith.

Caps: Annual cap not exceeding HK$2.1 million for each of the three years ending 31 March 2015

For the year ended 31 March 2014, total transactions of HK$127,890 (2013: Nil) were entered under the Tooling Master Agreement.

Products master agreement

Date:	22 September 2012	
Parties:	(1)	Innotech Group
	(2)	KFM Group Limited
Terms:	(a)	the Group agreed to purchase metal and plastic components and parts from the Innotech Group during the term of the Products Master Agreement from 1 April 2012 to 31 March 2015
	(b)	the Innotech Group agreed to purchase spare metal parts from the KFM Group Limited during the term of the Products Master Agreement from 1 April 2012 to 31 March 2015
Price:	Negotiated with reference to the then prevailing market prices of the raw materials and accessories required for the manufacturing of metal and plastic components and parts and the spare metal parts concerned, as well as, where applicable, prevailing market prices of similar products, and in good faith.	
Caps:	(a)	Annual cap not exceeding HK$5.6 million for each of the three years ending 31 March 2015
	(b)	Annual cap not exceeding HK$114,400 for each of the three years ending 31 March 2015

Under the Product Master Agreement, transactions of HK$5,526,611 (2013: HK$5,080,852) under the above subclass (a) and no transactions (2013: HK$42,900) under the above subclass (b) were conducted for the year ended 31 March 2014.

Further details are set out in note 32 to the consolidated financial statements. These continuing connected transactions are subject to, and the Company confirms that it has complied with the reporting and announcement requirements under Chapter 14A of the Listing Rules.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions set out above and have confirmed that these continuing connected transactions were entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or on terms no less favourable to the Group than terms available to or from independent third parties; (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter to the Board of Directors confirming that:

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Company's board of Directors;
- nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;
- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and
- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have exceeded their respective maximum aggregate annual value as disclosed in the Prospectus.

Purchase, Sale or Redemption of Listed Securities

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2014.

Pre-emptive Rights

There are no provisions for pre-emptive rights under the Company's Article of Association or the laws in the Cayman Islands, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

Emolument Policy

The emoluments of the Directors of the Company are decided by the Remuneration Committee, having regard to the market rates, workload and responsibilities and general economic situation.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and within the knowledge of its Directors, the Directors confirm that the Company has maintained a sufficient public float as required under the Listing Rules from the Listing Date up to the date of this report.

Major Customers and Suppliers

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively during the year is as follows:

Percentage of the Group's total

Sales	
The largest customer	11.9%
Five largest customers in aggregate	41.9%
Purchase	
The largest supplier	5.6%
Five largest suppliers in aggregate	15.6%

According to the understanding of the Directors, none of the Directors, their associates or any shareholders who owned more than 5% of the Company's share capital had any interests in the five largest customers or suppliers at any time during the year.

Use of Net Proceeds From the Company's Initial Public Offering

The shares of the Company were listed on the Main Board of the Stock Exchange on 15 October 2012 and raised net proceeds of approximately HK$85.6 million. As at 31 March 2014, the unused proceeds of approximately HK$36.0 million were deposited with licensed banks in Hong Kong and the PRC.

As at 31 March 2014, the net proceeds had been utilised as follows:

	Actual net proceeds HK$ million	Actual utilisation up to 31 March 2014 HK$ million	Balance as at 31 March 2014 HK$ million
For the purchase of a piece of land in Suzhou	58.0	33.6	24.4
For the construction of production facilities in Suzhou (note (1))	27.6	16.0	11.6
	85.6	49.6	36.0

Note:

(1) The production facilities in Suzhou under development are located at Jinshan Road South, Xiangjiang Road West, Suzhou New District, the PRC.

Closure of Register of Member

For the purpose of ascertaining Shareholders' right to attend and vote at the AGM, the Register of Members will be closed from Wednesday, 27 August 2014 to Thursday, 28 August 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to be eligible to attend and vote at the AGM, all completed transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, namely Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 26 August 2014.

Subject to the Shareholders' approval of the recommended final dividend at the AGM, the final dividend will be payable on or about Monday, 15 September 2014. For the purpose of ascertaining shareholders' entitlement to the proposed final dividend, the Register of Members will be closed from Wednesday, 3 September 2014 to Thursday, 4 September 2014, both days inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend for the year ended 31 March 2014, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch share registrar in Hong Kong, namely Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 2 September 2014.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 15 to page 25.

Audit Committee

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 March 2014.

Auditor

The consolidated financial statements for the year ended 31 March 2014 have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting. A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
KFM Kingdom Holdings Limited

Sun Kwok Wah Peter
Chairman

Hong Kong, 24 June 2014

Independent Auditor's Report

TO THE SHAREHOLDERS OF KFM KINGDOM HOLDINGS LIMITED
(incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of KFM Kingdom Holdings Limited (the "**Company**") and its subsidiaries (together, the "**Group**") set out on pages 44 to 102, which comprise the consolidated and company balance sheets as at 31 March 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 June 2014

Consolidated Balance Sheet

As at 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**300,841**	224,086
Leasehold land and land use right	6	**26,023**	–
Intangible assets	7	**11,771**	11,305
Goodwill	8	**24,540**	24,540
Deferred income tax assets	17	**4,764**	5,565
Total non-current assets		**367,939**	265,496
Current assets			
Inventories	10	**138,942**	110,527
Trade and other receivables	11	**199,560**	229,215
Current income tax recoverable		**3,861**	–
Derivative financial asset	12	**–**	319
Available-for-sale financial assets	13	**12,500**	–
Restricted bank deposit	14	**23,400**	46,800
Cash and cash equivalents	14	**105,390**	218,678
Total current assets		**483,653**	605,539
Total assets		**851,592**	871,035

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
EQUITY			
Capital and reserves			
Share capital	15	**60,000**	60,000
Share premium	15	**26,135**	26,135
Reserves	16		
– Proposed dividends	29	**3,000**	12,000
– Others		**421,325**	395,388
Capital and reserves attributable to equity holders of the Company		**510,460**	493,523
Non-controlling interests		**4,746**	–
Total equity		**515,206**	493,523
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	**10,762**	14,716
Current liabilities			
Trade and other payables	18	**169,888**	144,302
Bank borrowings	19	**150,634**	211,024
Current income tax liabilities		**5,102**	7,470
Total current liabilities		**325,624**	362,796
Total liabilities		**336,386**	377,512
Total equity and liabilities		**851,592**	871,035
Net current assets		**158,029**	242,743
Total assets less current liabilities		**525,968**	508,239

The financial statements on pages 44 to 102 were approved by the Board of Directors on 24 June 2014 and were signed on its behalf.

Sun Kwok Wah Peter	**Chow Suen Christina**
Director	Director

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Balance Sheet

As at 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current asset			
Investment in a subsidiary	9	**100**	100
Current assets			
Amounts due from subsidiaries	9	**89,632**	100,433
Cash and cash equivalents	14	**511**	511
Total current assets		**90,143**	100,944
Total assets		**90,243**	101,044
EQUITY			
Capital and reserves			
Share capital	15	**60,000**	60,000
Share premium	15	**26,135**	26,135
Reserves	16		
– Proposed dividends	29	**3,000**	12,000
– Others		**1,108**	2,909
Total equity		**90,243**	101,044

The financial statements on pages 44 to 102 were approved by the Board of Directors on 24 June 2014 and were signed on its behalf.

Sun Kwok Wah Peter
Director

Chow Suen Christina
Director

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Revenue	20	**945,798**	846,507
Cost of sales	21	**(737,936)**	(641,208)
Gross profit		**207,862**	205,299
Other gains, net	22	**125**	7,800
Distribution and selling expenses	21	**(22,381)**	(17,631)
General and administrative expenses	21	**(142,093)**	(140,149)
Operating profit		**43,513**	55,319
Finance income	25	**739**	297
Finance costs	25	**(6,715)**	(6,315)
Profit before income tax		**37,537**	49,301
Income tax expenses	26	**(2,525)**	(9,146)
Profit for the year		**35,012**	40,155
Other comprehensive income for the year, net of tax			
Item that may be reclassified to profit or loss			
Currency translation differences		**354**	4,390
Total comprehensive income for the year		**35,366**	44,545
Profit/(loss) for the year attributable to:			
– Equity holders of the Company		**36,383**	40,155
– Non-controlling interests		**(1,371)**	–
		35,012	40,155
Total comprehensive income/(loss) attributable to:			
– Equity holders of the Company		**36,737**	44,545
– Non-controlling interests		**(1,371)**	–
		35,366	44,545
Earnings per share for profit attributable to equity holders of the Company			
– Basic and diluted (HK cents)	27	**6.06**	7.74
Dividends	29	**19,800**	85,228

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2014

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company							
Balance at 1 April 2013		**60,000**	**26,135**	**3,445**	**21,074**	**40,849**	**342,020**	**–**	**493,523**
Comprehensive income									
Profit/(loss) for the year		–	–	–	–	–	36,383	(1,371)	35,012
Other comprehensive income									
Currency translation differences	16	–	–	–	–	354	–	–	354
Total comprehensive income/(loss) for the year		–	–	–	–	354	36,383	(1,371)	35,366
Transactions with equity holders									
Dividends paid	29	–	–	–	–	–	(19,800)	–	(19,800)
Transfer of retained profits to statutory reserve	16	–	–	–	2,935	–	(2,935)	–	–
Contribution from non-controlling interests upon the formation of a subsidiary		–	–	–	–	–	–	6,117	6,117
Balance at 31 March 2014		**60,000**	**26,135**	**3,445**	**24,009**	**41,203**	**355,668**	**4,746**	**515,206**

	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Statutory reserve HK$'000	Exchange reserve HK$'000	Retained profits HK$'000	Total equity HK$'000
		Attributable to equity holders of the Company						
Balance at 1 April 2012		–	–	3,545	17,735	36,459	390,432	448,171
Comprehensive income								
Profit for the year		–	–	–	–	–	40,155	40,155
Other comprehensive income								
Currency translation differences	16	–	–	–	–	4,390	–	4,390
Total comprehensive income for the year		–	–	–	–	4,390	40,155	44,545
Transactions with equity holders								
Issue of share capital	15, 16	15,100	87,000	(100)	–	–	–	102,000
Capitalisation of shares	15	44,900	(44,900)	–	–	–	–	–
Share issue expenses	15	–	(15,965)	–	–	–	–	(15,965)
Dividends paid	29	–	–	–	–	–	(85,228)	(85,228)
Transfer of retained profits to statutory reserve	16	–	–	–	3,339	–	(3,339)	–
Balance at 31 March 2013		60,000	26,135	3,445	21,074	40,849	342,020	493,523

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2014

	Note	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
Net cash generated from operations	28	**110,047**	68,958
Income tax paid		**(12,234)**	(12,508)
Income tax refunded		**301**	1,288
Interest received		**739**	297
Net cash generated from operating activities		**98,853**	58,035
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**4,423**	37,894
Purchase of property, plant and equipment		**(113,832)**	(97,621)
Acquisition of leasehold land and land use right	6	**(26,936)**	–
Acquisition of available-for-sale financial assets	13	**(199,375)**	–
Proceeds from disposal of available-for-sale financial assets	13	**186,875**	–
Acquisition of business		**–**	(25,962)
Net cash used in investing activities		**(148,845)**	(85,689)
Cash flows from financing activities			
Proceeds from issue of shares	15	**–**	102,000
Share issue expenses	15	**–**	(15,965)
Proceeds from bank borrowings		**38,000**	185,000
Repayment of bank borrowings		**(97,398)**	(86,848)
Decrease in restricted bank deposit		**23,400**	–
Capital injection by non-controlling interests		**201**	–
Receipt of amounts due from shareholders		**–**	20,028
Interest paid		**(6,950)**	(6,315)
Dividends paid	29	**(19,800)**	(85,228)
Net cash (used in)/generated from financing activities		**(62,547)**	112,672
(Decrease)/increase in cash and cash equivalents		**(112,539)**	85,018
Cash and cash equivalents at beginning of year		**217,502**	132,012
Currency translation differences		**243**	472
Cash and cash equivalents at end of year		**105,206**	217,502
Analysis of balances of cash and cash equivalents:			
Cash at bank and on hand	14	**101,640**	213,678
Short-term bank deposits with original maturity within three months	14	**3,750**	5,000
Bank overdrafts	19	**(184)**	(1,176)
		105,206	217,502

The notes on pages 50 to 102 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2014

1 General Information

KFM Kingdom Holdings Limited (the "**Company**") was incorporated in the Cayman Islands on 13 July 2011, as an exempted company with limited liability under the Companies Law, Cap.22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") since 15 October 2012 (the "**Listing**").

The Company is an investment holding company and its subsidiaries (together, the "**Group**") are principally engaged in the provision of precision metal stamping and lathing services, and the manufacturing and sales of fine metal products (the "**Group's Businesses**").

2 Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRS**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the disclosure provision of the Rules Governing the Listing of Securities on the Stock Exchange (the"**Listing Rules**"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 4.

These consolidated financial statements are presented in Hong Kong dollars ("**HK$**"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors (the "**Board**") on 24 June 2014.

Certain comparative figures of the segment information have been reclassified to conform with the financial statements presentation adopted for the current year as mentioned in note 33.

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

(i) New and amended standards adopted by the Group:

The following new and amended standards are mandatory for the first time for the financial year beginning on or after 1 April 2013 and relevant to the Group.

The amendment to Hong Kong Accounting Standard ("**HKAS**") 1 "Presentation of Financial Statements" introduces a grouping of items presented in other comprehensive income. Items that could be reclassified to profit or loss at a future point in time now have to be presented separately from items that will never be reclassified.

HKFRS 12 "Disclosure of Interests in Other Entities" is effective for annual periods beginning on or after 1 January 2013. It introduces a wide range of disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

HKFRS 13 "Fair Value Measurement" aims to improve consistency and reduce complexity by providing a precise definition of fair value and sets out a single source for fair value measurement and disclosure requirements across HKFRSs.

The adoption of the above new and amended standards does not have material impact on the results and financial position of the Group.

(ii) New standards, amendments, revisions and interpretation to existing standards effective in 2013 but not relevant to the Group:

The following new standards, amendments, revisions and interpretation to existing standards are mandatory for the first time for the financial year beginning 1 April 2013.

HKAS 19 (Amendment)	Employee Benefits
HKAS 27 (Revised 2011)	Separate Financial Statements
HKAS 28 (Revised 2011)	Investments in Associates and Joint Ventures
HKFRS 1 (Amendment)	First-time adoption of HKFRSs – Government Loans
HKFRS 7 (Amendment)	Financial Instruments: Disclosure – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 10, HKFRS 11 and HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HK(IFRIC) – Int 20	Stripping Costs in the Production Phase of a Surface Mine
Annual Improvements Project	Annual Improvements 2009–2011

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

(iii) New standards, amendments and interpretation to existing standards that have been issued but are not yet effective for the financial year beginning 1 April 2013 and that have not been early adopted:

		Effective for accounting periods beginning on or after
HKAS 19 (Amendment)	Defined Benefit Plans: Employee Contributions	1 July 2014
HKAS 32 (Amendment)	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKAS 36 (Amendment)	Recoverable Amount Disclosures for Impairment of Assets	1 January 2014
HKAS 39 (Amendment)	Financial Instruments: Recognition and measurement – Novation of Derivatives	1 January 2014
HKFRS 9	Financial Instruments	To be determined
HKFRS 10, HKFRS 12 and HKAS 27 (2011) (Amendments)	Consolidation for Investment Entities	1 January 2014
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HK(IFRIC) – Int 21	Levies	1 January 2014
Annual Improvements 2011 to 2013	Improvements to HKASs and HKFRSs	1 July 2014

The Group has already commenced an assessment of the related impact of adopting the above new standards, amendments and interpretation to existing standards but is not yet in a position to state whether they will have a significant impact on its reported results of operations and financial position. The Group intends to adopt these new standards, amendments and interpretation to existing standards when they become effective.

(b) Consolidation

(i) Subsidiaries

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 Summary of Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

(ii) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (note 2(e)).

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(c) Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Summary of Significant Accounting Policies (Continued)

(d) Property, plant and equipment

Land and buildings comprise mainly of office. Leasehold land classified as finance lease and all other property, plant and equipment are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

Leasehold land classified as finance lease commences depreciation from the time when the land interest becomes available for its intended use. Depreciation on leasehold land classified as finance lease and other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease and buildings	Remaining period of the lease or the useful life, whichever is shorter
Leasehold improvements	5 years or the remaining period of the lease, whichever is shorter
Plant and machinery	10 years
Motor vehicles	5 to 10 years
Furniture and office equipment	5 to 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Construction-in-progress, representing buildings, plant and machinery on which construction work has not been completed and machinery pending installation, is stated at historical cost, which includes construction expenditures incurred, cost of machinery, and other direct costs capitalised during the construction and installation period, less accumulated impairment losses, if any. No depreciation is provided in respect of construction-in-progress until the construction and installation work is completed. On completion, the construction-in-progress is transferred to appropriate categories of property, plant and equipment.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2(f)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other gains, net" in the consolidated statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

(e) Intangible assets

(i) Goodwill

Goodwill arises on the acquisition of business and represents the excess of the consideration transferred over the Group's interest in the net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("**CGUs**"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(ii) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The contractual customer relations have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the customer relationship of four years.

(iii) Design and prototype

Design and prototype are initially recognised at fair value. The design and prototype have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method over the expected life of the design and prototype of five years.

(iv) Patents

Costs associated with developing patents are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable patents controlled by the Group, and that will probably generate economic benefits beyond one year, are recognised as intangible assets. Costs that are directly associated with the development of identifiable patents include the employee costs, materials utilised and an appropriate portion of relevant overheads.

Patent costs recognised as assets are stated at cost less accumulated amortisation. Amortisation is calculated on the straight-line basis over their estimated useful life.

(f) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 Summary of Significant Accounting Policies (Continued)

(g) Financial assets

(i) Classification

The Group classifies its financial assets on the following categories: at fair value through profit or loss, loans and receivables, and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(1) *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(2) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the consolidated balance sheet (note 2(k) and 2(l)).

(3) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

(ii) Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed to the consolidated statement of comprehensive income. Financial assets are derecognised when the rights to receive cash flows from the investments have been expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated statement of comprehensive income within 'other gains, net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated statement of comprehensive income as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

(g) Financial assets (Continued)

(ii) Recognition and measurement (Continued)

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of comprehensive income as 'other gains, net'.

Interest on available-for-sale financial asset calculated using the effective interest method is recognised in the statement of comprehensive income as part of 'finance income'. Dividends on available-for-sale equity instruments are recognised in the consolidated statement of comprehensive income as part of 'other gains, net' when the Group's right to receive payments is established.

(h) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(i) Impairment of financial assets

(i) Assets carried amortised cost

The Group assess at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

2 Summary of Significant Accounting Policies (Continued)

(i) Impairment of financial assets (Continued)

(ii) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria referred to in (i) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated statement of comprehensive income on equity instruments are not reversed through the consolidated statement of comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated statement of comprehensive income.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

(k) Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less, they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

(l) Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2 Summary of Significant Accounting Policies (Continued)

(m) Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

When any group company purchases the Company's equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes) is deducted from equity attributable to owners of the Company until the shares are cancelled or reissued. Where such ordinary shares are subsequently reissued, any consideration received, net of any directly attributable increment transaction costs and the related income tax effects, is included in equity attributable to equity holders of the Company.

(n) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(o) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2 Summary of Significant Accounting Policies (Continued)

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

(q) Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowings costs are recognised in profit or loss in the period in which they are incurred.

(r) Current and deferred income tax

The tax expense for the period comprise current and deferred income tax. Tax is recognised in the consolidated statement of comprehensive income, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantially enacted at the balance sheet date in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Summary of Significant Accounting Policies (Continued)

(r) Current and deferred income tax (Continued)

(ii) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities is provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(iii) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Summary of Significant Accounting Policies (Continued)

(s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns, and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(i) Sales of goods

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

(ii) Provision of product assembly service

Revenue from product assembly service is recognised in the accounting period in which the service is rendered.

(t) Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instruments, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(u) Lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases including land use rights (net of any incentives received from the lessor), are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each finance lease payment is allocated between the liability and finance charges. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2 Summary of Significant Accounting Policies (Continued)

(v) Employee benefits

(i) *Pension obligations*

The Group's entities operate defined contribution schemes which are generally funded through payments to insurance companies or trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(ii) *Bonus plans*

The Group recognises a liability and an expense for bonuses, based on a formula that takes into consideration the profit attributable to equity holders of the Company after certain adjustments. The Group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

(w) Government grants

Grants from the government are recognised at their fair values where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to leasehold land and land use right and property, plant and equipment are recognised net of the asset and are credited to the consolidated statement of comprehensive income on a straight-line basis over the expected lives of the related assets.

(x) Dividend distribution

Dividend distribution to the equity holders of the Company is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

(y) Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "**functional currency**"). The consolidated financial statements are presented in HK$, which is the Company's functional and the Group's presentation currency.

2 Summary of Significant Accounting Policies (Continued)

(y) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within "finance income" or "finance costs". All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other gains, net".

(iii) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

– all resulting currency translation differences are recognised in other comprehensive income.

On consolidation, currency translation differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, currency translation differences that were recorded in equity are recognised in the consolidated statement of comprehensive income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(z) Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

2 Summary of Significant Accounting Policies (Continued)

(z) Derivative financial instruments (Continued)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of comprehensive income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

Changes in derivative instruments that do not qualify for hedge accounting are recognised immediately in the consolidated statement of comprehensive income within "other gains, net".

(aa) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability other than those acquired from business combination is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

(ab) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-makers. The chief operating decision-makers, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors and senior management collectively, who makes strategic decisions.

(ac) Financial guarantees

A financial guarantee is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instruments. Group companies do not recognise liabilities for financial guarantees at inception, but perform liability adequacy tests at each reporting date by comparing respective net liabilities (if applicable) regarding the financial guarantees with the amounts that would be required if the financial guarantees were to result in a present legal or constructive obligation. If the respective liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated statement of comprehensive income immediately.

3 Financial Risk Management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, and cash flow and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the senior management of the Group.

(i) Foreign exchange risk

Each individual group entity has its own functional currency. Foreign exchange risk to each individual group entity arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. The Group operates mainly in Hong Kong and the People's Republic of China ("**the PRC**"). The Group's PRC entities are exposed to foreign exchange risk arising from United States dollars ("**US$**"), while the Group's Hong Kong entities are exposed to foreign exchange risk arising from Renminbi ("**RMB**").

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

As at 31 March 2014 and 2013, if the functional currencies of the Group's entities had strengthened/weakened by 2% against RMB and US$, with all other variables held constant, the profit after income tax for the year ended 31 March 2014 and 2013 would decrease/increase by HK$1,111,000 and HK$1,148,000, respectively, mainly as a result of foreign exchange loss/gain on translation of US$, HK$ and RMB denominated financial assets and liabilities.

As at 31 March 2013, the Group held one RMB/US$ forward foreign exchange contract.

During the year ended 31 March 2013, if RMB/US$ exchange rate weakened by 5%, the Group would suffer loss after income tax HK$13,000.

(ii) Cash flow and fair value interest rate risk

The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable interest rates expose the Group to cash flow interest rate risk. Borrowings at fixed interest rates expose the Group to fair value interest rate risk. The Group's variable interest rate and fixed interest rate borrowings as at 31 March 2014 and 2013, are as follows:

	2014 **HK$'000**	2013 HK$'000
Variable interest rate borrowings	**150,634**	195,571
Fixed interest rate borrowing	**–**	15,453
	150,634	211,024

3 Financial Risk Management (Continued)

(a) Financial risk factors (Continued)

(ii) Cash flow and fair value interest rate risk (Continued)

Other than short-term bank deposits, bank balances and bank borrowings, the Group does not have significant interest-bearing assets or liabilities. The Group's exposure to interest rate risk associated with the effects of fluctuations in the prevailing levels of the market interest rates on its cash flows is not deemed to be substantial in the view of management based on the nature of the assets and liabilities.

As at 31 March 2014 and 2013, if the interest rates had been 50 basis-points higher/lower, with all other variables held constant, the net effect on the profit before income tax for the years would have been HK$109,000 lower/higher and HK$350,000 higher/lower, respectively, mainly as a result of higher/lower interest income on bank deposits, and higher/lower interest expense on bank borrowings.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from trade and other receivables, current income tax recoverable, available-for-sale financial assets and cash and cash equivalents. The carrying amounts of these balances represent the Group's maximum exposure to credit risk in relation to financial assets. The credit risk is monitored on an ongoing basis with reference to the financial position of the debtors, past experience and other factors.

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit histories and the Group performs regular credit evaluations of its major customers.

The majority of the Group's trade receivables are due for maturity within 90 days and largely comprise amounts receivable from business customers. Management does not expect any significant losses from non-performance by these counterparties.

The Group has concentration of credit risk as over 34% and 48% of total trade receivables as at 31 March 2014 and 2013, respectively, were due from the Group's largest five customers. No significant collectability issues have been identified in the past.

As at 31 March 2014 and 2013, major bank balances are deposited in Standard Chartered Bank (Hong Kong) Limited, DBS Bank (Hong Kong) Limited and the PRC state-owned banks. Management does not expect any losses from non-performance by these banks.

(iv) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

3 Financial Risk Management (Continued)

(a) Financial risk factors (Continued)

(iv) *Liquidity risk* (Continued)

Specifically, for bank borrowings containing a repayment on demand clause which can be exercised at the banks' sole discretions, the analysis shows the cash outflow based on the earliest period in which the entity can be required to pay, that is if the lenders were to invoke their unconditional rights to call the borrowings with immediate effect.

	On demand HK$'000	Less than 1 year HK$'000	Total HK$'000
At 31 March 2014			
Bank borrowings	**155,898**	**–**	**155,898**
Trade payables	**–**	**115,942**	**115,942**
Other payables	**–**	**53,946**	**53,946**
	155,898	**169,888**	**325,786**
At 31 March 2013			
Bank borrowings	220,837	–	220,837
Trade payables	–	101,080	101,080
Other payables	–	43,222	43,222
	220,837	144,302	365,139

(b) Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The Group monitors capital on the basis of the debt-to-asset ratio. The ratio is calculated as total debt divided by total assets. Total debt is calculated as interest-bearing borrowings.

	2014 HK$'000	2013 HK$'000
Total debt	**150,634**	211,024
Total assets	**851,592**	871,035
Debt-to-asset ratio	**18%**	24%

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

3 Financial Risk Management (Continued)

(c) Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

(i) Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

(ii) Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

(iii) Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents the Group's financial assets that are measured at fair value at 31 March 2014.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Available-for-sale financial assets	–	–	**12,500**	**12,500**

As at 31 March 2014, the Group did not hold any financial instruments which are classified as level 1 and level 2.

As at 31 March 2013, the Group holds certain foreign exchange derivative financial instrument (note 12) which is included in level 2. The fair value of this financial instrument is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. The significant inputs used by the Group in determining the fair value of that foreign exchange derivative are observable in the market.

The fair value of financial instruments traded in active markets is based on quoted market prices at the consolidated balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise listed equity and debt securities and certain funds which are classified as available-for-sale financial assets.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2. None of the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3 Financial Risk Management (Continued)

(c) Fair value estimation (Continued)

Specific valuation techniques used to value financial instruments include:

- Broker quotes which do not have significant unobservable inputs.

There were no changes in valuation techniques during the year.

Instruments included in level 3 comprise financial products with licensed banks in the PRC which are classified as available-for-sale financial assets (note 13).

The following table presents the changes in level 3 instruments.

	2014 **HK$'000**	2013 HK$'000
At 1 April	**–**	–
Additions	**199,375**	–
Disposals	**(186,875)**	–
At 31 March	**12,500**	–

4 Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated selling expenses. These estimates are based on the current market condition and the historical experience of manufacturing and selling products of similar nature. It could change significantly as a result of changes in consumer preferences and competitor actions in response to severe industry cycles. Management reassesses these estimations by each balance sheet date.

4 Critical Accounting Estimates and Judgements (Continued)

(b) Income taxes

The Group is subject to income taxes and withholding taxes primarily in the PRC and Hong Kong. There are transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax liabilities are established for income tax and withholding tax that would be payable on certain profits of overseas subsidiaries to be repatriated and distributed by way of dividends when there is a current intention to remit such profit. The estimation regarding the remittance involved judgements.

(c) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of these assets of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to changes in market conditions.

Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(d) Impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying amount of receivables and the provision for impairment losses in the period in which such estimate has been changed.

(e) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(e)(i). The recoverable amounts of CGUs have been determined based on value in use calculations. The key assumptions adopted on growth rates and discount rate used in the value in use calculation are based on management's best estimates and past experience. These calculations require the use of estimates (note 8).

5 Property, Plant and Equipment

	Leasehold land and buildings in Hong Kong HK$'000 (note (b))	Leasehold improvements HK$'000	Plant and machinery HK$'000	Motor vehicles HK$'000	Furniture and office equipment HK$'000	Construction in progress HK$'000	Total HK$'000
At 1 April 2012							
Cost	–	13,208	323,142	16,143	24,693	400	377,586
Accumulated depreciation	–	(5,281)	(160,975)	(11,034)	(18,423)	–	(195,713)
Net book amount	–	7,927	162,167	5,109	6,270	400	181,873
Year ended 31 March 2013							
Opening net book amount	–	7,927	162,167	5,109	6,270	400	181,873
Additions	28,204	6,301	57,092	1,671	2,711	1,642	97,621
Disposals	(26,003)	–	(674)	(710)	(165)	–	(27,552)
Transfers	–	–	127	–	9	(136)	–
Depreciation	(33)	(3,258)	(23,746)	(1,238)	(1,517)	–	(29,792)
Currency translation differences	–	113	1,717	20	58	28	1,936
Closing net book amount	2,168	11,083	196,683	4,852	7,366	1,934	224,086
At 31 March 2013							
Cost	2,201	19,716	380,812	15,457	27,286	1,934	447,406
Accumulated depreciation	(33)	(8,633)	(184,129)	(10,605)	(19,920)	–	(223,320)
Net book amount	2,168	11,083	196,683	4,852	7,366	1,934	224,086
Year ended 31 March 2014							
Opening net book amount	**2,168**	**11,083**	**196,683**	**4,852**	**7,366**	**1,934**	**224,086**
Additions	**51,512**	**5,036**	**16,634**	**11,646**	**8,646**	**20,593**	**114,067**
Disposals	**(713)**	**–**	**(850)**	**(900)**	**(17)**	**–**	**(2,480)**
Transfers	**–**	**1,655**	**3,365**	**–**	**–**	**(5,020)**	**–**
Depreciation	**(69)**	**(4,018)**	**(27,129)**	**(1,620)**	**(1,911)**	**–**	**(34,747)**
Currency translation differences	**–**	**(2)**	**33**	**(5)**	**12**	**(123)**	**(85)**
Closing net book amount	**52,898**	**13,754**	**188,736**	**13,973**	**14,096**	**17,384**	**300,841**
At 31 March 2014							
Cost	**52,980**	**26,370**	**398,610**	**21,069**	**35,750**	**17,384**	**552,163**
Accumulated depreciation	**(82)**	**(12,616)**	**(209,874)**	**(7,096)**	**(21,654)**	**–**	**(251,322)**
Net book amount	**52,898**	**13,754**	**188,736**	**13,973**	**14,096**	**17,384**	**300,841**

5 Property, Plant and Equipment (Continued)

Notes:

(a) Depreciation charged to the consolidated statement of comprehensive income as follows:

	2014 HK$'000	2013 HK$'000
Cost of sales	**27,129**	22,416
General and administrative expenses	**7,618**	7,376
	34,747	29,792

(b) **In Hong Kong, held on:**

	2014 HK$'000	2013 HK$'000
Leases of between 10 to 50 years	**52,898**	2,168

(c) As at 31 March 2014, the Group's leasehold land and buildings of approximately HK$46,500,000 (2013: nil) were secured for the Group's borrowings (note 19).

6 Leasehold Land and Land Use Right

	2014 HK$'000	2013 HK$'000
In the PRC, held on:		
Lease of between 10 to 50 years	**26,023**	–

The Group's interest in leasehold land and land use right represents prepaid operating lease payments and its net book value is analysed as follows:

	2014 HK$'000	2013 HK$'000
At 1 April	**–**	–
Addition (note)	**26,936**	–
Amortisation	**(440)**	–
Currency translation differences	**(473)**	–
At 31 March	**26,023**	–

Note: Land use right addition was net of a government grant of approximately HK$6,678,000 received in respect of the acquisition of the land in the PRC.

7 Intangible Assets

	Contractual customer relationships HK$'000	Design and prototype HK$'000	Total HK$'000
At 1 April 2012			
Cost	15,074	–	15,074
Accumulated amortisation	–	–	–
Net book amount	15,074	–	15,074
Year ended 31 March 2013			
Opening net book amount	15,074	–	15,074
Amortisation	(3,769)	–	(3,769)
Closing net book amount	11,305	–	11,305
At 31 March 2013			
Cost	15,074	–	15,074
Accumulated amortisation	(3,769)	–	(3,769)
Net book amount	11,305	–	11,305
Year ended 31 March 2014			
Opening net book amount	**11,305**	**–**	**11,305**
Addition	**–**	**4,704**	**4,704**
Amortisation	**(3,769)**	**(469)**	**(4,238)**
Closing net book amount	**7,536**	**4,235**	**11,771**
At 31 March 2014			
Cost	**15,074**	**4,704**	**19,778**
Accumulated amortisation	**(7,538)**	**(469)**	**(8,007)**
Net book amount	**7,536**	**4,235**	**11,771**

Amortisation of approximately HK$4,238,000 (2013: HK$3,769,000) was included in "general and administrative expenses" in the consolidated statement of comprehensive income.

8 Goodwill

	2014 HK$'000	2013 HK$'000
Goodwill	**24,540**	24,540

Goodwill is allocated to the Group's product assembly business, which is considered as a separate CGU.

For the purpose of impairment test, the recoverable amount of the product assembly business unit is determined based on value in use calculation. The calculation uses pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using zero growth rate. Discount rate of 14% (2013: 14%), which reflects the specific risks relating to the product assembly business, was used in the value in use calculation.

The recoverable amount is calculated based on value in use. A fall in long term assembly fee income by 25.0% or a rise in discount rate to 20.0% would remove the remaining headroom.

9 Investment in and Amounts due from Subsidiaries – Company

	Company 2014 HK$'000	Company 2013 HK$'000
Unlisted shares, at cost	**100**	100
Amounts due from subsidiaries (note 11)	**89,632**	100,433

The following is a list of the principal subsidiaries directly or indirectly held by the Company at 31 March 2014:

Company name	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of equity interest attributable to the Company 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect	Principal activities
KFM Group Limited (KFM 集團有限公司)	British Virgin Islands ("**BVI**"), limited liability company	US$1,000	100%	–	100%	–	Investment holding
Kingdom Fine Metal Limited (金德精密五金有限公司)	Hong Kong, limited liability company	HK$1,000,000	–	100%	–	100%	Sale of fine metal products in Hong Kong and the PRC

9 Investment in and Amounts due from Subsidiaries – Company (Continued)

Company name	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of equity interest attributable to the Company 2014 Direct	2014 Indirect	2013 Direct	2013 Indirect	Principal activities
Kingdom (Reliance) Precision Parts Manufactory Limited (金德(利賚)五金零件制品有限公司)	Hong Kong, limited liability company	HK$5,000,000	–	100%	–	100%	Sale of fine metal products in Hong Kong and the PRC
Kingdom (Reliance) Precision Parts (Shenzhen) Manufactory Limited ("**KRP SZ**") (德利賚精密五金制品(深圳)有限公司)	Shenzhen, the PRC, wholly foreign-owned enterprise	US$8,500,000	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC
Kingdom Precision Product Limited (金德精密配件有限公司)	Hong Kong, limited liability company	HK$10,000	–	100%	–	100%	Sale of fine metal products in Hong Kong
Kingdom Precision Product (Suzhou) Company Limited ("**KPP SU**") (金德精密配件(蘇州)有限公司)	Suzhou, the PRC, wholly foreign-owned enterprise	US$15,570,880	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC
Kingdom Reliance Mechatronic Components (Shanghai) Manufactory Limited ("**KRP SH**") (金德利賚精密機電部件(上海)有限公司)	Shanghai, the PRC, wholly foreign-owned enterprise	US$3,530,000	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC
Kingdom Technology (Shenzhen) Company Limited ("**KFM SZ**") (金德鑫科技(深圳)有限公司)	Shenzhen, the PRC, wholly foreign-owned enterprise	US$9,300,000	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC

9 Investment in and Amounts due from Subsidiaries – Company (Continued)

Company name	Place of incorporation/ establishment and operation and kind of legal entity	Issued and fully paid up share capital/ registered capital	Percentage of equity interest attributable to the Company				Principal activities
			2014		2013		
			Direct	Indirect	Direct	Indirect	
KFM Kingdom Management Limited (金德集團管理有限公司)	Hong Kong, limited liability company	HK$1	–	100%	–	100%	Provision of management services in Hong Kong
KFM Kingdom Investment Limited (金德集團投資有限公司)	Hong Kong, limited liability company	HK$1	–	100%	–	100%	Investment holding
Kingdom Precision Science and Technology (Suzhou) Company Limited (金德精密科技(蘇州)有限公司)	Suzhou, the PRC, wholly foreign-owned enterprise	US$7,554,868	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC
Kingdom Majorlink Kiosk Systems Limited	Hong Kong, limited liability company	HK$100.9	–	56.67%	–	–	Sale and rental of kiosk product in Hong Kong and overseas

10 Inventories

	2014 HK$'000	2013 HK$'000
Raw materials	**31,597**	31,527
Work in progress	**36,102**	29,824
Finished goods	**71,243**	49,176
	138,942	110,527

The Group recognised amounts of HK$3,878,000 and HK$634,000 in respect of the write-down of inventories to their net realisable values for the years ended 31 March 2014 and 2013, respectively. These amounts have been included in the cost of sales in the consolidated statement of comprehensive income.

The cost of inventories recognised as expense and included in cost of sales amounted to HK$734,058,000 and HK$640,574,000 for the years ended 31 March 2014 and 2013, respectively.

11 Trade and Other Receivables

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Trade receivables (note (b) and (d))	**166,860**	183,502	**–**	–
Prepayments, deposits and other receivables	**32,700**	45,713	**–**	–
Amounts due from subsidiaries (note (e))	**–**	–	**89,632**	100,433
	199,560	229,215	**89,632**	100,433

Notes:

(a) The fair values of trade and other receivables approximate their carrying amounts.

(b) The Group normally grants credit periods of 30 to 90 days (2013: 30 to 90 days). The ageing analysis of trade receivables based on invoice dates is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Up to 3 months	**159,100**	174,529
3 to 6 months	**5,531**	6,854
6 months to 1 year	**2,156**	1,151
1 to 2 years	**73**	968
	166,860	183,502

(c) As at 31 March 2014 and 2013, the Group's trade receivables of approximately HK$30,356,000 and HK$35,511,000, respectively, were past due but not impaired. These trade receivables relate to a number of customers for whom there is no recent history of default.

The ageing analysis of trade receivables that were past due but not impaired is as follows:

	Group	
	2014	2013
	HK$'000	HK$'000
Amounts past due		
Up to 3 months	**27,732**	32,819
3 to 6 months	**1,705**	1,599
6 months to 1 year	**897**	165
1 to 2 years	**22**	928
	30,356	35,511

11 Trade and Other Receivables (Continued)

Notes: (Continued)

(d) The carrying amounts of the Group's trade receivables were denominated in the following currencies:

	Group	
	2014	2013
	HK$'000	HK$'000
US$	**105,108**	119,920
RMB	**30,899**	39,010
HK$	**30,853**	24,572
	166,860	183,502

(e) Amounts due from subsidiaries are denominated in HK$. The amounts are unsecured, non-interest bearing and are repayable on demand.

12 Derivative Financial Instrument

Derivative financial instrument represent one RMB/US$ forward foreign exchange contract held by the Group.

As at 31 March 2013, the only unsettled contract represents a hedge against the potential fluctuations in foreign exchange arising from long-term bank borrowings denominated in RMB, in which its notional amounts and payment schedules match with the long-term bank borrowings. The effective period of the contract is two years and have expired in August 2013.

The gain or loss from settlement of this contract is presented in "gain/loss on derivative financial instrument" in "other gains, net" in note 22.

13 Available-for-sale Financial Assets

	2014	2013
	HK$'000	HK$'000
At 1 April	**–**	–
Additions	**199,375**	–
Disposals	**(186,875)**	–
At 31 March	**12,500**	–

Available-for-sale financial assets as at 31 March 2014 represented financial products with licenced banks in the PRC. Pursuant to the underlying contracts or notices, these financial products are principal guaranteed upon the maturity date. The financial products have terms of less than one year and have an expected average annual rate of return of 4.2% per annum.

14 Cash and Cash Equivalents and Restricted Bank Deposit

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Total bank deposits, bank balances and cash	**128,790**	265,478	**511**	511
Restricted bank deposit included in current assets (note (a))	**(23,400)**	(46,800)	**–**	–
	105,390	218,678	**511**	511
Represented by:				
Cash at bank and on hand	**101,640**	213,678	**511**	511
Short-term bank deposits with original maturity within three months	**3,750**	5,000	**–**	–
	105,390	218,678	**511**	511

Note:

(a) As at 31 March 2014, a bank deposit of HK$23,400,000 (2013: HK$46,800,000) was secured for the Group's borrowings (note 19).

As at 31 March 2014, the Group's short-term bank deposits had a weighted average interest rate of 2.9% (2013: 2.5%). As at 31 March 2014, the weighted average maturity days of these deposits were 49 days (2013: 60 days).

As at 31 March 2014, the Group's cash and cash equivalents and restricted bank deposit included balances of HK$58,301,000 (2013: HK$96,557,000), which were deposits with banks in the PRC. These balances were denominated in US$, RMB, HK$ and Euro. The remittance of such balances out of the PRC is subject to the rules and regulations of foreign exchange control promulgated by the PRC government.

The carrying amounts of the Group's cash and cash equivalents and restricted bank deposit are denominated in the following currencies:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
US$	**51,743**	72,158	**–**	–
RMB	**42,227**	45,217	**–**	–
HK$	**34,794**	143,375	**511**	511
British Pound Sterling ("**GBP**")	**–**	3,520	**–**	–
Euro	**26**	1,208	**–**	–
	128,790	265,478	**511**	511

15 Share Capital

Authorised share capital

Pursuant to a shareholders' resolution passed on 22 September 2012, the authorised share capital of the Company was increased from HK$100,000 to HK$450,000,000 by the creation of 4,499,000,000 new shares with a par value of HK$0.1 per share.

Issued share capital

	Number of shares	Share capital HK$'000	Share premium HK$'000	Total HK$'000
The Company				
At 1 April 2012	**1**	**–**	**–**	**–**
Issue of new shares (note (a))	**999,999**	**100**	**–**	**100**
Issue of new shares pursuant to the Global Offering (note (b))	**150,000,000**	**15,000**	**87,000**	**102,000**
Capitalisation of shares (note (b))	**449,000,000**	**44,900**	**(44,900)**	**–**
Share issue expenses	**–**	**–**	**(15,965)**	**(15,965)**
At 31 March 2014 and 2013	**600,000,000**	**60,000**	**26,135**	**86,135**

Notes:

(a) On 13 September 2012, the Company acquired the entire equity interest in KFM Group Limited by (a) issuing and allotting 999,999 new shares to Kingdom International Group Limited ("**KIG**"), credited as fully paid; and (b) crediting as fully paid at par the one nil-paid share which was then registered in the name of KIG.

(b) The Company's shares were listed on the Stock Exchange on 15 October 2012. The ordinary issued share capital of the Company was increased from 1,000,000 ordinary shares to 600,000,000 ordinary shares. On the same day, 599,000,000 ordinary shares were issued to the underlying controlling shareholders of the Group and the general public. In respect of the 599,000,000 shares newly issued, 150,000,000 ordinary shares were issued pursuant to the global offering and 449,000,000 ordinary shares were issued pursuant to the capitalisation issue. The 150,000,000 ordinary shares issued pursuant to the global offering were issued at HK$0.68 per share. The ordinary shares newly issued ranked pari passu in all respects with the issued shares then existing.

16 Reserves

(a) Group

	Capital reserve HK$'000 (note (a))	Statutory reserve HK$'000 (note (b))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 April 2012	3,545	17,735	36,459	390,432	448,171
Profit for the year	–	–	–	40,155	40,155
Currency translation differences	–	–	4,390	–	4,390
Issue of share capital	(100)	–	–	–	(100)
Transfer of retained profits to statutory reserve (note (b))	–	3,339	–	(3,339)	–
Dividends paid	–	–	–	(85,228)	(85,228)
At 31 March 2013	**3,445**	**21,074**	**40,849**	**342,020**	**407,388**
Profit for the year	**–**	**–**	**–**	**36,383**	**36,383**
Currency translation differences	**–**	**–**	**354**	**–**	**354**
Transfer of retained profits to statutory reserve (note (b))	**–**	**2,935**	**–**	**(2,935)**	**–**
Dividends paid	**–**	**–**	**–**	**(19,800)**	**(19,800)**
At 31 March 2014	**3,445**	**24,009**	**41,203**	**355,668**	**424,325**

Representing:	
– Proposed dividends	**3,000**
– Others	**421,325**
	424,325

Notes:

(a) During the year ended 31 March 2012, as part of the re-organisation, KFM Group Limited ("**KFM-BVI**") acquired 100% of the issued share capital of Kingdom Fine Metal Limited ("**KFM-HK**") on 11 October 2011 and KFM-HK acquired the issued share capital of 49% and 10% of Kingdom (Reliance) Precision Parts Manufactory Limited ("**KRP-HK**") and Kingdom Precision Product Limited ("**KPP-HK**") on 29 November 2011 and 29 December 2011 respectively, by allotting shares of KFM-BVI to each of the respective companies' then shareholders and gains 100% control of the companies. The subscription of new shares of KFM-BVI was accounted for by the Group using merger method and approximately HK$3.5 million was recognised in capital reserve which mainly represented 100%, 49% and 10% of the aggregated issued share capital of KFM-HK, KRP-HK and KPP-HK respectively.

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

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

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

16 Reserves (Continued)

(b) Company

	Retained profits HK$'000
At 1 April 2012	–
Profit for the year	14,909
At 31 March 2013	**14,909**
Dividend	**(19,800)**
Profit for the year	**8,999**
At 31 March 2014	**4,108**
Representing:	
– Proposed dividends	**3,000**
– Others	**1,108**
	4,108

17 Deferred Income Tax

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current income tax assets against current income tax liabilities and when the deferred income taxes relate to the same taxation authority. The analysis of deferred income tax assets and liabilities is as follows:

	2014 HK$'000	2013 HK$'000
Deferred income tax assets:		
– to be recovered within 12 months	**301**	419
– to be recovered after more than 12 months	**4,463**	5,146
	4,764	5,565
Deferred income tax liabilities		
– to be recovered within 12 months	**(53)**	(293)
– to be recovered after more than 12 months	**(10,709)**	(14,423)
	(10,762)	(14,716)
Deferred tax liabilities (net)	**(5,998)**	(9,151)

17 Deferred Income Tax (Continued)

The movements on the net deferred income tax account are as follows:

	2014 HK$'000	2013 HK$'000
Beginning of the year	**(9,151)**	(12,751)
Credited to the consolidated statement of comprehensive income (note 26)	**3,153**	3,600
End of the year	**(5,998)**	(9,151)

The movements in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

	Tax losses HK$'000	Accelerated accounting depreciation HK$'000	Total HK$'000
Deferred income tax assets			
At 1 April 2012	–	–	–
Credited to the consolidated statement of comprehensive income	–	5,565	5,565
At 31 March 2013	**–**	**5,565**	**5,565**
Credited/(charged) to the consolidated statement of comprehensive income	**1,632**	**(801)**	**831**
At 31 March 2014	**1,632**	**4,764**	**6,396**

	Accelerated tax depreciation HK$'000	Undistributed profits from subsidiaries HK$'000	Total HK$'000
Deferred income tax liabilities			
At 1 April 2012	(5,553)	(7,198)	(12,751)
Credited/(charged) to the consolidated statement of comprehensive income	1,123	(3,088)	(1,965)
At 31 March 2013	**(4,430)**	**(10,286)**	**(14,716)**
Credited to the consolidated statement of comprehensive income	**20**	**2,302**	**2,322**
At 31 March 2014	**(4,410)**	**(7,984)**	**(12,394)**

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through future taxable profits is probable.

The Group did not recognise deferred income tax assets of approximately HK$4,695,000 (2013: HK$1,976,000) in respect of losses amounting to approximately HK$37,553,000 (2013: HK$11,976,000) that can be carried forward against future taxable income. Losses amounting to approximately HK$385,000 will expire in 2018.

18 Trade and Other Payables

	2014 HK$'000	2013 HK$'000
Trade payables (note (b) and (c))		
– third parties	**114,694**	100,279
– related companies	**1,248**	801
	115,942	101,080
Accruals, deposits and other payables	**53,946**	30,434
Considerations payable for acquisition of business (note (d))	**–**	12,788
	169,888	144,302

Notes:

(a) The fair values of trade and other payables approximate their carrying amounts.

(b) The ageing analysis of trade payables at the respective balance sheet dates is as follows:

	2014 HK$'000	2013 HK$'000
Up to 3 months	**113,339**	97,915
3 to 6 months	**2,508**	2,700
6 months to 1 year	**79**	358
1 to 2 years	**16**	107
	115,942	101,080

(c) The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2014 HK$'000	2013 HK$'000
RMB	**62,794**	49,753
US$	**35,353**	37,315
HK$	**14,702**	10,983
Euro	**3,064**	3,012
Others	**29**	17
	115,942	101,080

(d) On 29 March 2012, the Group acquired the product assembly business from a third party customer. The balance had been settled in full during the year.

19 Bank Borrowings

	2014 HK$'000	2013 HK$'000
Bank overdrafts	**184**	1,176
Short-term bank borrowings	**60,000**	70,000
Portion of long-term bank borrowings due for repayment within one year	**49,000**	66,742
Portion of long-term bank borrowings due for repayment after one year which contain a repayment on demand clause	**41,450**	73,106
	150,634	211,024

The interest-bearing bank borrowings, including the bank borrowings repayable on demand, are carried at amortised cost. None of the portion of bank borrowings due for repayment after one year which contain a repayment on demand clause and that is classified as a current liability is expected to be settled within one year.

The Group's bank borrowings and bank overdrafts are repayable based on the scheduled repayment dates set out in the loan agreements and ignore the effect of any repayment on demand clause as follows:

	2014 HK$'000	2013 HK$'000
Within 1 year	**109,184**	137,918
Between 1 and 2 years	**27,350**	47,400
Between 2 and 5 years	**5,223**	25,706
Over 5 years	**8,877**	–
	150,634	211,024

The carrying amounts of the Group's bank borrowings and bank overdrafts approximate their fair values.

The carrying amounts of the Group's bank borrowings and bank overdrafts are denominated in the following currencies:

	2014 HK$'000	2013 HK$'000
HK$	**150,634**	195,571
RMB	**–**	15,453
	150,634	211,024

19 Bank Borrowings (Continued)

The effective annual interest rates of the Group's bank borrowings at the balance sheet date are as follows:

	2014 HK$'000	2013 HK$'000
HK$	**4.1%**	3.9%
RMB	**–**	5.0%

As at 31 March 2014, the Group's bank borrowings and bank overdrafts of HK$99,956,000 (2013: HK$161,024,000) were secured by a bank deposit of HK$23,400,000 (2013: HK$46,800,000). The Group's bank borrowings of HK$50,678,000 (2013: nil) were secured by leasehold land and buildings with a carrying amount of HK$46,500,000 (2013: nil).

20 Revenue

Revenue represents sales of high precision metal products to external parties.

21 Expenses by Nature

	2014 HK$'000	2013 HK$'000
Raw materials and consumables used	**422,781**	365,347
Changes in inventory of finished goods and work in progress	**(28,345)**	(8,533)
Employee benefit expenses (note 23)	**238,609**	204,749
Processing fees	**74,801**	60,544
Depreciation of property, plant and equipment (note 5)	**34,747**	29,792
Amortisation of leasehold land and land use right (note 6)	**440**	–
Amortisation of intangible assets (note 7)	**4,238**	3,769
Operating lease rental in respect of buildings	**32,876**	26,793
Research and development costs	**24,087**	19,719
Utilities expenses	**18,768**	16,833
Transportation, postage and courier expenses	**14,361**	13,186
Legal and professional fees		
– incurred for initial public offerings	**–**	11,506
– others	**4,410**	5,019
Auditor's remuneration		
– audit services	**1,800**	2,100
– non-audit services	**874**	3,436
Others	**57,963**	44,728
Total cost of sales, distribution and selling expenses and general and administrative expenses	**902,410**	798,988
Represented by:		
Cost of sales	**737,936**	641,208
Distribution and selling expenses	**22,381**	17,631
General and administrative expenses	**142,093**	140,149
	902,410	798,988

22 Other gains, net

	2014 HK$'000	2013 HK$'000
(Loss)/gain on derivative financial instrument		
– realised	**(319)**	–
– unrealised	**–**	61
Gain on disposal of property, plant and equipment		
– leasehold land and buildings	**437**	9,600
– other property, plant and equipment	**1,506**	742
Net exchange loss	**(4,446)**	(3,750)
Others	**2,947**	1,147
	125	7,800

23 Employee Benefit Expenses, Including Directors' Remuneration

`	2014 HK$'000	2013 HK$'000
Short-term employee benefits (note (a))	**198,146**	177,267
Post-employment benefits – defined contribution plans	**34,884**	22,714
Other long-term benefits	**5,579**	4,768
	238,609	204,749

Note:

(a) Short-term employee benefits represent salary, wages and bonus paid to employees of the Group, and insurance premium paid to the insurance agent for staff insurance schemes.

24 Directors' and Senior Management's Remuneration

(a) Directors' remuneration

The remuneration of the directors for the years ended 31 March 2014 and 2013 are set out below:

	Directors' fee HK$'000	Short-term employee benefits HK$'000	Post-employment benefits – defined contribution plans HK$'000	Total HK$'000
For the year ended 31 March 2014				
Executive Directors:				
Sun Kwok Wah Peter	**–**	**3,900**	**15**	**3,915**
Wong Chi Kwok	**–**	**300**	**–**	**300**
Lam Kin Shun	**–**	**1,500**	**15**	**1,515**
Chow Suen Christina	**–**	**1,320**	**15**	**1,335**
Independent Non-Executive Directors:				
Wan Kam To	**200**	**–**	**–**	**200**
Lam Hon Keung Keith	**200**	**–**	**–**	**200**
Chung Chi Ping Roy	**200**	**–**	**–**	**200**
Chief Executive:				
Chung Sin Ling	**–**	**2,016**	**15**	**2,031**
	600	**9,036**	**60**	**9,696**
For the year ended 31 March 2013				
Executive Directors:				
Sun Kwok Wah Peter	–	2,876	93	2,969
Wong Chi Kwok	–	158	–	158
Lam Kin Shun	–	1,499	15	1,514
Chow Suen Christina	–	1,149	57	1,206
Independent Non-Executive Directors:				
Wan Kam To	105	–	–	105
Lam Hon Keung Keith	105	–	–	105
Chung Chi Ping Roy	105	–	–	105
	315	5,682	165	6,162

24 Directors' and Senior Management's Remuneration (Continued)

(b) Five highest paid individuals

The remuneration of the five highest paid individuals for the years ended 31 March 2014 and 2013 are set out below:

	2014 HK$'000	2013 HK$'000
Short-term employee benefits	**10,965**	9,940
Post-employment benefits – defined contribution plans	**75**	149
	11,040	10,089

The five individuals whose remuneration were the highest in the Group include two (2013: two) directors and the chief executive officer for the year ended 31 March 2014, whose remuneration are reflected in the analysis presented above.

The remuneration paid to the remaining individuals including the chief executive officer during the year are as follows:

	2014 HK$'000	2013 HK$'000
Short-term employee benefits	**5,565**	5,564
Post-employment benefits – defined contribution plans	**45**	38
	5,610	5,602

The remuneration fell within the following bands:

	Number of individuals 2014	 2013
Remuneration bands		
HK$1,000,001 to HK$2,000,000	**2**	3
HK$2,000,001 to HK$3,000,000	**1**	–

(c) For the year ended 31 March 2014, no remuneration were paid by the Group (2013: nil) to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office, and no arrangement under which a director or the five highest paid individuals waived or agreed to waive any of the remuneration.

25 Finance Costs, Net

	2014 HK$'000	2013 HK$'000
Finance costs		
Interest expense on bank borrowings wholly repayable within ten years	**(6,950)**	(6,315)
Total interest expense capitalised into construction in progress*	**235**	–
	(6,715)	(6,315)
Finance income		
Interest income on bank balances and deposits	**378**	297
Interest income on available-for-sale financial assets	**361**	–
	739	297
Finance costs, net	**(5,976)**	(6,018)

* The borrowing costs have been capitalised at a rate of 4.6% per annum (2013: nil).

26 Income Tax Expenses

	2014 HK$'000	2013 HK$'000
Current income tax		
– Hong Kong	**6,099**	5,752
– The PRC	**8,338**	9,920
Adjustments in respect of prior years		
– Refund of PRC dividend withholding tax	**(3,055)**	–
– Over-provision in respect of prior year	**(5,704)**	(2,926)
	5,678	12,746
Deferred income tax (note 17)		
– Origination and reversal of temporary differences	**(3,360)**	(3,600)
– Impact of change in the PRC tax rate	**207**	–
	(3,153)	(3,600)
	2,525	9,146

Income tax of the Group's entities has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the entities operate.

Below are the major tax jurisdictions that the Group operates in for the years ended 31 March 2014 and 2013.

(a) Hong Kong profits tax

The Group is subject to Hong Kong profits tax which is provided at the rate of 16.5% (2013: 16.5%) on the estimated assessable profit for the year ended 31 March 2014.

26 Income Tax Expenses (Continued)

(b) The PRC enterprise income tax (the "PRC EIT")

The PRC EIT is provided on the assessable income of the companies of the Group derived from the PRC, adjusted for those items which are not taxable or deductible for PRC EIT purpose.

The below table summarises the income tax rates applicable to the Group's PRC subsidiaries for the years ended 31 December 2014 and 2013 respectively.

	2014	2013
KPP SU (note (i))	**15%**	15%
KRP SZ (note (ii))	**15%**	15%
KRP SH	**25%**	25%
KFM SZ (note (iii))	**15%**	15%

Notes:

(i) On 22 September 2009, KPP SU was recognised by the PRC government as a "National High and New Technology Enterprise" and was therefore subject to a preferential tax rate of 15%. KPP SU applies for such preferential tax rate starting from 1 January 2010.

(ii) On 13 July 2013, KRP SZ was recognised by the PRC government as a "National High and New Technology Enterprise" and was subject to a preferential tax rate of 15%. KRP SZ applies for such preferential tax rate starting from 1 January 2013.

(iii) KFM SZ, an indirect wholly-owned subsidiary of the Company, was established in the PRC on 6 April 2011 as a wholly foreign owned enterprise with limited liability. On 13 July 2013, KFM SZ was recognised by the PRC government as a "National High and New Technology Enterprise" and was subject to a preferential tax rate of 15%. KFM SZ applies for such preferential tax rate starting from 1 January 2013.

26 Income Tax Expenses (Continued)

The income tax on the Group's profit before income tax differs from the theoretical amount that would arise using the tax rate applicable to profits of the entities, as follows:

	2014 HK$'000	2013 HK$'000
Profit before income tax	**37,537**	49,301
Tax calculated at the standard tax rate of the respective entities	**8,077**	12,741
Income not subject to tax	**(442)**	(1,759)
Expenses not deductible for tax purpose	**3,948**	5,369
Tax concession (note (i))	**–**	(3,105)
Over-provision in prior years	**(5,704)**	(2,926)
Tax effect arising from transferring certain equipment to a PRC subsidiary	**–**	(3,313)
Withholding income tax on undistributed profits	**(2,302)**	3,088
Utilisation of previously unrecognised tax loss	**(716)**	(949)
Tax losses for which no deferred income tax asset was recognised	**2,719**	–
Withholding tax refund	**(3,055)**	–
Income tax expenses	**2,525**	9,146
The effective tax rate	**7%**	19%

Note:

(i) Tax concession represents enterprise income tax waived/reduced under the 5-Year Tax Concession and preferential tax rate as being a "National High and New Technology Enterprises".

27 Earnings per Share

	2014	2013
Profit attributable to equity holders of the Company (HK$'000)	**36,383**	40,155
Weighted average number of shares in issue ('000)	**600,000**	519,041
Basic and diluted earnings per share (HK cents per share)	**6.06**	7.74

Basic earnings per share for the year ended 31 March 2014 is calculated by dividing the profit attributable to equity holders of the Company by 600,000,000 ordinary shares in issue during the year.

Basic earnings per share for the year ended 31 March 2013 was calculated based on the profit attributable to equity holders of the Company, and on the assumption that capitalisation issue of 449,000,000 ordinary shares have been in issue throughout the year.

The Group had no potentially dilutive ordinary share (i.e. share options and warrants) in issue during the years ended 31 March 2014 and 2013.

28 Note to Consolidated Statement of Cash Flows

Reconciliation of profit before income tax to net cash generated from operations:

	2014 HK$'000	2013 HK$'000
Profit before income tax	**37,537**	49,301
Depreciation of property, plant and equipment (note 5)	**34,747**	29,792
Amortisation of leasehold land and land use right (note 6)	**440**	–
Amortisation of intangible assets (note 7)	**4,238**	3,769
Loss/(gain) on derivative financial instrument (note 22)	**319**	(61)
Gain on disposal of property, plant and equipment	**(1,943)**	(10,342)
Finance income (note 25)	**(739)**	(297)
Finance costs (note 25)	**6,715**	6,315
Operating profit before changes in working capital	**81,314**	78,477
Increase in inventories	**(29,340)**	(5,859)
Decrease/(increase) in trade and other receivables	**31,627**	(19,738)
Increase in trade and other payables	**26,446**	16,078
Net cash generated from operations	**110,047**	68,958

29 Dividends

At a meeting held on 24 June 2014, the Board proposed a final dividend of HK0.5 cents per share totaling to HK$3,000,000 (2013: HK2.0 cents totaling to HK$12,000,000) for the year ended 31 March 2014. This proposed dividend is not reflected as dividend payable in these consolidated financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 March 2015.

On 26 November 2013, the Board declared an interim dividend of HK1.3 cents per share totaling to HK$7,800,000 (2013: nil) for the six months ended 30 September 2013 which was paid in January 2014.

For the year ended 31 March 2013, final dividends totaling to HK$12,000,000 were declared and fully paid in September 2013.

On 2 May 2012 and 26 June 2012, the Group declared dividends of HK$53,646,000 and HK$31,582,000, respectively, to its then shareholders and has been fully paid by the Group.

30 Commitments

(a) Capital commitments

	2014 **HK$'000**	2013 HK$'000
Authorised but not contracted for		
– Construction cost	**48,421**	–
Contracted but not provided for		
– Leasehold land and buildings	**11,625**	63,426
– Construction cost	**65,579**	–
– Capital investment	**–**	7,235
	77,204	70,661

(b) Operating lease commitments

The Group acts as lessee under operating leases. The Group had future minimum lease payments under non-cancellable operating leases of land use rights and buildings as follows:

	2014 **HK$'000**	2013 HK$'000
Within 1 year	**26,824**	25,655
Later than 1 year and not later than 5 years	**86,139**	84,676
Later than 5 years	**1,312**	11,773
	114,275	122,104

These leases typically run for an initial period of one to ten years. Certain of the operating leases contain renewal options which allow the Group to renew.

31 Contingent Liabilities

During the years ended 31 March 2014 and 2013, the Group and the Company had provided guarantee as follows:

	Group		Company	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank borrowings drawn by subsidiaries of the Company	**–**	–	**150,634**	211,024

32 Significant Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

(a) Name and relationship with related parties

Name	Relationship
Kingdom International Group Limited	The ultimate holding company of the Group.
Peter Sun	One of the underlying controlling shareholders of the Group.
Gold Joy (HK) Industrial Limited	A related company owned by Chow Suen Christina; David Wong; Yau Lam Chuen; and Yung Ching Tak.
Innotech Advanced Products Limited	A subsidiary of Gold Joy (HK) Industrial Limited.
Dongguan Tech-in Electrical & Mechanical Products Limited	A subsidiary of Innotech Advanced Products Limited.

(b) Sales and purchase of products

During the year, the Group had the following material transactions with related parties, which were entered into at terms mutually agreed.

Continuing transactions:

	2014	2013
	HK$'000	HK$'000
Sales of products to a related company:		
Innotech Advanced Products Limited	**–**	43
Purchase of products from related companies:		
Innotech Advanced Products Limited	**3,320**	3,247
Dongguan Tech-in Electrical & Mechanical Products Limited	**2,334**	1,834

32 Significant Related Party Transactions (Continued)

(c) Balances with related companies

	2014 HK$'000	2013 HK$'000
Trade payables to related companies		
Innotech Advanced Products Limited	**(595)**	(458)
Dongguan Tech-in Electrical & Mechanical Products Limited	**(653)**	(343)
	(1,248)	(801)

(d) Key management compensation

Key management includes directors and senior managements. The compensation paid or payable to key management for employee services is shown below:

	2014 HK$'000	2013 HK$'000
Short-term employee benefits	**12,161**	10,944
Post-employment benefits – defined contribution plans	**102**	214
Other long-term benefits	**18**	16
	12,281	11,174

33 Segment Information

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

In prior years, the CODM have determined the business segments by product type, namely "Office automation", "Medical and test equipment", "Finance equipment", "Consumer electronics" and "Network and data storage".

During the year ended 31 March 2014, the CODM have reassessed the nature of the Group's businesses and determined that business segments by manufacturing processes are more relevant. This new segment information is more comparable with information reported by other similar industry peers. Accordingly, the newly defined reportable segments are presented as follows:

(i) Manufacturing and sale of precision metal products involving metal stamping and computer numerical control ("**CNC**") sheet metal processing ("**Metal stamping**"); and

(ii) Manufacturing and sale of precision metal products involving lathing, machining and turning processes ("**Metal lathing**").

The CODM assess the performance of the operating segments based on segment results. This measurement basis excludes the effects of non-recurring expenditure from the operating segments and other unallocated operating costs. Other information provided, except as noted below, to the CODM are measured in a manner consistent with that in the 2013 interim condensed consolidated financial information.

33 Segment information (Continued)

Segment assets exclude deferred income tax assets, restricted bank deposit, cash and cash equivalents, current income tax recoverable, available-for-sale financial assets and other unallocated head office and corporate assets as these assets are managed on a Group basis.

Segment liabilities exclude deferred income tax liabilities, bank borrowings, current income tax liabilities and other unallocated head office and corporate liabilities.

Capital expenditures comprise additions to property, plant and equipment and leasehold land and land use right.

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

(a) The segment information provided to the executive directors and senior management collectively for the reportable segments is as follows:

(i) For the year ended 31 March 2014:

	Metal stamping HK$'000	Metal lathing HK$'000	Total HK$'000
Segment revenue			
Sales	692,489	253,559	946,048
Intersegment sales	(242)	(8)	(250)
Sales to external customers	692,247	253,551	945,798
Cost of sales	(584,912)	(153,024)	(737,936)
Gross profit	107,335	100,527	207,862
Gross profit %	15.5%	39.6%	22.0%
Other gains, net			125
Distribution and selling expenses			(22,381)
General and administrative expenses			(142,093)
Operating profit			43,513
Finance income			739
Finance costs			(6,715)
Profit before income tax			37,537
Income tax expenses			(2,525)
Profit for the year			35,012
Segment depreciation	16,857	16,378	33,235
Unallocated depreciation			1,512
			34,747
Segment amortisation	909	–	909
Unallocated amortisation			3,769
			4,678

33 Segment Information (Continued)

(a) The segment information provided to the executive directors and senior management collectively for the reportable segments is as follows: (continued)

(ii) For the year ended 31 March 2013:

	Metal stamping HK$'000	Metal lathing HK$'000	Total HK$'000
Segment revenue			
Sales	643,392	203,277	846,669
Intersegment sales	(148)	(14)	(162)
Sales to external customers	643,244	203,263	846,507
Cost of sales	(524,570)	(116,638)	(641,208)
Gross profit	118,674	86,625	205,299
Gross profit %	18.4%	42.6%	24.3%
Other gains, net			7,800
Distribution and selling expenses			(17,631)
General and administrative expenses			(140,149)
Operating profit			55,319
Finance income			297
Finance costs			(6,315)
Profit before income tax			49,301
Income tax expenses			(9,146)
Profit for the year			40,155
Segment depreciation	15,237	13,318	28,555
Unallocated depreciation			1,237
			29,792
Unallocated amortisation			3,769

33 Segment Information (Continued)

(b) The segment assets and liabilities are as follows:

(i) As at 31 March 2014:

	Metal stamping HK$'000	Metal lathing HK$'000	Total HK$'000
Segment assets	**409,017**	**185,153**	**594,170**
Reconciliation			
Corporate and other unallocated assets			
Deferred income tax assets			**4,764**
Current income tax recoverable			**3,861**
Available-for-sale financial assets			**12,500**
Restricted bank deposit			**23,400**
Cash and cash equivalents			**105,390**
Other unallocated head office and corporate assets			**107,507**
Total assets			**851,592**
Segment liabilities	**143,591**	**24,601**	**168,192**
Reconciliation			
Corporate and other unallocated liabilities			
Deferred income tax liabilities			**10,762**
Bank borrowings			**150,634**
Current income tax liabilities			**5,102**
Other unallocated head office and corporate liabilities			**1,696**
Total liabilities			**336,386**
Segmental capital expenditures	**61,673**	**7,622**	**69,295**
Reconciliation			
Other unallocated head office and corporate capital expenditures			**71,708**
Total capital expenditures			**141,003**

33 Segment Information (Continued)

(b) The segment assets and liabilities are as follows: (continued)

(ii) As at 31 March 2013:

	Metal stamping HK$'000	Metal lathing HK$'000	Total HK$'000
Segment assets	357,728	201,076	558,804
Reconciliation			
Corporate and other unallocated assets			
Deferred income tax assets			5,565
Restricted bank deposit			46,800
Cash and cash equivalents			218,678
Other unallocated head office and corporate assets			41,188
Total assets			871,035
Segment liabilities	111,676	18,998	130,674
Reconciliation			
Corporate and other unallocated liabilities			
Deferred income tax liabilities			14,716
Bank borrowings			211,024
Current income tax liabilities			7,470
Other unallocated head office and corporate liabilities			13,628
Total liabilities			377,512
Segmental capital expenditures	15,551	52,928	68,479
Reconciliation			
Other unallocated head office and corporate capital expenditures			29,142
Total capital expenditures			97,621

33 Segment Information (Continued)

(c) Revenue from external customers in the People's Republic of China ("the **PRC**"), North America, Europe, Japan, Singapore, Oceania, South America and other Asian countries is as follows:

	2014 **HK$'000**	2013 HK$'000
The PRC	**632,812**	576,349
North America	**152,527**	106,834
Europe	**79,014**	68,379
Japan	**52,492**	56,298
Singapore	**15,519**	24,423
Oceania	**1,845**	2,446
South America	**940**	465
Other Asian countries excluding the PRC, Singapore and Japan	**10,649**	11,313
	945,798	846,507

(d) The total of non-current assets, other than intangible assets, goodwill and deferred income tax assets of the Group as at 31 March 2014 and 2013 are as follows:

	2014 **HK$'000**	2013 HK$'000
The PRC	**250,374**	217,696
Hong Kong	**76,490**	6,390
	326,864	224,086

(e) During each of the years ended 31 March 2014 and 2013, revenue derived from one customer accounted for 10% or more of the Group's total revenue. This customer was in the metal stamping segment.

The revenue attributed from this customer is as follows:

	2014 **HK$'000**	2013 HK$'000
Segment of which this customer belongs to		
Metal stamping	**112,610**	90,478

Five Year Financial Summary

Set out below is a summary of the financial information of the Group for the last five financial years.

	Years ended 31 March				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**945,798**	846,507	951,418	821,062	536,613
Cost of sales	**(737,936)**	(641,208)	(716,918)	(572,418)	(411,079)
Gross profit	**207,862**	205,299	234,500	248,644	125,534
Other gains/(losses), net	**125**	7,800	29,052	2,143	(1,822)
Distribution and selling expenses	**(22,381)**	(17,631)	(19,391)	(12,236)	(9,814)
General and administrative expenses	**(142,093)**	(140,149)	(124,291)	(83,836)	(72,902)
Operating profit	**43,513**	55,319	119,870	154,715	40,996
Finance income	**739**	297	470	222	240
Finance costs	**(6,715)**	(6,315)	(2,883)	(671)	(552)
Profit before income tax	**37,537**	49,301	117,457	154,266	40,684
Income tax expenses	**(2,525)**	(9,146)	(23,064)	(28,785)	(7,200)
Profit for the year	**35,012**	40,155	94,393	125,481	33,484
Other comprehensive income for the year, net of tax					
Currency translation differences	**354**	4,390	10,797	9,443	1,119
Total comprehensive income	**35,366**	44,545	105,190	134,924	34,603
Profit for the year attributable to:					
Equity holders of the Company	**36,383**	40,155	94,393	125,481	33,484
Total comprehensive income attributable to:					
Equity holders of the Company	**36,737**	44,545	105,190	134,924	34,603
Earnings per share for profit attributable to equity holders of the Company					
– Basic and diluted (HK cents)	**6.06**	7.74	15.73	20.9	5.6
Dividends	**19,800**	85,228	85,579	26,790	–

	As at 31 March				
	2014	2013	2012	2011	2010
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**851,592**	871,035	732,856	616,914	497,403
Total liabilities	**(336,386)**	(377,512)	(284,685)	(188,354)	(161,647)
Net assets	**515,206**	493,523	448,171	428,560	335,756

Basis of presentation

The reorganisation has been accounted for using merger accounting and, accordingly, the financial information for the years ended 31 March 2013, 2012, 2011 and 2010 as contained in "Five Years Financial Summary" had been prepared as if the structure of the Group resulting from the Reorganisation had been in existence throughout the years.