KFM KINGDOM

KFM KINGDOM HOLDINGS LIMITED

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

ANNUAL REPORT 2016

Our goals are
FAR AND HIGH
We cultivate for TOMORROW

www.kingdom.com.hk

CONTENTS

2 Financial Highlights

3 Corporate Information

4 Chairman's Statement

6 Business Review

16 Corporate Governance Report

30 Biographies of Directors and Senior Management

34 Report of the Directors

47 Independent Auditor's Report

48 Consolidated Balance Sheet

50 Consolidated Statement of Comprehensive Income

51 Consolidated Statement of Changes in Equity

52 Consolidated Statement of Cash Flows

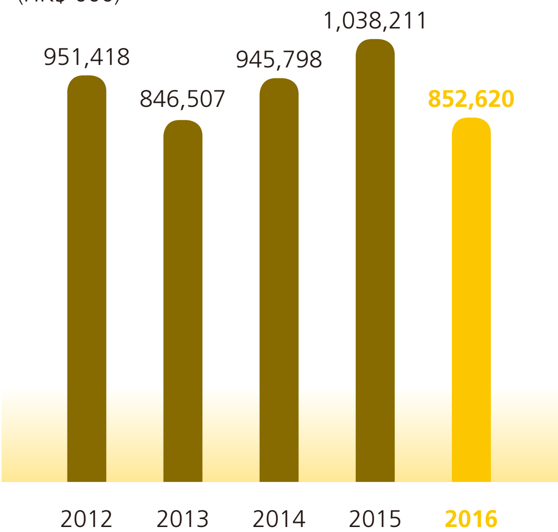
53 Notes to the Consolidated Financial Statements

113 Five Year Financial Summary

Financial Highlights

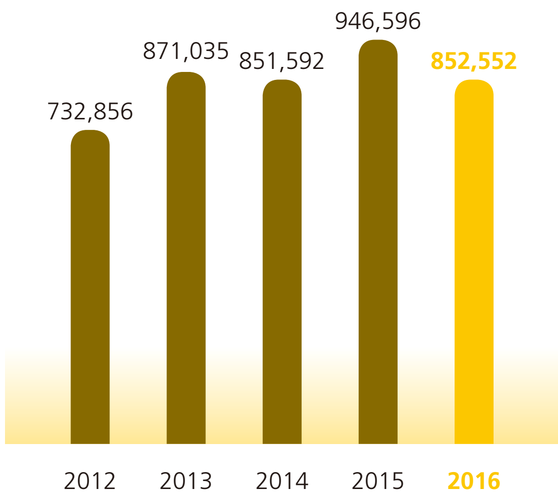
Revenue

Year ended 31 March
(HK$'000)



Total Assets

As at 31 March
(HK$'000)



Corporate Information

Non-executive Director
Mr. Zhang Yongdong (Chairman) (appointed on 13 January 2016 and resigned on 15 July 2016)

Executive Directors
Mr. Sun Kwok Wah Peter (appointed as CEO on 3 February 2016)
Mr. Wong Chi Kwok
Mr. Lam Kin Shun (resigned on 3 February 2016)
Mrs. Chow Suen Christina (resigned on 3 February 2016)

Independent non-executive Directors and Audit Committee
Mr. Wan Kam To (Chairman)
Ms. Zhao Yue (appointed on 3 February 2016)
Mr. Shen Zheqing (appointed on 3 February 2016)
Mr. Yeung Chi Tat (appointed on 7 September 2015 and resigned on 3 February 2016)
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)
Prof. Chung Chi Ping Roy (retired on 27 August 2015)

Remuneration Committee
Ms. Zhao Yue (Chairman) (appointed on 3 February 2016)
Mr. Zhang Yongdong (appointed on 3 February 2016 and resigned on 15 July 2016)
Mr. Wan Kam To
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)
Mr. Sun Kwok Wah Peter (resigned on 3 February 2016)
Prof. Chung Chi Ping Roy (retired on 27 August 2015)

Nomination Committee
Mr. Zhang Yongdong (Chairman) (appointed on 3 February 2016 and resigned on 15 July 2016)
Mr. Sun Kwok Wah Peter
Mr. Wan Kam To (appointed on 3 February 2016)
Ms. Zhao Yue (appointed on 3 February 2016)
Mr. Shen Zheqing (appointed on 3 February 2016)
Mr. Yeung Chi Tat (appointed on 7 September 2015 and resigned on 3 February 2016)
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)
Prof. Chung Chi Ping Roy (retired on 27 August 2015)

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

Legal Adviser as to Hong Kong Law
Chiu & Partners

Auditor
PricewaterhouseCoopers

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

Cayman Islands Share Registrar and Transfer Office
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

Dear Shareholders,

On behalf of the Board (the "**Board**") of Directors (the "**Directors**") of KFM Kingdom Holdings Limited (the "**Company**"), I herewith present the audited consolidated annual results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 March 2016 to all shareholders and investors.

Financial and Business Performance

China's economic raise over the past two decades relied on enormous capital investment and exports backed by a huge and competitive labor force, but the economy was steered onto a more sustainable development track with more domestic consumption, rather than over-relying on investment and exports. Under such wave of transformation, the level of manufacturing activity, the main driver of its rapid economic growth in the last two decades, has dramatically slowed and many foreign companies relocated to cheaper manufacturing bases around South East Asia.

Under such stagnant business sentiment, the Group was unavoidably experiencing headwinds on its financial performance, during the year ended 31 March 2016, the Group's revenue was approximately HK$852.6 million, representing a decrease of approximately HK$185.6 million or 17.9% against the financial year ended 31 March 2015 and a net loss of approximately HK$49.8 million was recorded as compared to a net profit position of approximately HK$29.1 million in the last year.

The challenges keep affecting our financial performance are:

There has been a non-reversible trend of our customers to relocate or shift part of their businesses to low cost areas. In order to save costs, many customers were relocating their relatively low value-adding operations and products to low cost regions in South East Asia, like Thailand, Vietnam and Cambodia. As such, our metal stamping business segment serves those companies faced either loss of orders or intensive price competition.

The financial performance of metal lathing business dropped as compared to the same period in last year. Though the financial performance of metal lathing segment has shown slight improvement from the third quarter in 2015, however, the overall annual performance of this segment still reported a drop of revenue of approximately HK$94.7 million or 37.2% as compared to the year ended 31 March 2015. The weakening demand from the Group's customers engaged in consumer electronic industry contributed a worsen performance.

The rising labour costs also lead to challenges to the Group. The legislation for raising the minimum wage became effective on 1 March 2015 and 1 January 2016 respectively for workers in Shenzhen and Suzhou. Such legislation has created undue cost pressure to the Group.

Prospect and Forward Looking

In response to these challenges laid before us, our Group is in the course of reformulating our strategies. We will improve our business portfolio in order to maximise shareholders' return. Our new production base in Suzhou was completed in the fourth quarter of 2015. It is expected that following the production facilities are ready, the production base will become a comprehensive production hub to serve customers in the Yangtze River Delta.

In the year ahead, we expect the precision metal manufacturing industry in China remains severe, we foresee lesser marketplace for weaker manufacturers to survive under the consolidation of manufacturing industry. To sustain its competitiveness and share in the market, the Group will further improve the operational efficiency and continue to take steps to streamline our cost structure. We hope such measures could relieve the trend of losing orders from customers and improve the deteriorating cost structure.

Besides, we are in the process of conducting a detailed review of the existing operations of the Group. Feasible business strategies will be formulated by the Group with a view to develop a sustainable corporate strategy to broaden its income stream, which may include rebalancing the resources of the Group should appropriate opportunities arise.

Finally, I am thankful to all staff for their continued loyalty, support and contributions to the Group in the past year. And I would also like to express my thanks to the Board of Directors for their dedicated services and guidance during the year.

Zhang Yongdong
Chairman
Hong Kong

28 June 2016

BUSINESS
REVIEW

Business Review

During the current financial year, the macroeconomic environment remained challenging to the Group. The slowing down of the economic growth in the PRC, interest rate hike in the United States of America, fragile recovery in Europe and Japan have set a difficult landscape for manufacturers.

The Group recorded a revenue amounted to approximately HK$852.6 million for the year ended 31 March 2016, with a decline by approximately 17.9% as compared to the corresponding period in 2015. The drop of revenue occurred in both metal stamping and metal lathing business segments. As compared to the corresponding period last year, the revenue derived from external customers of metal stamping business decreased by approximately 11.6%, to approximately HK$692.9 million. The metal stamping business continued to be affected by the sustained relocation of the Group's customers from China to other lower cost regions in South East Asia. In addition, the automotive toolings business (part of metal stamping business), which has a project-by-project nature, also generated less revenue than the same period last year.

As compared to the corresponding period last year, the Group's revenue derived from external customers of metal lathing segment also recorded a decline by approximately 37.2% as to approximately HK$159.7 million during the current year. This was mainly attributable to the weakened demand from the Group's customers which engaged in consumer electronic industry.

As a result of the decline in revenue, particularly in the metal lathing segment which historically yielded a relatively higher gross margin, the overall gross profit of the Group during the year ended 31 March 2016 decreased by approximately 28.6% from the same period last year to approximately HK$178.3 million.

Apart from the decline in revenue and gross profit, the performance was also hindered by the increase in general and administration expenses on some non-recurring items, such as professional fees which is attributable to the corporation action, the provision for impairment of certain other receivables, share of loss and impairment of interest in an associated entity, and impairment charge on goodwill. As a result, the Group recorded a loss during the current financial year of approximately HK$49.8 million.

Business Review

Outlook and Strategy

In light of the continual and challenging circumstances in the wider economic and business environment, the Group is cautious on the outlook of the business. The Group foresees that the customers' cessation of operations in the PRC is expected to continue. The ever-increasing operation costs in the PRC have been driving the relocation of the customers' production plants to the lower cost regions in South East Asia. The Group is facing the tightening demand from the customers, the soaring production cost arising from the increasing statutory minimum wages and the rising material cost. This trend continues to exert pressures on the metal manufacturing business, especially the thin margin segment of metal stamping.

The metal lathing segment was contracting during the current year. The Group has noted that the metal lathing business had gradually improved in the end of the current financial year end. However, the metal lathing segment business is unlikely to reach its previous position in terms of both pricing and quantity. As such, the Group continues to improve the lathing product portfolio and is seeking to diversify its product portfolio and spanning the product spectrum to include metal parts for laptop computers, camera units and household electronics, in addition to the existing products. The Group is also expanding new product lines, such as sensor business during the year ended 31 March 2016 to further diversify its business.

In respect of the metal stamping segment, the Group will focus on the production of the products which offer relatively higher profit margin, and continue its effort in enhancing cost efficiency, in order to improve the overall profit margin.

The Group is also taking various measures to strengthen the customer relationship and to build wider customer network. It aims to take stronger effort in exploring more business opportunities with new customers by increasing resources in research and development of new products and improving production processes. The Group consistently attaches importance to its expertise in precision metal processing technologies and is also taking steps to reduce reliance on labour in the production process by using more automations to increase the production efficiency.

With the continuous effort to broaden business opportunities and the dedication to enhance product quality at high production efficiency, the Group believes that the said measures and efforts will maintain the Group's established competitiveness in the precision metal engineering industry.

In addition, the Group understands that the controlling shareholder of the Group is in the process of conducting a detailed review of the existing operations of the Group. Feasible business strategies will be formulated by the Group with a view to develop a sustainable corporate strategy to broaden its income-stream, which may include re-balancing the resources of the Group, should appropriate opportunities arise. The Group believes that such assessment is beneficial to the development of the Group in the long term.

Financial Review

Revenue

For the year ended 31 March 2016, revenue of the Group reached approximately HK$852.6 million, representing a decrease of approximately HK$185.6 million or 17.9% from approximately HK$1,038.2 million for the corresponding period last year. Set out below is a breakdown of the Group's revenue by business segments:

	2016 HK$'000	% 	2015 HK$'000	%
Metal Stamping	692,851	81.3	783,829	75.5
Metal Lathing	159,769	18.7	254,382	24.5
	852,620	100.0	1,038,211	100.0

Revenue derived from the metal stamping segment decreased by approximately HK$90.9 million or 11.6% from approximately HK$783.8 million for the year ended 31 March 2015 to approximately HK$692.9 million for the year ended 31 March 2016. The drop was mainly due to a decrease in revenue generated from customers who are engaged in the office automation, medical and test equipment, automotive toolings and finance equipment industries during the year ended 31 March 2016.

Revenue derived from the metal lathing segment decreased by approximately HK$94.7 million or 37.2% from approximately HK$254.4 million for the year ended 31 March 2015 to approximately HK$159.7 million for the year ended 31 March 2016. The downturn was mainly attributed by a decrease in revenue generated from subcontractors of consumer electronics manufacturers.

Geographically, the People's Republic of China (the "**PRC**"), North America, Europe and Japan continued to be the major markets of the Group's products. Sales to such areas accounted for approximately 66.5%, 19.0%, 8.0% and 3.1% of the Group's revenue respectively for the year ended 31 March 2016. Details of revenue generated by different geographical location are set out in note 32(c) of the consolidated financial statements.

Cost of sales

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

	Year ended 31 March			
	2016 HK$'000	**%**	2015 HK$'000	%
Direct materials	350,744	52.0	412,074	52.2
Direct labour	162,890	24.2	176,420	22.4
Processing fee	85,888	12.7	89,871	11.4
Other direct overheads	74,837	11.1	110,292	14.0
	674,359	100.0	788,657	100.0

Business Review

During the year ended 31 March 2016, cost of sales of the Group decreased by approximately 14.5% or HK$114.3 million as compared to the corresponding period last year. The decrease was primarily due to the drop in the Group's total revenue. The percentage of cost of sales to the total revenue during the current year was approximately 79.1%, representing an increase of approximately 3.1%, as compared to approximately 76.0% in the corresponding period last year. This was primarily due to the decrease in revenue contributed from the metal lathing segment, and the increase in the percentage of the revenue contributed from the metal stamping segment of the Group.

Gross profit and gross profit margin

During the year ended 31 March 2016, the Group's gross profit was approximately HK$178.3 million, representing a decrease of approximately 28.6% as compared to the corresponding period in 2015. It was mainly due to the decrease in the Group's total revenue by approximately 17.9%.

For the year ended 31 March 2016, the gross profit margin of the Group was approximately 20.9%, which decreased by approximately 3.1% as compared to approximately 24.0% in the corresponding period in 2015. This was primarily due to (i) the revenue of the Group has experienced an approximately 17.9% drop as compared to the same period last year; (ii) the production efficiency decreased as the production volume was reduced; (iii) there was a decrease in revenue contributed from the high profit margin metal parts from the metal lathing segment; and (iv) the change of the product mix. For details of the gross profit margin of the Group's two business segments, please refer to note 32(a) of the consolidated financial statements.

Other gains, net

During the year ended 31 March 2016, the Group recorded other gains, net which amounted to approximately HK$15.1 million. In the corresponding period of 2015, the Group recorded other gains, net of approximately HK$0.1 million. The increase was mainly due to the increase in net foreign exchange gains of approximately HK$13.7 million, after taking into account the result of foreign exchange derivative contracts, and a one-off gain of approximately HK$1.2 million from the disposal of certain leasehold land and buildings in Hong Kong.

Distribution and selling expenses

Distribution and selling expenses relate to the expenses incurred for the promotion and selling of the Group's 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$25.3 million and HK$30.8 million for the years ended 31 March 2016 and 2015, respectively. The decrease in distribution and selling expenses was mainly attributed to the decrease in the Group's total revenue.

General and administrative expenses

General and administrative expenses comprised primarily of salaries and related costs for key management, the Group's 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$167.3 million for the year ended 31 March 2015 to approximately HK$197.5 million for the year ended 31 March 2016.

The increase was primarily due to an increase in (i) legal and professional fees in respect of the Group's corporate action; (ii) provision for impairment of other receivables; (iii) research and development costs; and (iv) an impairment charge on goodwill.

Provision for impairment of other receivables

The provision for impairment of other receivable was mainly made in respect of the amounts due from certain non-controlling shareholders regarding their capital commitment in non-wholly owned subsidiaries which the Group is uncertain of their recoverability.

Provision for impairment of goodwill

During the year, the Group reassessed the recovery amount of the goodwill stated at a carrying value of HK$24.5 million which was arising from the acquisition of the assembly business of data storage equipment from a customer in Germany in 2012. As a result, an impairment amounting to approximately HK$12.1 million (2015: approximately HK$2.0 million) was recognised in the current year. In arriving at the impairment amount, due consideration has been taken into account the business prospect of the metal stamping segment, the assembly operation, and the latest business arrangement with the German customer.

Share of loss from an associated entity and provision for impairment of interest in an associated entity

During the year, the Group invested approximately HK$7.3 million for 25% shareholding in an associated entity which engages in the automated equipment industry, such investment is a strategic investment to facilitate the Group's strategy on downstream expansion into the blooming automated production equipment market. During the year ended 31 March 2016, the Group shared losses amounted to approximately HK$3.5 million from such associated entity. The Group expected that such associated entity will continue to record loss in the foreseeable future considering the fact that its business is at the start-up phase and the Group recognised impairment of interest in the associated entity amounted to approximately HK$3.9 million during the current accounting period.

Finance costs

The Group's finance costs, representing interest expenses on bank borrowings, amounted to approximately HK$4.3 million for the year ended 31 March 2016, which was comparable to that in 2015. During the current year, finance costs of approximately HK$3.0 million (2015: approximately HK$1.6 million) was capitalised, which was related to bank borrowing used to fund the construction of new Suzhou production base. Before such capitalisation, the increase in interest expenses were mainly due to the increase in average balances of bank borrowings during the year ended 31 March 2016, as compared to corresponding period last year.

Income tax expenses

The Group's income tax expenses amounted to approximately HK$9.5 million and HK$19.2 million for the years ended 31 March 2016 and 2015. The decrease was attributable primarily to the lower taxable profit recorded for the year ended 31 March 2016.

During the year ended 31 March 2016, the Group did not recognise deferred tax effect on tax loss arising from most of the Group's loss making companies. Excluding the effect of such tax loss arising from the loss making companies, and the effect of over-provision for taxation in respect of the prior year, the adjusted effective tax rate during the current year would have been approximately 20.3%, while the same for the corresponding period last year would have been approximately 20.2%.

(Loss)/profit attributable to equity holders of the Company

For the year ended 31 March 2016, loss attributable to equity holders of the Company amounted to approximately HK$45.8 million, among which losses of approximately HK$13.3 million (2015: losses of approximately HK$7.3 million) were attributable to the new business units which were established in the recent years, as compared with the profit attributable to equity holders of the Company of approximately HK$31.5 million for the corresponding period in 2015. The decrease of net profit was mainly attributable to the decrease in revenue and gross profit margin, increase in general and administrative expenses, in particular the research and development costs, provision for impairment of other receivables, goodwill impairment charge and interests in an associated entity.

LIQUIDITY, FINANCIAL AND CAPITAL RESOURCES

Financial resources and liquidity

The Group's current assets comprise mainly of cash and bank balances, trade and other receivables, and inventories. The Group's total current assets amounted to approximately HK$414.9 million and HK$497.9 million as at 31 March 2016 and 31 March 2015 respectively, which represented approximately 48.7% and 52.6% of the Group's total assets as at 31 March 2016 and 31 March 2015, respectively.

Capital structure

The Group's capital structure is summarised as follow:

	2016 HK$'000	2015 HK$'000
Bank borrowings	**216,895**	197,782
Total debts	**216,895**	197,782
Less: Cash and cash equivalent	**(106,360)**	(158,627)
Net debt	**110,535**	39,155
Shareholders' equity	**461,754**	535,957
Total capitalisation*	**572,289**	575,112
Gearing ratio		
– Total debt to shareholders' equity ratio#	**47.0%**	36.9%
– Net debt to shareholders' equity ratio##	**23.9%**	7.3%

* 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 respectively year

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

The Group had recorded net cash inflow from operating activities of approximately HK$9.3 million and HK$84.8 million for the years ended 31 March 2016 and 2015, respectively.

Details of the Group's bank loans and other borrowings as at 31 March 2016 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 2016, the Group acquired property, plant and equipment of approximately HK$65.7 million, as compared to the year ended 31 March 2015 of approximately HK$130.6 million.

During the year ended 31 March 2016, approximately HK$23.9 million was incurred for the construction of the new production base in Suzhou, while other property, plant and equipment of approximately HK$41.8 million were acquired during the normal and ordinary course of the Group's business.

The Group financed its capital expenditure through cash flows generated from operating activities, initial public offering proceeds and bank borrowings.

Charges on the Group's assets

As at 31 March 2016, the Group's bank borrowings amounted to approximately HK$14,062,000 (2015: approximately HK$15,730,000) were secured by the leasehold land and buildings with a carrying value of approximately HK$43,682,000 (2015: approximately HK$45,091,000).

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. During the year ended 31 March 2016, the Group had two foreign exchange derivative contracts to manage part of the foreign currency exposure between United States dollars and Renminbi. One of the foreign exchange derivative contracts expired in October 2015 and the remaining one will expire in October 2016. This unexpired contract is accounted for on the Group's consolidated balance sheet at fair value.

Capital commitments and operating lease commitments

Details of the Group's capital commitments and operating lease commitments as at 31 March 2016 are set out in note 30(a) and note 30(b) to the consolidated financial statements.

Contingent liabilities

As at 31 March 2016, the Group had no material contingent liabilities.

Employees and Remuneration Policy

As at 31 March 2016, the Group had a total number of 2,465 full-time employees (2015: 2,629). The Group determined the remuneration packages of all employees based on factors including individual qualifications, contribution to the Group, performance and years of experience of the respective staff.

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

The Group maintains good relationships with the Group's employees. The Group did not have any labour strikes or other labour disturbances that would have interfered with the Group's operations during the year ended 31 March 2016.

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 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 disclosed in the announcement of the Company published on 25 June 2015, in order to (i) increase the Company's flexibility in its financial and treasury management; and (ii) cope with the continuing development of the Group's business in the near future, the Board resolved to change the proposed use of net proceeds. The unused net proceeds of approximately HK$24.4 million, which was originally designated for purchasing land use rights, was reallocated for construction of the production facilities in Suzhou. As at 31 March 2016, the proceeds was utilised in full for construction of the production facilities in Suzhou.

As at 31 March 2016, the net proceeds had been utilised as follows:

	Actual net proceeds HK$ million	Actual utilisation up to 31 March 2016 HK$ million	Balance as at 31 March 2016 HK$ million
For the purchase of a piece of land in Suzhou	**33.6**	**33.6**	–
For the construction of production facilities in Suzhou	**52.0**	**52.0**	–
	85.6	**85.6**	–

Corporate Governance Report

The Board is pleased to present this Corporate Governance Report for the year ended 31 March 2016.

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.

Except for the deviation from Rule 3.10 and Rule 3.21 of the Listing Rules as described below, 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 2016.

Upon the retirement of Prof. Chung Chi Ping Roy as an independent non-executive Director on 27 August 2015, the number of independent non-executive Directors of the Company was reduced to 2. As a result, (i) the number of independent non-executive Directors had fallen below the minimum number of 3 as required under Rule 3.10 of the Listing Rule; (ii) the number of members of the audit committee of the Board was reduced to 2 which was below the minimum number prescribed under Rule 3.21 of the Listing Rules. Upon the appointment of Mr. Yeung Chi Tat as an independent non-executive Director on 7 September 2015, the Company has since then re-complied with the requirements pursuant to Rules 3.10 and 3.21 of the Listing Rules.

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, the non-executive Director 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 composition of the Board has changed during the year due to the change in control of the Company (details of which are set out in the announcement of the Company dated 3 February 2016). The Board currently comprises six members, consisting of two executive Directors, one non-executive Director and three independent non-executive Directors. The biographical details of the Board members are set out on pages 30 to 33 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, save the period between 27 August 2015 (being the date of retirement of Prof. Chung Chi Ping Roy) and 7 September 2015 (being the date of appointment of Mr. Yeung Chi Tat), 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

The non-executive Director has entered into an appointment letter with the Company without a specific term commencing from 13 January 2016. 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. After the expiry of the current term, the term of service shall be renewed and extended automatically by one year and on the expiry of every successive period of one year thereafter, unless either party has given at least three months' written notice of non-renewal before the expiry of the then existing terms. Mr. Wan Kam To, an independent non-executive Director, 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, whereas each of Ms. Zhao Yue and Mr. Shen Zheqing, each also an independent non-executive Director, has entered into an appointment letter with the Company without a specific fixed term commencing from 3 February 2016. Such term is subject to his/her re-election by the Company at next annual general meeting (the "**AGM**") upon retirement.

According to the articles of association of the Company, at every AGM, 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 of the Company 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 AGM 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. Prior to the change of board composition during the year, Mr. Sun Kwok Wah Peter has been serving as the Chairman, while Ms. Chung Sin Ling has been serving as the chief executive officer. After the change of board composition, Mr. Zhang Yongdong was appointed as the Chairman and Mr. Sun Kwok Wah Peter was re-designated as the chief executive officer.

The Chairman and the 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/she has a proper understanding of the Company's operations and businesses as well as his/her 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.

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
Non-executive Director	
Mr. Zhang Yongdong (Chairman) (appointed on 13 January 2016 and resigned on 15 July 2016)	A,B
Executive Directors	
Mr. Sun Kwok Wah Peter	A,B
Mr. Wong Chi Kwok	A,B
Mr. Lam Kin Shun (resigned on 3 February 2016)	A,B
Mrs. Chow Suen Christina (resigned on 3 February 2016)	A,B
Independent Non-executive Directors	
Mr. Wan Kam To	A,B
Ms. Zhao Yue (appointed on 3 February 2016)	A,B
Mr. Shen Zheqing (appointed on 3 February 2016)	A,B
Mr. Yeung Chi Tat (appointed on 7 September 2015 and resigned on 3 February 2016)	A,B
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)	A,B
Prof. Chung Chi Ping Roy (retired on 27 August 2015)	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 2016, 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 (if any), annual and interim reports, approved material capital expenditure and other corporate actions of the Group.

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

	Number of attendance	
Name of Directors	**Board meetings**	**General meetings**
Non-executive Director		
Mr. Zhang Yongdong (Chairman) (appointed on 13 January 2016 and resigned on 15 July 2016)	3/3	N/A
Executive Directors		
Mr. Sun Kwok Wah Peter	12/12	1/1
Mr. Wong Chi Kwok	12/12	1/1
Mr. Lam Kin Shun (resigned on 3 February 2016)	10/10	1/1
Mrs. Chow Suen Christina (resigned on 3 February 2016)	10/10	1/1
Independent non-executive Directors		
Mr. Wan Kam To	12/12	1/1
Ms. Zhao Yue (appointed on 3 February 2016)	2/2	N/A
Mr. Shen Zheqing (appointed on 3 February 2016)	2/2	N/A
Mr. Yeung Chi Tat (appointed on 7 September 2015 and resigned 3 February 2016)	7/7	N/A
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)	10/10	1/1
Prof. Chung Chi Ping Roy (retired on 27 August 2015)	2/2	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 2016 and up to 28 June 2016, 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 composition of the audit committee has changed during the year due to the change in control of the Company. The audit committee currently consists of three independent non-executive Directors, namely Mr. Wan Kam To, Ms. Zhao Yue and Mr. Shen Zheqing. The chairman of the audit 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
Ms. Zhao Yue (appointed on 3 February 2016)	N/A
Mr. Shen Zheqing (appointed on 3 February 2016)	N/A
Mr. Yeung Chi Tat (appointed on 7 September 2015 and resigned on 3 February 2016)	1/1
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)	2/2
Prof. Chung Chi Ping Roy (retired on 27 August 2015)	1/1

The audit committee has reviewed the Group's final consolidated financial statements for the year ended 31 March 2015, interim condensed consolidated financial statements for the six months ended 30 September 2015 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 composition of the nomination committee has changed during the year due to the change in control of the Company. The nomination committee currently comprises a non-executive Director, three independent non-executive Directors and an executive Director. The nomination committee is chaired by the Chairman of the Board, Mr. Zhang Yongdong, a non-executive Director.

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**
Non-executive Director	
Mr. Zhang Yongdong (Chairman) (appointed on 3 February 2016 and resigned on 15 July 2016)	N/A
Executive Director	
Mr. Sun Kwok Wah Peter	4/4
Independent non-executive Directors	
Mr. Wan Kam To (appointed on 3 February 2016)	N/A
Ms. Zhao Yue (appointed on 3 February 2016)	N/A
Mr. Shen Zheqing (appointed on 3 February 2016)	N/A
Mr. Yeung Chi Tat (appointed on 7 September 2015 and resigned on 3 February 2016)	2/2
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)	4/4
Prof. Chung Chi Ping Roy (retired on 27 August 2015)	1/1

Meetings were 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 recommendations to the Board on the nomination and 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 recommendations 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 composition of the remuneration committee has changed during the year due to the change in control of the Company. The remuneration committee currently comprises two independent non-executive Directors and a non-executive Director. The Chairman of the remuneration committee is Ms. Zhao Yue, 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	
Ms. Zhao Yue (Chairman) (appointed on 3 February 2016)	N/A
Mr. Wan Kam To	4/4
Mr. Lam Hon Keung Keith (resigned on 3 February 2016)	4/4
Prof. Chung Chi Ping Roy (retired on 27 August 2015)	1/1
Non-executive Director	
Mr. Zhang Yongdong (appointed on 3 February 2016 and resigned on 15 July 2016)	N/A
Executive Director	
Mr. Sun Kwok Wah Peter (resigned on 3 February 2016)	4/4

Meetings were 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 23(b) and note 24(a) 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 2016 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 2016, the Group's external auditor provided the following services to the Group:

	HK$'000
Statutory audit services	2,000
Non-audit services	
– Interim review services	400
– Taxation	51
– Corporate action	1,998
Total	4,449

Internal controls

The Board is responsible for maintaining an adequate systems of risk management and internal control and reviewing their effectiveness.

The risk management and internal control systems are 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 risk management and internal control systems. The audit committee reviews the findings and opinion of the internal audit department on the effectiveness of the Group's risk management and internal control systems and reports to the Board on such reviews. The Company considers its risk management and internal control systems to be effective and adequate.

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 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 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 in writing through the company secretary of the Company:

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 of the Company shall forward the shareholders' enquiries and concerns to the Board 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 registrar 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 of the Company

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

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

As a result, the 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**"). The Directors intend to lease a new factory site for the Long Term Relocation Plan. As disclosed in the Prospectus, the Group 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**"). The Group has entered into an agreement ("**Contingency Lease Property Agreement**") with the landlord of the Contingent Lease Property to secure the Group's right but not obligation to lease the Contingent Lease Property should the contingency plan be triggered. Please refer to page 190 to 191 of the Prospectus for further details.

Because the Group's indirect wholly owned subsidiary, namely Dongguan Conform Metal Limited, has leased a factory with total gross area of approximately 6,203 square metres in Dongguan, which provides sufficient space to accommodate the production facilities of Xili leased property, the Company had not renewed the Contingency Lease Property Agreement upon its expiry during the year ended 31 March 2016. In the event that the Group receive notice for relocation prior to the completion of the Long Term Relocation Plan, the production facilities and production lines at the Xili Leased Properties will be relocated to KFM-Shenzhen and Dongguan Conform Metal Limited.

As at the date of this report, the Directors confirm that both the lessor and the Group have not received any order from the relevant authorities to vacate the Xili Leased Properties.

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.

During the year ended 31 March 2016, the Group's senior management and local management of KRP-Shenzhen have continued the process of locating an appropriate premises for relocation. The factors to consider for locating the appropriate premises include (but not limited to) the size of the factory, availability of work force, proximity to customers, suppliers and the Group's headquarter, standard of life for staff, costs of the relocation, etc. The existing lease agreement of Xili factory building and staff dormitory will expire in October 2016. Should no appropriate premises be located in the coming few months prior to the end of October 2016, the Group will renew the lease agreement to ensure that no disruption of operation in Xili will occur. As at the date of this report, no appropriate premises have been located. The Group shall disclose the status of the Long Term Relocation Plan in future interim and annual reports.

Non-Competition Undertaking

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 the Group 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 former 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 former Controlling Shareholders has, among other matters, irrevocably and unconditionally undertaken to the Group 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 ended 31 March 2016, Kingdom Innovative Group was dissolved. The deed of non-competition entered into between Kingdom Innovative Group and the Group has become inapplicable.

Following the completion of former Controlling Shareholders' disposal of its entire shareholdings in the Company, representing approximately 74.1% of the Company's issued share capital on 4 January 2016, such deed of non-competition dated 22 September 2012 ceased to be effective as each of the former Controlling Shareholders and/or their associates no longer collectively hold 30% or more of the equity interest in the Company.

During the year, 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 former Controlling Shareholders, Innotech Group and Kingdom Innovative Group.

Biographies of Directors and Senior Management

Non-executive Director

Mr. Zhang Yongdong (張永東), aged 39, is the Chairman and was appointed as a non-executive Director on 13 January 2016 and resigned on 15 July 2016. He is the chairman and chief executive officer of Hawking Capital Management Group Limited and the chairman of Oriental Enterprise Group Limited. He has years of comprehensive experience in investment, finance and management as well as experience in corporate merger and acquisition and investment related business. For social services, Mr. Zhang Yongdong serves as the vice chairman of the Federation of Hong Kong Jiangsu Youth. Mr. Zhang Yongdong was a non-executive director of SMI Holdings Group Limited (stock code: 198) from 1 July 2015 to 2 June 2016 and the chairman and an executive director of Mason Financial Holdings Limited (stock code: 273) from 1 August 2015 to 26 April 2016, whose shares are listed on the Main Board of the Stock Exchange.

Executive Directors

Mr. Sun Kwok Wah Peter (孫國華), aged 56, one of the founders of the Group, was appointed as an executive Director and the chief executive officer on 13 July 2011 and 3 February 2016 respectively. He is also a director of certain subsidiaries of the Group. Mr. Sun Kwok Wah Peter has more than 25 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 the 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 and the president of The Asian Foundation for the Prevention of Blindness.

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. Wong Chi Kwok (黃志國), aged 64, 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.

Biographies of Directors and Senior Management

Independent non-executive Directors

Mr. Wan Kam To (尹錦滔), aged 63, was appointed as an 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. Mr. Wan was a former partner of PricewaterhouseCoopers Hong Kong.

He is the Treasurer and 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 was previously 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, during the period from September 2008 to December 2014 and from November 2010 to July 2014, respectively.

Mr. Wan Kam To is also currently an independent non-executive director of several companies listed on Stock Exchange, namely China Resources Land Limited (stock code: 1109), Dalian Port (PDA) Company Limited (stock code: 2880), Fairwood Holdings Limited (stock code: 52), Huaneng Renewables Corporation Limited (stock code: 958), S. Culture International Holdings Limited (stock code: 1255), Shanghai Pharmaceuticals Holding Company Limited (stock code: 2607), Harbin Bank Co., Ltd. (stock code: 6138), Kerry Logistics Network Limited (stock code: 636) and Target Insurance (Holdings) Limited (stock code: 6161).

Mr. Wan served as an independent non-executive director of GreaterChina Professional Services Limited (stock code: 8193) from May 2011 to November 2013.

Ms. Zhao Yue (趙悦) aged 41, was appointed as an independent non-executive Director on 3 February 2016. She is currently a director of Togni & Zhao Limited, a private company incorporated in Hong Kong which engages in the business of executive search. Ms. Zhao was admitted to the New York State Bar in 2003 and has years of experience in the legal industry. Ms. Zhao had working experiences at Paul, Weiss, Rifkind, Wharton & Garrison and Skadden, Arps, Slate, Meagher & Flom. Ms. Zhao graduated from the University of Bridgeport with a Bachelor of Science degree in Biology, and graduated from the New York University with a Juris Doctor degree.

Mr. Shen Zheqing (沈哲清), aged 36, was appointed as an independent non-executive Director on 3 February 2016. He is currently the director of ZQ Capital Limited. Mr. Shen Zheqing has years of experience in the financial industry, having worked with Lehman Brothers and the Goldman Sachs Group. He was also Managing Director of the investment banking division of Barclays Capital Asia Limited. Mr. Shen Zheqing graduated from Wesleyan University with a Bachelor of Arts degree in Economics and Mathematics.

Senior Management

Mr. Kwok For Chi (郭科志), aged 46, 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 54, 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.

Report of the Directors

The Board submit herewith their report and the audited consolidated financial statements of the Group for the year ended 31 March 2016.

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 business segments for the year ended 31 March 2016 is set out in note 32 to the consolidated financial statements.

Business Review

A fair review of the Group's business and its outlook are set out in the Chairman's Statement on page 4 to 5, and Business Review section on page 6 to 15 of this Annual Report. Certain financial key performance indicators are provided in the section of Five-Year Financial Summary on page 113 to 114 of this Annual Report.

Corporate Social Responsibility

The Group regards caring and contributing to the community as an important element in the Group's strategy to achieve sustainable development. The Group places importance in the social wellbeing in the course of conducting its business and takes part in community and charitable activities. During the year, the Group continuously launched, participated and supported a series of charitable functions and had made HK$375,000 in donations to charitable organisations.

Employees

Employees are regarded as the most important and valuable assets of the Group. The objective of the Group's human resource management is to promote a equal and rewarding working environment to our employees. The Group reward and recognise performing staff by providing a competitive remuneration package and implementing a sound performance appraisal system with appropriate incentives. The Group emphasised on workplace safety and adopt best practices in the industry in respect of occupational health and safety for our workers, and promote career development and progression by appropriate on-the-job training and providing opportunities within the Group for career advancement.

Environment

The Group is committed to promoting an environmentally-friendly corporation and strives to minimise its environmental impact by saving electricity, paper and water usage in our production cycle and in our office spaces. The Group takes initiative in protecting the environment and had won numerous award and recognition in relation to environmental protections from our customers. The Group's factories in China are operated in strict compliance with the relevant environment regulations and rules and possess all necessary permission and approval from the relevant Chinese regulators.

Principal Financial Risks

The Group is exposed to a variety of financial risks including foreign exchange risk, cash flow interest risk, credit risk and liquidity risk. Details of the aforesaid key risks are set out in note 3 to the consolidated financial statements.

Compliance with Laws and Regulations

The Group's operations are mainly carried out by the Company's subsidiaries in the mainland China while the Company itself is listed on the Stock Exchange. To the best of the Directors' knowledge, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group in the mainland China and Hong Kong. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationships with Key Stakeholders

Customers

The Group is committed to offer a high-quality products to the customers. It values the opinions and feedback of all customers through various means and channels, including the usage of telephone, direct mail and after-sale return visit. In addition, the Group continue to proactively manage customer relations, expand its customer base and enhance customers' loyalty.

Suppliers

The Group establishes working relationships with suppliers to meet our customers' needs in an effective and efficient manner. The Group's requirements and standards are well-communicated to suppliers before placing orders in order to ensure the deliverance of high-quality raw materials. All key suppliers have a close and long term relationship with the Group.

Results

The results of the Group for the year ended 31 March 2016 are set out in the consolidated statement of comprehensive income on page 50.

Final Dividend

The Board does not recommend payment of any final dividend for the year ended 31 March 2016 (2015: Nil).

No interim dividend was paid during the year (2015: HK1.5 cents).

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 2016 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 51 of this Annual Report and note 16 to the consolidated financial statements.

Distributable Reserves

As at 31 March 2016, the Company's reserves available for distribution to shareholders amounted to approximately HK$103.2 million, comprising retained profit of approximately HK$77.1 million and share premium of approximately 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$375,000 (2015: HK$125,000).

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 113 to 114 of this Annual Report.

Directors

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

Non-executive Director:

Mr. Zhang Yongdong (Chairman)	(appointed on 13 January 2016 and resigned on 15 July 2016)

Executive Directors:

Mr. Sun Kwok Wah Peter	(resigned as the Chairman on 13 January 2016 and appointed as the chief executive officer on 3 February 2016)
Mr. Wong Chi Kwok	
Mr. Lam Kin Shun	(resigned on 3 February 2016)
Mrs. Chow Suen Christina	(resigned on 3 February 2016)

Independent non-executive Directors:

Mr. Wan Kam To	
Ms. Zhao Yue	(appointed on 3 February 2016)
Mr. Shen Zheqing	(appointed on 3 February 2016)
Mr. Yeung Chi Tat	(appointed on 7 September 2015 and resigned on 3 February 2016)
Mr. Lam Hon Keung Keith	(resigned on 3 February 2016)
Prof. Chung Chi Ping Roy	(retired on 27 August 2015)

At the annual general meeting held on 27 August 2015, Mr. Sun Kwok Wah Peter and Mr. Lam Kin Shun were re-elected as Directors.

In accordance with the Company's articles of association, any Director appointed by the Board to fill a causal vacancy or as an additional Director shall hold office until the next following AGM of the Company. Mr. Zhang Yongdong (resigned on 15 July 2016), Ms. Zhao Yue and Mr. Shen Zheqing shall hold office until the forthcoming AGM of the Company and, being eligible, offer themselves for re-election as Directors at that meeting.

In accordance with the Company's articles of association, Mr. Wong Chi Kwok shall retire from office and, being eligible, offer himself for re-election at the forthcoming AGM.

No Director proposed for re-election at the forthcoming AGM 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 30 to 33 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 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.

Management contracts

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or existed during the year ended 31 March 2016.

Directors' service contracts

Mr. Zhang Yongdong, a non-executive Director, has entered into an appointment letter with the Company without a specific fixed term. This appointment letter commenced from 13 January 2016.

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 term of service shall be renewed and extended automatically by one year and on the expiry of every successive period of one year thereafter, unless either party has given at least three months' written notice of non-renewal before the expiry of the then existing terms.

Mr. Wan Kam To, an independent non-executives Director, 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.

Each of Ms. Zhao Yue and Mr. Shen Zheqing, independent non-executives Directors, has entered into an appointment letter with the Company without a specific fixed term. All letters of appointment commenced from 3 February 2016.

Permitted indemnity provision

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout this year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

Directors' material interest in transactions, arrangements or contracts

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 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 2016 and up to the date of this report, none of the Directors 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 former Controlling Shareholders (as defined in the Prospectus) and related companies. Details of the deed of non-competition was set out in page 29 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 2016, 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.

Change in Controlling Shareholder

Immediately after completion of the acquisition of shares of the Company ("**Shares**") pursuant to a sale and purchase agreement dated 28 August 2015 (as amended by the first amendment deed dated 23 September 2015, the second amendment deed dated 23 October 2015 and the third amendment deed dated 14 December 2015) on 4 January 2016, Massive Force Limited (the "**Offeror**") became interested in an aggregate of 444,600,000 Shares, representing approximately 74.1% of the entire issued share capital of the Company as at the date of completion of the acquisition of shares. Accordingly, Haitong International Securities Company Limited, on behalf of the Offeror, made a mandatory unconditional cash offer (the "**Offer**") for all the issued Shares (other than those already owned or agreed to be acquired by the Offeror and parties acting in concert with it). The Offer was closed on 3 February 2016.

Details of above were disclosed in the Company's announcement dated 23 December 2015, 4 January 2016 and the composite document dated 13 January 2016.

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 2016, 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. Zhang Yongdong	Company	Interest of controlled corporation	449,999,012 Shares (L) (note 2)	75%
Mr. Zhang Yongdong	Massive Force Limited ("**MFL**")	Beneficial owner	20,000 shares	40%

Notes:

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

2 These shares were held by MFL, which is owned as to 40% by Mr. Zhang Yongdong.

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

As at 31 March 2016, 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
MFL	Company	Beneficial owner	449,999,012 Shares (L) (note 2)	75%

Notes:

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

2 These shares were held by MFL, which is owned as to 40% by Mr. Zhang Yongdong.

Continuing Connected Transactions

On 31 March 2015, the Group has entered into several new 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 2016, the details of such transactions, which also constitutes related party transaction set out in note 31 to the consolidated financial statements, are set out as follows:

Tooling master agreement

Date: 31 March 2015

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 wholly owned by Mrs. Chow Suen Christina). As Mrs. Chow Suen Christina, a connected person, wholly owned 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 2015 to 31 March 2018

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$1.0 million for each of the three years ending 31 March 2018

For the year ended 31 March 2016, no transactions (2015: HK$149,045) were entered under the Tooling Master Agreement.

Products master agreement

Date: 31 March 2015

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 2015 to 31 March 2018

(b) the Innotech Group agreed to purchase spare metal parts from KFM Group Limited during the term of the Products Master Agreement from 1 April 2015 to 31 March 2018

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 2018

(b) Annual cap not exceeding HK$114,400 for each of the three years ending 31 March 2018

Under the Product Master Agreement, transactions of HK$2,459,526 (2015: HK$4,797,704) under the above subclass (a) and no transactions (2015: Nil) under the above subclass (b) were conducted for the year ended 31 March 2016.

Further details are set out in note 31 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 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 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 Board;

– 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 Redemptions of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 March 2016.

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.

Tax Relief

The Company is not aware of any relief from taxation available to the shareholders by reason of their holdings in the Shares.

Emolument Policy

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

Equity-linked Agreements

Save for the share option plan as set out above in the section of "Share Option Scheme", no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result the Company issuing shares were entered into by the Company during the year, or subsisted at the end of the year.

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total issued share capital is held by the public as at the date of this report as required by the Listing Rules.

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	11.8%
Five largest customers in aggregate	40.6%
Purchase	
The largest supplier	4.4%
Five largest suppliers in aggregate	13.7%

To the best of the Directors' knowledge and belief, 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 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 disclosed in the announcement of the Company published on 25 June 2015, in order to (i) increase the Company's flexibility in its financial and treasury management and (ii) cope with the continuing development of the Group's business in the near future, the Board resolved to change the proposed use of net proceeds. The unused net proceeds of approximately HK$24.4 million, which was originally designated for purchasing land use rights, was reallocated for construction of the production facilities in Suzhou. As at 31 March 2016, the proceeds was utilised in full for construction of the production facilities in Suzhou.

As at 31 March 2016, the net proceeds had been utilised as follows:

	Actual net proceeds HK$ million	Actual utilisation Up to 31 March 2016 HK$ million	Balance as at 31 March 2016 HK$ million
For the purchase of a piece of land in Suzhou	33.6	33.6	–
For the construction of production facilities in Suzhou	52.0	52.0	–
	85.6	85.6	–

Considering the current economic atmosphere and the financial resources of the Group, the company will not proceed with the construction of Phase III of our production base in Suzhou.

Closure of Register of Member

For the purpose of ascertaining Shareholders' right to attend and vote at the annual general meeting of the Company to be held on 24 August 2016 (the "**AGM**"), the register of members of the Company will be closed from Friday, 19 August 2016 to Wednesday, 24 August 2016, both days inclusive, during which period no transfer of Shares 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 Thursday, 18 August 2016.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on page 16 to 29.

Audit Committee

The audit committee has reviewed the audited consolidated financial statements of the Group for the year ended 31 March 2016.

Auditor

The consolidated financial statements for the year ended 31 March 2016 have been audited by PricewaterhouseCoopers. PricewaterhouseCoopers will retire and, being eligible, offer themselves for re-appointment at the forthcoming AGM. A resolution will be submitted to the forthcoming AGM to reappoint PricewaterhouseCoopers as the auditor of the Company.

On behalf of the Board
KFM Kingdom Holdings Limited

Zhang Yongdong
Chairman

Hong Kong, 28 June 2016

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 set out on pages 48 to 112, which comprise the consolidated balance sheet as at 31 March 2016, 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 judgment, 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 financial position of the Company and its subsidiaries as at 31 March 2016, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 28 June 2016

Consolidated Balance Sheet

As At 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	5	**396,324**	387,900
Leasehold land and land use rights	6	**24,067**	25,546
Intangible assets	7	**2,525**	7,273
Goodwill	8	**10,362**	22,502
Interest in an associated entity	10	**–**	–
Deferred income tax assets	17	**4,355**	5,502
Total non-current assets		**437,633**	448,723
Current assets			
Inventories	11	**102,303**	118,066
Trade and other receivables	12	**205,033**	220,504
Current income tax recoverable		**1,223**	676
Cash and cash equivalents	14	**106,360**	158,627
Total current assets		**414,919**	497,873
Total assets		**852,552**	946,596

The notes on pages 53 to 112 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As At 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
EQUITY			
Capital and reserves			
Share capital	15	**60,000**	60,000
Share premium	15	**26,135**	26,135
Reserves	16	**373,232**	442,824
Capital and reserves attributable to equity holders of the Company		**459,367**	528,959
Non-controlling interests		**2,387**	6,998
Total equity		**461,754**	535,957
LIABILITIES			
Non-current liabilities			
Deferred income tax liabilities	17	**12,003**	12,746
Current liabilities			
Trade and other payables	18	**155,748**	188,818
Bank borrowings	19	**216,895**	197,782
Derivative financial liabilities	13	**2,113**	3,922
Current income tax liabilities		**4,039**	7,371
Total current liabilities		**378,795**	397,893
Total liabilities		**390,798**	410,639
Total equity and liabilities		**852,552**	946,596
Net current assets		**36,124**	99,980
Total assets less current liabilities		**473,757**	548,703

The financial statements on pages 48 to 112 were approved by the Board of Directors on 28 June 2016 and were signed on its behalf.

Zhang Yongdong
Director

Sun Kwok Wah Peter
Director

The notes on pages 53 to 112 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
Revenue	20	**852,620**	1,038,211
Cost of sales	21	**(674,359)**	(788,657)
Gross profit		**178,261**	249,554
Other gains, net	22	**15,128**	101
Distribution and selling expenses	21	**(25,260)**	(30,764)
General and administrative expenses	21	**(197,452)**	(167,314)
Operating (loss)/profit		**(29,323)**	51,577
Finance income	25	**677**	847
Finance costs	25	**(4,331)**	(4,125)
Share of loss of an associated entity	10	**(3,453)**	–
Provision for impairment of interest in an associated entity	10	**(3,867)**	–
(Loss)/profit before income tax		**(40,297)**	48,299
Income tax expenses	26	**(9,534)**	(19,174)
(Loss)/profit for the year		**(49,831)**	29,125
Other comprehensive loss for the year, net of tax			
Item that may be reclassified to profit or loss			
Currency translation differences		**(24,334)**	(974)
Total comprehensive (loss)/income for the year		**(74,165)**	28,151
(Loss)/profit for the year attributable to:			
– Equity holders of the Company		**(45,827)**	31,473
– Non-controlling interests		**(4,004)**	(2,348)
		(49,831)	29,125
Total comprehensive (loss)/income attributable to:			
– Equity holders of the Company		**(70,161)**	30,499
– Non-controlling interests		**(4,004)**	(2,348)
		(74,165)	28,151
(Loss)/earning per share for (loss)/profit attributable to equity holders of the Company			
– Basic and diluted (HK cents)	27	**(7.64)**	5.25
Dividends	29	**–**	12,000

The notes on pages 53 to 112 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2016

	Note	Attributable to equity holders of the Company							
	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
Balance at 1 April 2015		60,000	26,135	3,445	28,615	40,229	370,535	6,998	535,957
Comprehensive income									
Loss for the year		–	–	–	–	–	(45,827)	(4,004)	(49,831)
Other comprehensive loss									
Currency translation differences	16	–	–	–	–	(24,334)	–	–	(24,334)
Total comprehensive loss for the year		–	–	–	–	(24,334)	(45,827)	(4,004)	(74,165)
Transfer of retained profits to statutory reserve	16	–	–	–	5,105	–	(5,105)	–	–
Acquisition of additional interests in subsidiaries		–	–	–	–	–	569	(669)	(100)
Contribution from non-controlling interests upon the formation of a subsidiary		–	–	–	–	–	–	62	62
Balance at 31 March 2016		60,000	26,135	3,445	33,720	15,895	320,172	2,387	461,754

	Note	Attributable to equity holders of the Company							
	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
Balance at 1 April 2014		60,000	26,135	3,445	24,009	41,203	355,668	4,746	515,206
Comprehensive income									
Profit/(loss) for the year		–	–	–	–	–	31,473	(2,348)	29,125
Other comprehensive loss									
Currency translation differences	16	–	–	–	–	(974)	–	–	(974)
Total comprehensive (loss)/ income for the year		–	–	–	–	(974)	31,473	(2,348)	28,151
Transactions with equity holders									
Dividends paid	29	–	–	–	–	–	(12,000)	–	(12,000)
Transfer of retained profits to statutory reserve	16	–	–	–	4,606	–	(4,606)	–	–
Contribution from non-controlling interests upon the formation of subsidiaries		–	–	–	–	–	–	4,600	4,600
Balance at 31 March 2015		60,000	26,135	3,445	28,615	40,229	370,535	6,998	535,957

The notes on pages 53 to 112 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 March 2016

	Note	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
Net cash generated from operations	28	**19,630**	96,435
Income tax paid		**(12,384)**	(18,690)
Income tax refunded		**1,366**	6,202
Interest received		**677**	847
Net cash generated from operating activities		**9,289**	84,794
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		**4,416**	2,630
Purchase of property, plant and equipment		**(71,243)**	(99,576)
Purchase of intangible assets		**–**	(214)
Acquisition of interest in subsidiaries		**(100)**	–
Acquisition of available-for-sale financial assets		**–**	(34,375)
Proceeds from disposal of available-for-sale financial assets		**–**	46,875
Net cash used in investing activities		**(66,927)**	(84,660)
Cash flows from financing activities			
Proceeds from bank borrowings		**175,880**	189,012
Repayments of bank borrowings		**(156,767)**	(141,680)
Decrease in restricted bank deposit		**–**	23,400
Capital injection by non-controlling interest		**–**	300
Interest paid		**(7,305)**	(5,745)
Dividends paid	29	**–**	(12,000)
Net cash generated from financing activities		**11,808**	53,287
(Decrease)/increase in cash and cash equivalents		**(45,830)**	53,421
Cash and cash equivalents at beginning of year		**158,627**	105,206
Currency translation differences		**(6,437)**	–
Cash and cash equivalents at end of year		**106,360**	158,627
Analysis of balances of cash and cash equivalents:			
Cash at bank and on hand	14	**106,360**	158,627

The notes on pages 53 to 112 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended 31 March 2016

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 (the "**Listing Rules**") on the Stock Exchange. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of derivative financial liabilities, 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.

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 28 June 2016.

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

(i) Amendments to existing standards adopted by the Group:

The following amendments to existing standards are mandatory for the first time for the financial year beginning on or after 1 April 2015 and relevant to the Group.

Amendments to HKAS 19	Defined benefit plans: employee contributions
Annual improvements 2012	Annual Improvement 2010-2012 Cycle
Annual improvements 2013	Annual Improvement 2011-2013 Cycle

The adoption of the above amendments to existing standards does not have material impact on the results and financial position of the Group.

(ii) New standards and amendments to existing standards that have been issued but are not yet effective for the financial year beginning 1 April 2015 and that have not been early adopted:

		Effective for accounting periods beginning on or after
Amendments to HKAS 1	Disclosure initiative	1 January 2016
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation	1 January 2016
Amendments to HKAS 16 and HKAS 41	Agriculture: bearer plants	1 January 2016
Amendments to HKAS 27	Equity method in separate financial statements	1 January 2016
HKFRS 9	Financial Instruments	1 January 2018
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: applying the consolidation exception	1 January 2016
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture	Date to be determined
Amendment to HKFRS 11	Accounting for acquisitions of interests in joint operations	1 January 2016
HKFRS 14	Regulatory Deferral Accounts	1 January 2016
HKFRS 15	Revenue from Contracts with Customers	1 January 2018
HKFRS 16	Leases	1 January 2019
Annual improvements 2014	Annual Improvement 2012–2014 Cycle	1 January 2016

2 Summary of Significant Accounting Policies (Continued)

(a) Basis of preparation (Continued)

(ii) New standards and amendments to existing standards that have been issued but are not yet effective for the financial year beginning 1 April 2015 and that have not been early adopted: (Continued)

The Group has already commenced an assessment of the related impact of adopting the above new standards and amendments 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 and amendments to existing standards when they become effective.

(iii) New Hong Kong Companies Ordinance (Cap. 622)

In addition the requirements of Part 9 "Accounts and Audit" of the Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(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.

(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.

2 Summary of Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

(ii) Business combinations (Continued)

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(d)).

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.

(iii) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iv) Associated entity

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

2 Summary of Significant Accounting Policies (Continued)

(b) Consolidation (Continued)

(iv) Associated entity (Continued)

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to "share of profit of investments accounted for using equity method" in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

(c) 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

2 Summary of Significant Accounting Policies (Continued)

(c) Property, plant and equipment (Continued)

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(e)).

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.

(d) 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.

2 Summary of Significant Accounting Policies (Continued)

(d) Intangible assets (Continued)

(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.

(e) 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 of disposal 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 (i.e. CGUs). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(f) 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.

2 Summary of Significant Accounting Policies (Continued)

(f) Financial assets (Continued)

(i) Classification (Continued)

(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(j) and 2(k)).

(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. 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.

(g) 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.

2 Summary of Significant Accounting Policies (Continued)

(h) Impairment of financial assets

(i) Assets carried amortised cost

The Group assesses 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) 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.

(j) 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.

(k) 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.

(l) 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.

(m) 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.

2 Summary of Significant Accounting Policies (Continued)

(n) 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.

(o) 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.

(p) 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 borrowing costs are recognised in profit or loss in the period in which they are incurred.

2 Summary of Significant Accounting Policies (Continued)

(q) 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.

(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.

2 Summary of Significant Accounting Policies (Continued)

(q) Current and deferred income tax (Continued)

(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.

(r) 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.

(s) 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.

2 Summary of Significant Accounting Policies (Continued)

(t) 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.

(u) 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.

2 Summary of Significant Accounting Policies (Continued)

(v) 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.

(w) 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.

(x) 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

(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".

2 Summary of Significant Accounting Policies (Continued)

(x) Foreign currency translation (Continued)

(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.

(y) 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.

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.

2 Summary of Significant Accounting Policies (Continued)

(y) Derivative financial instruments (Continued)

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".

(z) 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.

(aa) 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 2016 and 2015, 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 2016 and 2015 would decrease/increase by HK$1,038,000 and HK$923,000, respectively, mainly as a result of foreign exchange loss/gain on translation of US$, HK$ and RMB denominated financial assets and liabilities.

As at 31 March 2016, the Group held one RMB/US$ forward foreign exchange contracts (2015: two).

(ii) Cash flow 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. The Group's variable interest rate borrowings as at 31 March 2016 and 2015, are as follows:

	2016 **HK$'000**	2015 HK$'000
Variable interest rate borrowings	**216,895**	197,782

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.

3 Financial Risk Management (Continued)

(a) Financial risk factors (Continued)

(ii) Cash flow interest rate risk (Continued)

As at 31 March 2016 and 2015, 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$553,000 lower/higher and HK$196,000 lower/higher, 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 36% and 36% of total trade receivables as at 31 March 2016 and 2015, respectively, were due from the Group's largest five customers. No significant collectability issues have been identified in the past.

As at 31 March 2016 and 2015, major bank balances are deposited in DBS Bank (Hong Kong) Limited, Standard Chartered Bank (Hong Kong) Limited, The Hongkong and Shanghai Banking Corporation 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 2016			
Bank borrowings	**225,735**	**–**	**225,735**
Trade payables	**–**	**89,288**	**89,288**
Other payables	**–**	**66,460**	**66,460**
	225,735	**155,748**	**381,483**
At 31 March 2015			
Bank borrowings	205,630	–	205,630
Trade payables	–	113,733	113,733
Other payables	–	75,085	75,085
	205,630	188,818	394,448

(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.

	2016 HK$'000	2015 HK$'000
Total debt	**216,895**	197,782
Total assets	**852,552**	946,596
Debt-to-asset ratio	**25%**	21%

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 instruments that are measured at fair value at 31 March 2016.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Liabilities				
Forward foreign exchange contracts	–	(2,113)	–	(2,113)

The following table presents the group's financial assets that are measured at fair value at 31 March 2015.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Liabilities				
Forward foreign exchange contracts	–	(3,922)	–	(3,922)

As at 31 March 2016 and 2015, the Group holds certain foreign exchange derivative financial instruments (note 13) which are included in level 2. The fair value of these financial instruments are 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 foreign exchange derivatives 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.

3 Financial Risk Management (Continued)

(c) Fair value estimation (Continued)

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined with reference to market comparable derivative contracts. 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.

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

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.

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(d)(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).

(f) Impairment of interest in an associated entity

The Group determines at each reporting date whether there is any objective evidence that the interest in an associated entity is impaired. Such analysis, typically including various estimates and assumptions, the intent and ability to hold to maturity or until forecasted recovery, the financial health, cash flow projections and future prospects of the associated entity, are based on both quantitative and qualitative criteria. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the interest in an associated entity and its carrying value. Estimates and judgements are applied in determining these future cash flows and discount rate. Previously recognised impairment losses are reviewed for possible reversal at each reporting date.

5 Property, Plant and Equipment

	Leasehold land and buildings 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 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
Year ended 31 March 2015							
Opening net book amount	52,898	13,754	188,736	13,973	14,096	17,384	300,841
Additions	–	5,983	19,639	2,156	3,383	99,434	130,595
Disposals	–	–	(2,420)	(257)	(427)	–	(3,104)
Transfers	–	4	9	–	–	(13)	–
Depreciation	(1,583)	(4,628)	(29,244)	(2,048)	(2,929)	–	(40,432)
Closing net book amount	51,315	15,113	176,720	13,824	14,123	116,805	387,900
At 31 March 2015							
Cost	52,980	32,357	413,689	22,428	38,574	116,805	676,833
Accumulated depreciation	(1,665)	(17,244)	(236,969)	(8,604)	(24,451)	–	(288,933)
Net book amount	51,315	15,113	176,720	13,824	14,123	116,805	387,900
Year ended 31 March 2016							
Opening net book amount	**51,315**	**15,113**	**176,720**	**13,824**	**14,123**	**116,805**	**387,900**
Additions	**–**	**3,282**	**27,050**	**3,082**	**2,555**	**29,714**	**65,683**
Disposals	**(1,397)**	**–**	**(1,812)**	**(197)**	**(234)**	**–**	**(3,640)**
Transfers	**137,372**	**–**	**3,286**	**–**	**–**	**(140,658)**	**–**
Depreciation	**(2,595)**	**(5,246)**	**(27,515)**	**(2,457)**	**(3,271)**	**–**	**(41,084)**
Exchange differences	**(2,157)**	**(528)**	**(6,730)**	**(58)**	**(252)**	**(2,810)**	**(12,535)**
Closing net book amount	**182,538**	**12,621**	**170,999**	**14,194**	**12,921**	**3,051**	**396,324**
At 31 March 2016							
Cost	**186,712**	**34,363**	**421,123**	**24,405**	**39,823**	**3,051**	**709,477**
Accumulated depreciation	**(4,174)**	**(21,742)**	**(250,124)**	**(10,211)**	**(26,902)**	**–**	**(313,153)**
Net book amount	**182,538**	**12,621**	**170,999**	**14,194**	**12,921**	**3,051**	**396,324**

5 Property, Plant and Equipment (Continued)

Notes:

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

	2016 HK$'000	2015 HK$'000
Cost of sales	28,545	29,244
General and administrative expenses	12,539	11,188
	41,084	40,432

(b) As at 31 March 2016, the Group's leasehold land and buildings of HK$48,353,000 (2015: HK$51,315,000) were lease of between 10 to 50 years in Hong Kong.

(c) As at 31 March 2016, the Group's leasehold land and buildings of approximately HK$43,682,000 (2015: approximately HK$45,091,000) were secured for the Group's borrowings (note 19).

(d) Property, Plant and equipment addition was net of a government grant of approximately HK$9,552,000 received in respect of the acquisition of the building in the PRC.

6 Leasehold Land and Land Use Rights

	2016 HK$'000	2015 HK$'000
In the PRC, held on:		
Land use rights of 50 years	24,067	25,546

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

	2016 HK$'000	2015 HK$'000
At 1 April	25,546	26,023
Amortisation	(465)	(477)
Currency translation differences	(1,014)	–
At 31 March	24,067	25,546

7 Intangible Asset

	Contractual customer relationships HK$'000	Design and prototype HK$'000	Total HK$'000
At 1 April 2014			
Cost	15,074	4,704	19,778
Accumulated amortisation	(7,538)	(469)	(8,007)
Net book amount	7,536	4,235	11,771
Year ended 31 March 2015			
Opening net book amount	7,536	4,235	11,771
Addition	–	214	214
Amortisation	(3,768)	(944)	(4,712)
Closing net book amount	3,768	3,505	7,273
At 31 March 2015			
Cost	15,074	4,918	19,992
Accumulated amortisation	(11,306)	(1,413)	(12,719)
Net book amount	3,768	3,505	7,273
Year ended 31 March 2016			
Opening net book amount	**3,768**	**3,505**	**7,273**
Amortisation	**(3,768)**	**(980)**	**(4,748)**
Closing net book amount	**–**	**2,525**	**2,525**
At 31 March 2016			
Cost	**15,074**	**4,918**	**19,992**
Accumulated amortisation	**(15,074)**	**(2,393)**	**(17,467)**
Net book amount	**–**	**2,525**	**2,525**

Amortisation of approximately HK$4,748,000 (2015: HK$4,712,000) was included in "general and administrative expenses" in the consolidated statement of comprehensive income.

8 Goodwill

	2016 HK$'000
As at 1 April and 2014	24,540
Impairment charge	(2,038)
At 31 March 2015	22,502
Impairment charge	(12,140)
At 31 March 2016	10,362

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 up to 2018, an average decline of income calculated with reference to production cost at rate of 5.7% up to 2018 (2015: 5.7%). There is no cash flow beyond 2018. Pre-tax discount rate of 14% (2015: 14%), which reflects the specific risks relating to the product assembly business, was used in the value in use calculation.

During the year ended 31 March 2016, impairment charge of HK$12,140,000 (2015: HK$2,038,000) arose in the Group's product assembly business which is included in the metal stamping business segment, resulting in the carrying amount of the CGU being written down to its recoverable amount. The impairment charge was resulted from a revision of the business volume of the product assembly operation. If the assembly order from the sole customer had been decreased by 1% per year from 2016 to 2018 as compare to the budget, the Group would have recognized a further impairment charge by HK$30,000. If the discount rate used in the value in use calculation had been increased by 1%, additional impairment charge of HK$29,000 would have incurred.

9 Subsidiaries

The following is a list of the principal subsidiaries directly or indirectly held by the Company at 31 March 2016:

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				Principle activities
			2016		2015		
			Direct	Indirect	Direct	Indirect	
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
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 and the PRC
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

9 Subsidiaries (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 2016 Direct	2016 Indirect	2015 Direct	2015 Indirect	Principle activities
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
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$14,319,500	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC
Kingdom Majorlink Kiosk Systems Limited	Hong Kong, limited liability company	HK$4,200,021	–	66.67%	–	56.67%	Sale and rental of kiosk product in Hong Kong and overseas
Dongguan Conform Metal Limited (東莞確飛鎂五金有限公司)	Dongguan, the PRC, wholly foreign-owned enterprise	US$1,500,000	–	100%	–	100%	Manufacturing and sale of fine metal products in the PRC
Business Network Global Limited	BVI, limited liability company	US$387,097	–	100%	–	90.01%	Investment holding
I-solution (KFM) Limited	Hong Kong, limited liability company	HK$3,000,000	–	100%	–	90.01%	Sale and rental of kiosk product in Hong Kong and overseas
Mega Plan Global Limited	BVI, limited liability company	US$1	–	100%	–	100%	Investment holding
Billion Best Capital Investment Limited (佳億創富有限公司)	Hong Kong, limited liability company	HK$1	–	100%	–	100%	Investment holding

9 Subsidiaries (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				Principle activities
			2016		2015		
			Direct	Indirect	Direct	Indirect	
Kingdom Medical Holdings Limited (金德醫療控股有限公司)	BVI, limited liability company	US$129,032	–	70%	–	70%	Investment holding
Kingdom Medical Limited (金德醫療有限公司)	Hong Kong, limited liability company	HK$1,000,000	–	70%	–	70%	Sale of dental products in Hong Kong
Kingdom (Reliance) Smart Technology Limited (金德(利賚)智能科技有限公司)	Hong Kong, limited liability company	HK$10,000,000	–	60%	–	60%	Investment holding
Ningbo Hongka Smart Technology Limited (寧波港華智能科技有限公司)	Ningbo, the PRC, wholly foreign-owned enterprise	US$160,000	–	60%	–	60%	Trading of senor products in the PRC
Fortune Reliance Smart Technology (Shanghai) Ltd (富賚德智能科技(上海)有限公司)	Shanghai, the PRC, wholly foreign-owned enterprise	US$780,000	–	60%	–	–	Manufacturing of senor products in the PRC
Kingdom Medical Engineering Holdings Limited (金德醫藥工程控股有限公司)	BVI, limited liability company	US$10,000	–	100%	–	100%	Investment holding
Kingdom Medical Engineering Limited (金德醫藥工程有限公司)	Hong Kong, limited liability company	HK$4,000,000	–	100%	–	100%	Trading of medical products in the PRC
Kingdom Medical Engineering (Suzhou) Limited (金德醫療科技(蘇州)有限公司)	Suzhou, the PRC, wholly foreign-owned enterprise	US$300,000	–	100%	–	–	Manufacturing and sale of medical products in the PRC and Oversea
Able Eilte Holdings Limited	BVI, Limited liability company	US$6,000,000	100%	–	–	–	Investment holding
Smart Galary Holdings Limited	BVI, Limited liability company	US$1	100%	–	–	–	Investment holding
Fast Great Consultants Limited (浩迅顧問有限公司)	Hong Kong, limited liability company	HK$1	–	100%	–	–	Investment holding

9 Subsidiaries (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				Principle activities
			2016		2015		
			Direct	Indirect	Direct	Indirect	
Kingdom (Reliance) Precision Parts Manufactory Holdings Limited	BVI, Limited liability company	US$2	100%	–	–	–	Investment holding
IMG Kingdom International Limited	BVI, Limited liability company	US$20,000	–	60%	–	–	Investment holding
IMG Kingdom Limited	Hong Kong, limited Liability company	HK$100,000	–	60%	–	–	Sale of fine metal products in Hong Kong and the PRC
Kingdom Precision Product Holdings Limited	BVI, Limited liability company	US$1	–	100%	–	–	Investment holding
Project Lead Holdings Limited	BVI, Limited liability company	US$1	–	100%	–	–	Investment holding

10 Associated entity

Investment in an associated entity

	2016 HK$'000
At 1 April 2015	–
Acquisition	7,320
Share of loss of an associated entity	(3,453)
Provision for impairment of interest in an associated entity	(3,867)
As at 31 March 2016	–
Amount due from an associated entity	7,200
Amount due to an associated entity	(7,200)
Grand Total	–

10 Associated entity (Continued)

Investment in an associated entity (Continued)

The amounts recognised in the balance sheet are as follows:

	2016 HK$'000	2015 HK$'000
As at 31 March	–	–

The amounts recognised in the income statement are as follows:

	2016 HK$'000	2015 HK$'000
Share of loss of an associated entity	(3,453)	–
Provision for impairment of interest in an associated entity	(3,867)	–
For the year ended 31 March	(7,320)	–

Set out below is the associated entity of the Group as at 31 March 2016 which, in the opinion of the directors, is material to the Group. The associated entity as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in an associated entity as at 31 March 2016:

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		Principle activities
			2016	2015	
深圳市固泰科自動化裝備有限公司	PRC	RMB6,666,667	25%	–	Manufacturing and selling of automatic equipment

深圳市固泰科自動化裝備有限公司 is a private company and there is no quoted market price available for its shares.

There are no contingent liabilities relating to the Group's interest in the associated entity.

10 Associated entity (Continued)

Summarised financial information for associated entity

Set out below are the summarised financial information for 深圳市固泰科自動化裝備有限公司, which is accounted for using the equity method.

Summarised balance sheet	2016 HK$'000
Total current assets	5,923
Total current liabilities	(7,074)
Total non-current assets	437
Total non-current liabilities	–
Net liabilities	(714)

Summarised statement of comprehensive income	2016 HK$'000
Revenue	3,516
Pre-tax loss from continuing operations	(14,529)
Post-tax loss from continuing operations	(14,540)

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in an associated entity.

Summarised financial information	2016 HK$'000	2015 HK$'000
Opening net assets 1 April 2015	–	–
Net assets upon acquisition	13,813	–
Loss for the period	(14,540)	–
Currency translation differences	13	–
Closing net assets	(714)	–
Interest in associates (25%)	–	–
Goodwill	3,867	–
Impairment of goodwill	(3,867)	–
Carrying value	–	–

11 Inventories

	2016 HK$'000	2015 HK$'000
Raw materials	**21,750**	30,923
Work in progress	**23,853**	36,271
Finished goods	**56,700**	50,872
	102,303	118,066

The Group recognised amounts of HK$874,000 and HK$4,095,000 in respect of the write-down of inventories to their net realisable values for the years ended 31 March 2016 and 2015, 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$673,485,000 and HK$784,562,000 for the years ended 31 March 2016 and 2015, respectively.

12 Trade and Other Receivables

	2016 HK$'000	2015 HK$'000
Trade receivables (note (b) and (d))	**162,975**	164,061
Prepayments, deposits and other receivables	**41,784**	52,143
Amount due from an associated entity	**706**	–
Amounts due from non-controlling shareholders (note (e))	**4,362**	4,300
	209,827	220,504
Less: Provision for impairment	**(4,794)**	–
	205,033	220,504

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 (2015: 30 to 90 days). The ageing analysis of trade receivables based on invoice dates is as follows:

	2016 HK$'000	2015 HK$'000
Up to 3 months	**157,582**	158,082
3 to 6 months	**3,859**	5,212
6 months to 1 year	**1,154**	740
1 to 2 years	**380**	27
	162,975	164,061

12 Trade and Other Receivables (Continued)

Notes: (Continued)

(c) As at 31 March 2016 and 2015, the Group's trade receivables of approximately HK$32,236,000 and HK$29,429,000, 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:

	2016 HK$'000	2015 HK$'000
Amounts past due		
Up to 3 months	30,529	28,109
3 to 6 months	1,193	1,243
6 months to 1 year	478	77
1 to 2 years	36	–
	32,236	29,429

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

	2016 HK$'000	2015 HK$'000
US$	105,062	103,648
RMB	39,709	35,381
HK$	17,796	25,032
EUR	408	–
	162,975	164,061

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

13 Derivative Financial Instrument

Derivative financial instruments represent one (2015: two) RMB/US$ forward foreign exchange contracts held by the Group, which were recognised as financial assets/liabilities at fair value through profit or loss by the Group.

As at 31 March 2016, the Group had one derivative financial instruments which will expire in October 2016, mainly to sell US$ for RMB with a maximum remaining aggregate notional principal amount of approximately US$7,000,000 (approximately HK$54,250,000) (2015: US$26,149,000).

The gains or losses from settlement of these contracts are presented in "(loss)/gain on derivative financial instruments – realised" in "other gains, net" in note 22, whereas the fair value gains or losses on the derivative financial instruments are presented in "gains/(losses) on derivative financial instruments – unrealised" in the same note.

14 Cash and Cash Equivalents

	2016 HK$'000	2015 HK$'000
Total bank deposits, bank balances and cash	**106,360**	158,627
Represented by:		
Cash at bank and on hand	**106,360**	158,627

As at 31 March 2016, the Group's cash and cash equivalents included balances of HK$63,218,000 (2015: HK$73,272,000), which were deposits with banks in the PRC. These balances were denominated in US$, 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 are denominated in the following currencies:

	2016 HK$'000	2015 HK$'000
US$	**52,955**	75,140
RMB	**28,617**	46,566
HK$	**22,018**	36,445
Euro	**2,770**	476
	106,360	158,627

15 Share Capital

Ordinary shares, issued and fully paid

	Number of shares	Share capital HK$'000	Share premium HK$'000	Total HK$'000
At 31 March 2016 and 2015	**600,000,000**	**60,000**	**26,135**	**86,135**

16 Reserves

	Capital reserve HK$'000 (note (a))	Statutory reserve HK$'000 (note (b))	Exchange reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 31 March 2014	3,445	24,009	41,203	355,668	424,325
Profit for the year	–	–	–	31,473	31,473
Currency translation differences	–	–	(974)	–	(974)
Transfer of retained profits to statutory reserve (note (b))	–	4,606	–	(4,606)	–
Dividends paid	–	–	–	(12,000)	(12,000)
At 31 March 2015	**3,445**	**28,615**	**40,229**	**370,535**	**442,824**
Loss for the year	**–**	**–**	**–**	**(45,827)**	**(45,827)**
Currency translation differences	**–**	**–**	**(24,334)**	**–**	**(24,334)**
Transfer of retained profits to statutory reserve (note (b))	**–**	**5,105**	**–**	**(5,105)**	**–**
Acquisition of additional interests in subsidiaries	**–**	**–**	**–**	**569**	**569**
At 31 March 2016	**3,445**	**33,720**	**15,895**	**320,172**	**373,232**

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.

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:

	2016 HK$'000	2015 HK$'000
Deferred income tax assets:		
– to be recovered within 12 months	452	300
– to be recovered after more than 12 months	3,903	5,202
	4,355	5,502
Deferred income tax liabilities		
– to be recovered within 12 months	(10)	(54)
– to be recovered after more than 12 months	(11,993)	(12,692)
	(12,003)	(12,746)
Deferred tax liabilities (net)	(7,648)	(7,244)

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

	2016 HK$'000	2015 HK$'000
Beginning of the year	(7,244)	(5,998)
Charged to the consolidated statement of comprehensive income (note 26)	(404)	(1,246)
End of the year	(7,648)	(7,244)

17 Deferred Income Tax (Continued)

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 loss HK$'000	Accelerated accounting depreciation HK$'000	Total HK$'000
Deferred income tax assets			
At 1 April 2014	1,632	4,764	6,396
Credited to the consolidated statement of comprehensive income	549	738	1,287
At 31 March 2015	**2,181**	**5,502**	**7,683**
Credited/(charged) to the consolidated statement of comprehensive income	**2,122**	**(1,147)**	**975**
At 31 March 2016	**4,303**	**4,355**	**8,658**

	Accelerated tax depreciation HK$'000	Undistributed profits from subsidiaries HK$'000	Total HK$'000
Deferred income tax liabilities			
At 1 April 2014	(4,410)	(7,984)	(12,394)
Charged the consolidated statement of comprehensive income	(501)	(2,032)	(2,533)
At 31 March 2015	**(4,911)**	**(10,016)**	**(14,927)**
(Charged)/credited to the consolidated statement of comprehensive income	**(2,079)**	**700**	**(1,379)**
At 31 March 2016	**(6,990)**	**(9,316)**	**(16,306)**

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$21,023,000 (2015: HK$12,052,000) in respect of losses amounting to approximately HK$121,049,000 (2015: HK$71,878,000) that can be carried forward against future taxable income. Losses amounting to approximately HK$258,000 (2015: HK$308,000) will expire in 2018 and HK$205,000 (2015: 258,000) will expire in 2019.

18 Trade and Other Payables

	2016 HK$'000	2015 HK$'000
Trade payables (note (b) and (c))		
– third parties	**86,174**	112,868
– related companies	**3,114**	865
	89,288	113,733
Accrual, deposits and other payables	**66,460**	75,085
	155,748	188,818

Notes:

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

(b) The ageing analysis of trade payables at respective balance sheet dates (including trade payables from related companies) is as follows:

	2016 HK$'000	2015 HK$'000
Up to 3 months	**85,950**	110,645
3 to 6 months	**2,631**	2,397
6 months to 1 year	**500**	613
1 to 2 years	**207**	78
	89,288	113,733

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

	2016 HK$'000	2015 HK$'000
RMB	**58,161**	63,257
US$	**20,458**	32,277
HK$	**10,668**	18,103
Others	**1**	96
	89,288	113,733

19 Bank Borrowings

	2016 HK$'000	2015 HK$'000
Short-term bank borrowings	60,000	37,013
Portion of long-term bank borrowings due for repayment within one year	82,333	74,704
Portion of long-term bank borrowings due for repayment after one year which contain a repayment on demand clause	74,562	86,065
	216,895	197,782

The interest-bearing bank borrowings, including the bank borrowings repayable on demand, are carried at amortised cost. Certain portion of bank borrowings due for repayment after one year which contain a repayment on demand clause (As at 31 March 2016: HK$74,562,000, 31 March 2015: HK$86,065,000) and that is classified as current liability, and is expected to be settled within one year.

The Group's bank borrowings 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:

	2016 HK$'000	2015 HK$'000
Within 1 year	142,333	111,717
Between 1 and 2 years	59,708	49,042
Between 2 and 5 years	9,550	30,050
Over 5 years	5,304	6,973
	216,895	197,782

As at 31 March 2016, the Group's bank borrowing of approximately HK$14,062,000 (2015: approximately HK$15,730,000) were secured by the leasehold land and buildings with a carrying value of approximately HK$43,682,000 (2015: approximately HK$45,091,000).

In view of the loss for the year, the Group expected to face tighter access to new banking facility or refinance the existing bank borrowings. As such, a standby facility of HK$140 million was granted by KIG, the former controlling shareholder of the Company and a related party to the Group during the year. Subsequent to the year end, another standby facility of HK$130 million was granted by KIG.

Pursuant to the loan agreements entered into between the Group and KIG, KIG agreed to charge an interest to the Group with the interest rate of 5.25% per annum which was determined after arm's length negotiations between the parties by reference to the best lending interest rate of a bank in Hong Kong.

20 Revenue

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

21 Expenses by Nature

	2016 HK$'000	2015 HK$'000
Raw materials and consumables used	**350,744**	412,074
Changes in inventory of finished goods and work in progress	**6,590**	20,202
Employee benefit expenses (note 23)	**238,117**	253,838
Processing fees	**85,888**	89,871
Depreciation of property, plant and equipment (note 5)	**41,084**	40,432
Provision for impairment of other receivables (note 12)	**4,794**	–
Impairment charge on goodwill (note 8)	**12,140**	2,038
Amortisation of leasehold land and land use rights (note 6)	**465**	477
Amortisation of intangible assets (note 7)	**4,748**	4,712
Operating lease rental in respect of buildings	**29,005**	30,969
Research and development costs	**39,012**	25,533
Utilities expenses	**15,373**	17,228
Transportation, postage and courier expenses	**14,678**	16,958
Legal and professional fees	**8,332**	7,040
Auditor's remuneration		
– audit services	**2,000**	2,000
– non-audit services	**2,449**	1,115
Others	**41,652**	62,248
Total cost of sales, distribution and selling expenses and general and administrative expenses	**897,071**	986,735
Represented by:		
Cost of sales	**674,359**	788,657
Distribution and selling expenses	**25,260**	30,764
General and administrative expenses	**197,452**	167,314
	897,071	986,735

22 Other Gains, Net

	2016 HK$'000	2015 HK$'000
(Loss)/gain on derivative financial instrument		
– realised	(1,945)	(72)
– unrealised	603	(3,922)
Gain/(loss) on disposal of property, plant and equipment		
– leasehold land and buildings	1,183	–
– other property, plant and equipment	(407)	(474)
Net exchange gain	13,539	2,504
Others	2,155	2,065
	15,128	101

23 Employee Benefit Expenses

	2016 HK$'000	2015 HK$'000
Short-term employee benefits (note (a))	198,784	211,220
Post-employment benefits – defined contribution plans	33,480	37,074
Other long-term benefits	5,853	5,544
	238,117	253,838

Notes:

(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.

23 Employee Benefit Expenses (Continued)

Notes: (Continued)

(b) Five highest paid individuals

The five individual whose emoluments were the highest in the Group for the year include three (2015: one) directors whose emoluments are reflected in the analysis shown in note 24. The emoluments payable to the remaining two (2015: four) individuals during the year are as follows:

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	**4,332**	6,814
Post-employment benefits – defined contribution plans	**36**	52
	4,368	6,866

The remuneration fell within the following bands:

	Number of individuals	
	2016	2015
Remuneration bands		
HK$1,000,001 to HK$2,000,000	**1**	3
HK$2,000,001 to HK$3,000,000	**1**	1

(c) For the year ended 31 March 2016, no remuneration were paid by the Group (2015: 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.

24 Benefits and Interests of Directors (Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules)

(a) Directors' Emoluments

The remuneration of every director and the chief executive is set out below:

For the year ended 31 March 2016:

Emoluments Paid or Receivable in Respect of a Person's Services as a Director, Whether of the Company or its Subsidiary Undertaking:

Name of Director	Fees	Salary	Discretionary Bonuses	Housing Allowance	Share Options/ Award Shares Gain	Estimated Money Value of Other Benefits (Note (a))	Employer's Contribution to a Retirement Benefit Scheme	Remunerations Paid or Receivable in respect of Accepting Office as Director	Emoluments Paid or Receivable in respect of Director's Other Services in Connection with the Management of the Affairs of the Company or its Subsidiary Undertaking	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors:										
Sun Kwok Wah Peter	–	3,900	–	–	–	–	18	–	–	3,918
Wong Chi Kwok	300	–	–	–	–	–	–	–	–	300
Lam Kin Shun (Note (b))	–	1,500	–	–	–	–	18	–	–	1,518
Chow Suen, Christina (Note (c))	–	1,320	–	–	–	–	18	–	–	1,338
Non-executive Director:										
Zhang Yongdong	23	–	–	–	–	–	–	–	–	23
Independent Non-executive Directors:										
Wan Kam To	217	–	–	–	–	–	–	–	–	217
Zhao Yue (Note (d))	23	–	–	–	–	–	–	–	–	23
Shen Zheqing (Note (e))	23	–	–	–	–	–	–	–	–	23
Yeung Chi Tat (Note (f))	10	–	–	–	–	–	–	–	–	10
Lam Hon Keung Keith (Note (g))	183	–	–	–	–	–	–	–	–	183
Chung Chi Ping Roy (Note (h))	83	–	–	–	–	–	–	–	–	83
Total	862	6,720	–	–	–	–	54	–	–	7,636

24 Benefits and Interests of Directors(Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

(a) Directors' Emoluments (Continued)

For the year ended 31 March 2015 (Restated):

	Emoluments Paid or Receivable in Respect of a Person's Services as a Director, Whether of the Company or its Subsidiary Undertaking:									
Name of Director	Fees	Salary	Discretionary Bonuses	Housing Allowance	Share Options/ Award Shares Gain	Estimated Money Value of Other Benefits (Note (a))	Employer's Contribution to a Retirement Benefit Scheme	Remunerations Paid or Receivable in respect of Accepting Office as Director	Emoluments Paid or Receivable in respect of Director's Other Services in Connection with the Management of the Affairs of the Company or its Subsidiary Undertaking	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors:										
Sun Kwok Wah Peter	–	3,900	–	–	–	–	18	–	–	3,918
Wong Chi Kwok	300	–	–	–	–	–	–	–	–	300
Lam Kin Shun	–	1,500	–	–	–	–	18	–	–	1,518
Chow Suen, Christina	–	1,320	–	–	–	–	18	–	–	1,338
Independent Non-executive Directors:										
Wan Kam To	200	–	–	–	–	–	–	–	–	200
Lam Hon Keung Keith	200	–	–	–	–	–	–	–	–	200
Chung Chi Ping Roy	200	–	–	–	–	–	–	–	–	200
Total	900	6,720	–	–	–	–	54	–	–	7,674

Certain of the comparative information of directors' emoluments for the year ended 31 March 2015 previously disclosed in accordance with the predecessor Companies Ordinance have been restated in order to comply with the new scope and requirements by the Hong Kong Companies Ordinance (Cap. 622).

24 Benefits and Interests of Directors(Disclosures Required by Section 383 of the Hong Kong Companies Ordinance (Cap. 622), Companies (Disclosure of information about Benefits of Directors) Regulation (Cap. 622G) and HK Listing Rules) (Continued)

(a) Directors' Emoluments (Continued)

Notes:

(a) Other benefits include club membership and insurance

(b) Resigned on 3 February 2016

(c) Resigned on 3 February 2016

(d) Appointed on 3 February 2016

(e) Appointed on 3 February 2016

(f) Appointed and resigned as on 7 September 2015 and on 3 February 2016

(g) Resigned on 3 February 2016

(h) Retired on 27 August 2015

(b) Directors' Termination Benefits

No termination benefits was provided to or receivable by any director during the year as compensation for the early termination of appointment (2015: Nil).

(c) Consideration Provided to Third Parties for Making Available Directors' Services

No Consideration was provided to or receivable by third parties for making available directors' services (2015: Nil).

(d) Information about Loans, Quasi-loans and Other Dealings in Favour of Directors, Controlled Bodies Corporate by and Connected Entities with Such Directors

There are no loans, quasi-loans or other dealings in favour of directors, their controlled bodies corporate and connected entities (2015: Nil).

(e) Directors' Material Interests in Transactions, Arrangements or Contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company 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 (2015: Nil).

25 Finance Costs, Net

	2016 HK$'000	2015 HK$'000
Finance costs		
Interest expense on bank borrowings wholly repayable within five years	**(6,944)**	(5,310)
Interest expense on bank borrowings not wholly repayable within five years	**(361)**	(435)
	(7,305)	(5,745)
Total interest expense capitalised into properties under development*	**2,974**	1,620
	(4,331)	(4,125)
Finance income		
Interest income on bank balances and deposits	**677**	714
Interest income on available-for-sale financial assets	**–**	133
	677	847
Finance costs, (net)	**(3,654)**	(3,278)

* The borrowing costs have been capitalised at a rate of 3.2% per annum (2015: 3.4%).

26 Income Tax Expenses

	2016 HK$'000	2015 HK$'000
Current income tax		
– Hong Kong	**3,520**	6,411
– The PRC	**8,670**	11,546
Adjustments in respect of prior years		
– Over-provision in respect of prior year	**(3,060)**	(29)
	9,130	17,928
Deferred income tax (note 17)		
– Origination and reversal of temporary differences	**404**	1,246
	9,534	19,174

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.

26 Income Tax Expenses (Continued)

Below are the major tax jurisdictions that the Group operates in for the years ended 31 March 2016 and 2015.

(a) Hong Kong profits tax

The Group is subject to Hong Kong profits tax which is provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the year ended 31 March 2016.

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

The PRC EIT is provided on the assessable income of the Group's PRC subsidiaries, adjusted for items which are not taxable or deductible for the PRC EIT purpose. The PRC EIT tax rates for the years ended 31 March 2016 and 2015 were 15% and 25%.

The below table summarises the income tax rates applicable to the Group's PRC subsidiaries for the years ended 31 December 2016 and 2015 respectively.

	2016	2015
KPP SU (note (i))	15%	15%
KRP SZ (note (ii))	25%	15%
KRP SH	25%	25%
KFM SZ (note (iii))	25%	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 from 1 January 2013 to 31 December 2015. After the cessation of the preferential tax rate, it is subject to 25% PRC EIT.

(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 from 1 January 2013 to 31 December 2015. After the cessation of the preferential tax rate, it is subject to 25% PRC EIT.

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:

	2016 HK$'000	2015 HK$'000
(Loss)/profit before income tax	(40,297)	48,299
Tax calculated at the standard tax rate of the respective entities	(4,776)	8,256
Income not subject to tax	(895)	(173)
Expenses not deductible for tax purpose	6,459	3,714
Over-provision in prior years	(3,060)	(29)
Deferred tax charged in respect of withholding income tax on undistributed profits	1,272	2,032
Utilisation of previously unrecognised tax loss	–	(1,485)
Tax losses for which no deferred income tax asset was recognised	10,534	6,859
Income tax expenses	9,534	19,174
Weighted average applicable tax rate	12%	17%

27 (Loss)/earning per Share

Basic and diluted (loss)/earning per share

	2016	2015
(Loss)/profit attributable to the equity holders of the Company (HK$'000)	(45,827)	31,473
Weighted average number of shares in issue ('000)	600,000	600,000
Basic and diluted (loss)/earning per share (HK cents per share)	(7.64)	5.25

Basic (loss)/earning per share for the years ended 31 March 2016 and 2015 is calculated by dividing the (loss)/profit attributable to equity holders of the Company by 600,000,000 ordinary shares in issue during the year.

The Group had no potentially dilutive ordinary share (i.e. share options and warrants) in issue during the years ended 31 March 2016 and 2015.

28 Note to Consolidated Statement of Cash Flows

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

	2016 HK$'000	2015 HK$'000
(Loss)/profit before income tax	**(40,297)**	48,299
Depreciation of property, plant and equipment (note 5)	**41,084**	40,432
Amortisation of leasehold land and land use rights (note 6)	**465**	477
Amortisation of intangible assets (note 7)	**4,748**	4,712
Write-down on inventories (note 11)	**874**	4,095
Loss on derivative financial instrument (note 22)	**(1,342)**	3,994
Share of loss of an associated entity (note 10)	**3,453**	–
Provision for impairment of goodwill of an associated entity (note 10)	**3,867**	–
(Gain)/loss on disposal of property, plant and equipment	**(776)**	474
Provision for impairment of other receivable (note 12)	**4,794**	–
Impairment charge on goodwill (note 8)	**12,140**	2,038
Finance income (note 25)	**(677)**	(847)
Finance costs (note 25)	**4,331**	4,125
Foreign exchange losses on operating activities	**(86)**	–
Operating profit before changes in working capital	**32,578**	107,799
Decrease in inventories	**10,945**	16,781
Increase in trade and other receivables	**(1,144)**	(17,386)
Decrease in trade and other payables	**(22,749)**	(10,759)
Net cash generated from operations	**19,630**	96,435

29 Dividends

The Board does not recommend payment of any final dividend for the year ended 31 March 2016 (2015: Nil).

No interim dividend was paid during the year (2015: HK1.5 cents).

30 Commitments

(a) Capital commitments

	2016 HK$'000	2015 HK$'000
Authorised but not contracted for		
– Construction cost	**–**	14,373
Contracted but not provided for		
– Leasehold land and buildings	**11,160**	11,625
– Construction cost	**–**	24,822
– Plant and machinery	**5,143**	1,563
– Capital investment	**10,695**	16,430
	26,998	54,440

30 Commitments (Continued)

(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:

	2016 HK$'000	2015 HK$'000
Within 1 year	24,526	30,583
Later than 1 year and not later than 5 years	32,690	73,119
Later than 5 years	2,421	5,580
	59,637	109,282

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 Significant Related Party Transactions

In addition to the information shown elsewhere in the consolidated financial statements, 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
Massive Force Limited	The ultimate holding company of the Group.
Sun Kwok Wah Peter	An executive director and the chief executive officer of the Group
Gold Joy (HK) Industrial Limited	A related company owned by Chow Suen, Christina; Wong Chi Kwok; 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.
深圳市固泰科自動化裝備有限公司	An associate that Sun Kwok Wah Peter is a director.

31 Significant Related Party Transactions (Continued)

(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:

	2016 HK$'000	2015 HK$'000
Sale of products from related company		
Innotech Advanced Products Limited	7	–
Purchase of products from related companies:		
Innotech Advanced Products Limited	906	3,120
Dongguan Tech-in Electrical & Mechanical Products Limited	1,554	1,827

(c) Purchase of property, plant and equipment

	2016 HK$'000	2015 HK$'000
Purchase of property, plant and equipment from related companies		
Dongguan Tech-in Electrical & Mechanical Products Limited	2,847	–
深圳市固泰科自動化裝備有限公司	930	–

(d) Balances with related companies

	2016 HK$'000	2015 HK$'000
Other receivables from a related company		
深圳市固泰科自動化裝備有限公司	274	–
	274	–
Trade payables to related companies		
Innotech Advanced Products Limited	(12)	(321)
Dongguan Tech-in Electrical & Mechanical Products Limited	(3,102)	(544)
	(3,114)	(865)

31 Significant Related Party Transactions (Continued)

(e) Key management compensation

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

	2016 HK$'000	2015 HK$'000
Short-term employee benefits	13,008	12,272
Post-employment benefits – defined contribution plans	108	136
Other long-term benefits	21	20
	13,137	12,428

32 Segment Information

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

The CODM have assessed the nature of the Group's businesses and determined that the Group has two business segments which are defined by manufacturing processes 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.

Segment assets exclude deferred income tax assets, cash and cash equivalents, current income tax recoverable 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, derivative financial liabilities, current income tax liabilities and other unallocated head office and corporate liabilities.

Capital expenditures comprise of additions to property, plant and equipment.

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

32 Segment Information (Continued)

(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 2016:

	Metal stamping HK$'000	Metal lathing HK$'000	Total HK$'000
Segment revenue			
Sales	693,072	160,121	853,193
Intersegment sales	(221)	(352)	(573)
Sales to external customers	692,851	159,769	852,620
Cost of sales	(542,266)	(132,093)	(674,359)
Gross profit	150,585	27,676	178,261
Unallocated expenses, net			(207,584)
Operating loss			(29,323)
Finance income			677
Finance costs			(4,331)
Share of loss of an associated entity			(3,453)
Provision for impairment of interest in an associated entity			(3,867)
Loss before income tax			(40,297)
Income tax expenses			(9,534)
Loss for the year			(49,831)
Segment depreciation	19,508	16,473	35,981
Unallocated depreciation			5,103
			41,084
Segment amortisation	1,445	–	1,445
Unallocated amortisation			3,768
			5,213
Impairment charge on goodwill	12,140	–	12,140

32 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 2015:

	Metal stamping HK$'000	**Metal lathing** HK$'000	**Total** HK$'000
Segment revenue			
Sales	783,860	254,391	1,038,251
Intersegment sales	(31)	(9)	(40)
Sales to external customers	783,829	254,382	1,038,211
Cost of sales	(626,048)	(162,609)	(788,657)
Gross profit	157,781	91,773	249,554
Unallocated expenses, net			(197,977)
Operating profit			51,577
Finance income			847
Finance costs			(4,125)
Profit before income tax			48,299
Income tax expenses			(19,174)
Profit for the year			29,125
Segment depreciation	16,942	18,929	35,871
Unallocated depreciation			4,561
			40,432
Segment amortisation	1,420	–	1,420
Unallocated amortisation			3,769
			5,189
Impairment charge on goodwill	2,038	–	2,038

32 Segment Information (Continued)

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

(i) As at 31 March 2016:

	Metal stamping HK$'000	Metal lathing HK$'000	Total HK$'000
Segment assets	484,746	168,525	653,271
Reconciliation			
Corporate and other unallocated assets			
Deferred income tax assets			4,355
Current income tax recoverable			1,223
Cash and cash equivalents			106,360
Other unallocated head office and corporate assets			87,343
Total assets			852,552
Segment liabilities	129,381	23,150	152,531
Reconciliation			
Corporate and other unallocated liabilities			
Deferred income tax liabilities			12,003
Bank borrowings			216,895
Derivative financial liabilities			2,113
Current income tax liabilities			4,039
Other unallocated head office and corporate liabilities			3,217
Total liabilities			390,798
Segmental capital expenditures	44,095	15,390	59,485
Reconciliation			
Other unallocated head office and corporate capital expenditures			6,198
Total capital expenditures			65,683

32 Segment Information (Continued)

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

(ii) As at 31 March 2015:

	Metal stamping HK$'000	**Metal lathing** HK$'000	**Total** HK$'000
Segment assets	503,520	174,875	678,395
Reconciliation			
Corporate and other unallocated assets			
Deferred income tax assets			5,502
Current income tax recoverable			676
Cash and cash equivalents			158,627
Other unallocated head office and corporate assets			103,396
Total assets			946,596
Segment liabilities	164,407	22,426	186,833
Reconciliation			
Corporate and other unallocated liabilities			
Deferred income tax liabilities			12,746
Bank borrowings			197,782
Derivative financial liabilities			3,922
Current income tax liabilities			7,371
Other unallocated head office and corporate liabilities			1,985
Total liabilities			410,639
Segmental capital expenditures	112,819	14,934	127,753
Reconciliation			
Other unallocated head office and corporate capital expenditures			2,842
Total capital expenditures			130,595

32 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:

	2016 HK$'000	2015 HK$'000
The PRC	566,846	681,851
North America	161,912	200,201
Europe	68,000	83,033
Japan	26,306	36,433
Singapore	14,177	19,114
Oceania	1,877	3,339
South America	233	821
Other Asian countries excluding the PRC, Singapore and Japan	13,269	13,419
	852,620	1,038,211

(d) The total of non-current assets, other than intangible assets, goodwill and deferred income tax assets of the Group as at 31 March 2016 and 2015 are as follows:

	2016 HK$'000	2015 HK$'000
The PRC	346,241	340,462
Hong Kong	74,150	72,984
	420,391	413,446

(e) During each of the years ended 31 March 2016 and 2015, revenue derived from two and one customers, respectively, accounted for 10% or more of the Group's total revenue. Those/this customer(s) were/was in the metal stamping segment.

The revenue attributed from those/this customer(s) are/is as follows:

	2016 HK$'000	2015 HK$'000
Segment of which those/this customer(s) belong to		
Metal stamping	187,053	114,337

33 Subsequent Event

Save as disclosed in Note 19, the Group has no material subsequent events up to the date of this annual report.

34 Balance Sheet and Reserve Movement of the Company

Balance sheet of the Company

As at 31 March 2016

	2016 HK$'000	2015 HK$'000
ASSETS		
Non-current asset		
Investment in a subsidiary	93,283	100
Current assets		
Amounts due from subsidiaries	69,950	90,632
Cash and cash equivalents	3	511
Total current assets	69,953	91,143
Total assets	163,236	91,243
EQUITY		
Capital and reserves		
Share capital	60,000	60,000
Share premium	26,135	26,135
Retained earnings (note (a))	77,101	5,108
Total equity	163,236	91,243

Note (a) Reserve movement of the Company

	Retained profits HK$'000
At 1 April 2014	4,108
Dividend	(12,000)
Profit for the year	13,000
At 31 March 2015	5,108
Profit for the year	71,993
At 31 March 2016	77,101

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				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Results					
Revenue	**852,620**	1,038,211	945,798	846,507	951,418
Cost of sales	**(674,359)**	(788,657)	(737,936)	(641,208)	(716,918)
Gross profit	**178,261**	249,554	207,862	205,299	234,500
Other gains/(losses), net	**15,128**	101	125	7,800	29,052
Distribution and selling expenses	**(25,260)**	(30,764)	(22,381)	(17,631)	(19,391)
General and administrative expenses	**(197,452)**	(167,314)	(142,093)	(140,149)	(124,291)
Operating (loss)/profit	**(29,323)**	51,577	43,513	55,319	119,870
Finance income	**677**	847	739	297	470
Finance costs	**(4,331)**	(4,125)	(6,715)	(6,315)	(2,883)
Share of loss of an associated entity	**(3,453)**	–	–	–	–
Provision for impairment of interest in an associated entity	**(3,867)**	–	–	–	–
(Loss)/profit before income tax	**(40,297)**	48,299	37,537	49,301	117,457
Income tax expenses	**(9,534)**	(19,174)	(2,525)	(9,146)	(23,064)
(Loss)/profit for the year	**(49,831)**	29,125	35,012	40,155	94,393
Other comprehensive (loss)/income					
Currency translation differences	**(24,334)**	(974)	354	4,390	10,797
Total comprehensive (loss)/income	**(74,165)**	28,151	35,366	44,545	105,190
(Loss)/profit for the year attributable to:					
Equity holders of the Company	**(45,827)**	31,473	36,383	40,155	94,393
Total comprehensive (loss)/income attributable to:					
Equity holders of the Company	**(70,161)**	30,499	36,737	44,545	105,190
(Loss)/earnings per share for (loss)/ profit attributable to equity holders of the Company					
– Basic and diluted (HK cents)	**(7.64)**	5.25	6.06	7.74	15.73
Dividends	**–**	12,000	19,800	85,228	85,579

Five Year Financial Summary

	As at 31 March				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Total assets	**852,552**	946,596	851,592	871,035	732,856
Total liabilities	**(390,798)**	(410,639)	(336,386)	(377,512)	(284,685)
Net assets	**461,754**	535,957	515,206	493,523	448,171

Basis of Presentation

The reorganisation has been accounted for using merger accounting and, accordingly, the financial information for the year ended 31 March 2012 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.