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## **KML Technology Group Limited**

### **高萌科技集團有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8065)**

#### **ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 MARCH 2019**

#### **CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE**

**GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.**

**Given the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

## **FINANCIAL HIGHLIGHTS**

Revenue of the Group for the year ended 31 March 2019 amounted to approximately Hong Kong dollars (“**HK\$**”) 210.6 million, representing an increase of approximately HK\$16.6 million or 8.6% as compared with approximately HK\$194.0 million for the year ended 31 March 2018.

Gross profit of the Group for the year ended 31 March 2019 amounted to approximately HK\$66.1 million (2018: approximately HK\$56.0 million).

The net profit of the Group for the year ended 31 March 2019 amounted to approximately HK\$19.3 million (2018: net loss of approximately HK\$2.1 million).

The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2019 (2018: Nil).

## **FINANCIAL RESULTS**

The board of Directors (the “**Board**”) of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 March 2019, together with the audited comparative figures for the year ended 31 March 2018 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the year ended 31 March 2019*

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Revenue	4	<b>210,596</b>	193,973
Cost of sales		<u><b>(144,520)</b></u>	<u>(138,019)</u>
Gross profit		<b>66,076</b>	55,954
Other income		<b>1,230</b>	374
Other gain and losses, net		<b>(133)</b>	298
Impairment losses, net of reversal		<b>(148)</b>	–
Administrative expenses		<b>(43,551)</b>	(40,067)
Listing expenses		<u>–</u>	<u>(15,847)</u>
Profit before taxation	5	<b>23,474</b>	712
Income tax expense	6	<u><b>(4,219)</b></u>	<u>(2,858)</u>
Profit (loss) for the year		<u><b>19,255</b></u>	<u>(2,146)</u>
Profit (loss) and total comprehensive income (expense) for the year attributable to owners of the Company		<u><b>19,255</b></u>	<u>(2,146)</u>
Earnings (loss) per share			
Basic and diluted (HK cents)	8	<u><b>4.81</b></u>	<u>(0.62)</u>

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	<i>Notes</i>	<b>2019</b> <i>HK\$'000</i>	2018 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,924</b>	3,312
Deposits	<i>10</i>	<b>1,875</b>	1,335
Retention held by customers for contract works	<i>10</i>	–	9,361
Contract assets		<b>6,785</b>	–
		<b>11,584</b>	14,008
<b>Current assets</b>			
Inventories		<b>463</b>	508
Trade receivables	<i>9</i>	<b>41,146</b>	44,853
Retention held by customers for contract works	<i>10</i>	–	7,428
Other receivables, deposits and prepayments	<i>10</i>	<b>5,453</b>	7,365
Amounts due from customers for contract works		–	27,225
Contract assets		<b>42,548</b>	–
Tax recoverable		–	73
Pledged bank deposits		<b>10,782</b>	5,000
Time deposits with original maturity over three months		<b>40,050</b>	20,007
Bank balances and cash		<b>36,989</b>	40,225
		<b>177,431</b>	152,684
<b>Current liabilities</b>			
Trade payables	<i>11</i>	<b>13,289</b>	10,027
Other payables and accrued charges	<i>12</i>	<b>12,621</b>	11,592
Amounts due to customers for contract works		–	21,022
Contract liabilities		<b>17,145</b>	–
Tax payable		<b>1,617</b>	–
		<b>44,672</b>	42,641
Net current assets		<b>132,759</b>	110,043
Total assets less current liabilities		<b>144,343</b>	124,051
<b>Non-current liabilities</b>			
Deferred tax liabilities		<b>208</b>	248
Net assets		<b>144,135</b>	123,803
<b>Capital and reserves</b>			
Share capital	<i>13</i>	<b>4,000</b>	4,000
Share premium and reserves		<b>140,135</b>	119,803
Total equity		<b>144,135</b>	123,803

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 March 2019*

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2017 under the Companies Law, Cap. 22 (Law 3 of 1961, a consolidated and revised) of the Cayman Islands. The registered office of the Company is located at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company in Hong Kong is located at B12, G/F, Shatin Industrial Centre, Siu Lek Yuen Road, Shatin, New Territories, Hong Kong.

The Company's shares were listed on the GEM of The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") on 16 October 2017 (the "**Listing**"). The controlling shareholders of the Company are detailed in note 2. The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the provision of electrical and mechanical ("**E&M**") engineering solutions and services. The consolidated financial statements are presented in Hong Kong dollars ("**HKS**"), which is the same as the functional currency of the Company and its principal subsidiaries.

## 2. GROUP REORGANISATION AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

Pursuant to the group reorganisation stated in the Company's prospectus dated 29 September 2017 (the "**Prospectus**") in preparation for the Listing (the "**Reorganisation**"), the Company became the holding company of the subsidiaries now comprising the Group on 6 September 2017, the details of which are as set out in the Prospectus.

As the Group comprising the Company and its subsidiaries resulting from the Reorganisation continued to be controlled by Mr. Luk Kam Ming ("**Mr. KM Luk**"), Mr. Luk Kwai Lung ("**Mr. KL Luk**"), Mr. Luk Yin Cheung ("**Mr. YC Luk**"), Ms. Leung Kwok Yee ("**Madam Leung**") and KML Holdings Limited ("**KML Holdings**") (the "**Controlling Shareholders**") and is regarded as a continuing entity, accordingly, the consolidated financial statements have been prepared on the basis as if the Company had always been the holding company of the Group throughout the year ended 31 March 2018 under the principles of merger accounting in accordance with the Accounting Guideline 5 "Merger Accounting, Under Common Control Combinations" issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

The consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for year ended 31 March 2018 had been prepared to present the results and cash flows of the companies comprising the Group as if the group structure upon the completion of the Reorganisation had been in existence throughout the year ended 31 March 2018 or since their respective dates of incorporation, where there is a shorter period.

The shares of the Company have been listed on the GEM of Stock Exchange with effect from 16 October 2017.

### 3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

#### **New and amendments to HKFRSs that are mandatorily effective for the current year**

The Group has applied the following new and amendments to HKFRSs and an interpretation issued by the HKICPA for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 “Financial Instruments” with HKFRS 4 “Insurance Contracts”
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

#### ***New and amendments to HKFRSs issued but not yet effective***

The Group has not early applied the following new and amendments to HKFRSs and an interpretation that have been issued but are not yet effective:

HKFRS 16	Leases <sup>1</sup>
HKFRS 17	Insurance Contracts <sup>2</sup>
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments <sup>1</sup>
Amendments to HKFRS 3	Definition of a Business <sup>4</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 1 and HKAS 8	Definition of Material <sup>5</sup>
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement <sup>1</sup>
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2021.

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined.

<sup>4</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2020.

#### 4. REVENUE AND SEGMENTAL INFORMATION

An analysis of the Group's revenue for the both years is as follows:

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
E&M engineering solutions and services ( <i>Note a</i> )	<b>173,011</b>	164,789
E&M engineering maintenance services ( <i>Note b</i> )	<b>28,399</b>	20,100
E&M engineering design and fabrication services ( <i>Note c</i> )	<b>8,282</b>	7,031
Sales of parts and components ( <i>Note d</i> )	<b>904</b>	2,053
	<b>210,596</b>	193,973
	<b>2019</b>	
	<b>HK\$'000</b>	
Timing of revenue recognition		
A point in time	<b>9,186</b>	
Over time	<b>201,410</b>	
	<b>210,596</b>	

*Notes:*

- (a) Amount represents revenue generated from design, supply, installation of systems and implementation of E&M engineering solutions and services, including revenue generated from design and fabrication services for the fabrication of made-to-order products for the customers, where applicable (“**E&M engineering solutions and services**”).

Under the terms of contracts, the Group's performance creates and/or enhances the assets which the customers control during the course of work by the Group. Revenue from provision of contracting services is therefore recognised based on the stage of completion of contract over time using input method. The Group normally receives progress payment from customers with reference to the contract terms. The Group requires certain customers to provide upfront deposits range from 10% to 20% of total contract sum, when the Group receives a deposit before the project commences, this will give rise to contract liabilities at the start of a contract, until the full amount of deposit is deducted proportionately from progress payment.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the construction services are performed representing the Group's right to consideration for the services performed and not billed because the rights are conditioned on the Group's future performance accepted by the customers. The contract assets are transferred to trade receivables when the rights become unconditional. The Group typically transfers its contract assets to trade receivables when progress certificate/invoice is issued.

Retentions receivable, prior to expiration of maintenance period, are classified as contract assets, which usually ranges from one to three years from the date of the practical completion of the project. The relevant amount of contract assets is reclassified to trade receivables when the maintenance period expires, and/or the maintenance/ payment certificate is issued, and/or the final account is issued.

- (b) The Group also generates revenue from provision of maintenance services to the customers' facilities. The revenue is recognised over the contract period.
- (c) Amount represents revenue generated from design and fabrication services for the fabrication of made-to-order products for the customers, such as control room consoles, public access kiosks and terminals, relay racks, test rigs, and also control room technical furniture and industrial enclosures and instrument cabinets without supply, installation of systems and implementation of E&M engineering solutions and services ("**E&M engineering design and fabrication services**").

This revenue is recognised at a point in time when the goods have been delivered to specific locations and customers obtain control of the goods.

- (d) The Group also generates revenue from sales of parts or components. This revenue is recognised at a point in time when the goods have been delivered to specific location and customers obtain control of the materials.

### Segment information

The Group's operation is solely derived from E&M engineering solutions and services, E&M engineering maintenance services with focus on (i) automatic fare collection system at railway stations; (ii) electronic payment and ticketing system; (iii) road and tunnel toll collection system; (iv) traffic control and surveillance system; and (v) railway signaling communication and control system, E&M engineering design and fabrication services and sales of parts and components during both years. For the purposes of resources allocation and performance assessment, the chief operation decision maker (i.e. the executive directors of the Company) reviews the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single operating segment and no separate analysis of this single segment is presented other than entity-wide disclosure.

### Geographical information

The Group's revenue from external customers based on place of operation of customers and non-current assets by jurisdictions based on the location of the assets are detailed below:

	Revenue		Non-current assets	
	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2019 <i>HK\$'000</i> <i>(Note)</i>	2018 <i>HK\$'000</i> <i>(Note)</i>
Hong Kong	<b>198,953</b>	191,606	<b>2,924</b>	3,312
Taiwan	<b>3,789</b>	1,110	–	–
Singapore	<b>1,784</b>	104	–	–
Canada	<b>2,933</b>	710	–	–
Others	<b>3,137</b>	443	–	–
	<b>210,596</b>	193,973	<b>2,924</b>	3,312

*Note:* Non-current assets comprise of property, plant and equipment.

## Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Customer A	139,073	111,643
Customer B	N/A <sup>(note)</sup>	19,670

*Note:* The corresponding revenue did not constitute over 10% of the total revenue of the Group.

Other than disclosed above, there was no revenue from customers individually contributing over 10% of the total revenue of the Group during year ended 31 March 2019 and 2018.

## 5. PROFIT BEFORE TAXATION

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	1,200	1,100
Depreciation of property, plant and equipment	1,195	1,007
Directors' remuneration	4,283	4,029
Other staff costs		
Salaries and other benefits	68,414	68,859
Retirement benefits scheme contributions	2,704	2,763
Share-based payments	1,166	–
Total staff costs	76,567	75,651
Contract costs recognised as expense		
– E&M engineering solutions and services	117,646	117,264
Lease payments under operating leases in respect of:		
– office premises	5,777	5,459
– motor vehicles	–	26
Net foreign exchange loss (gain)	137	(291)
Gain on disposal of property, plant and equipment	(4)	(7)

## 6. INCOME TAX EXPENSE

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Current tax:		
Hong Kong	4,259	2,701
Deferred tax	(40)	157
	<u>4,219</u>	<u>2,858</u>

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the “**Bill**”) which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity would be taxed at 8.25%, and profits above HK\$2 million would be taxed at 16.5%. The profits of group entities not qualified for the two-tiered profits tax rates regime would continue to be taxed at a flat rate of 16.5%.

Hong Kong Profits Tax is calculated at 8.25% for the first HK\$2 million of profits and 16.5% of the estimated assessable profit above HK\$2 million in 2019.

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands (“**BVI**”) pursuant to the rules and regulations in those jurisdictions.

## 7. DIVIDEND

During the year ended 31 March 2018, the Company declared and paid special dividend of HK\$25,000,000 to the Controlling Shareholders.

Other than disclosed above, no dividend was paid or declared by any group entity for the year ended 31 March 2019 nor has any dividend proposed since the end of the reporting period.

## 8. EARNINGS (LOSS) PER SHARE

The calculation of basic earnings (loss) per share attributable to the owners of the Company is based on the following data:

	2019 <i>HK\$’000</i>	2018 <i>HK\$’000</i>
Earnings (loss):		
Earnings (loss) for the purpose of calculating basic earnings (loss) per share		
– Profit (loss) for the year attributable to the owners of the Company	<u>19,255</u>	<u>(2,146)</u>
	<i>’000</i>	<i>’000</i>
Weighted average number of shares:		
Number of ordinary shares for the purpose of calculating basic earnings (loss)		
per share	<u>400,000</u>	<u>345,753</u>

For the year ended 31 March 2019, the computation of diluted earnings per share does not assume the exercise of the Company’s outstanding share options (2018: Nil) because the exercise prices of these share options were higher than the average market price for shares for the year.

For the year ended 31 March 2018, the weighted average number of ordinary shares for the purpose of calculating basic loss per share had been determined on the assumption that the Reorganisation, the Capitalisation Issue in relation to the Share Offer as defined and described in notes 2 and 13 respectively had been effective on 1 April 2017.

## 9. TRADE RECEIVABLES

The Group grants credit terms of 30 to 60 days to its customers from the date of invoices on progress billings of contract and maintenance works and sales of goods. An aged analysis of the trade receivables presented based on the invoice date at the end of the reporting period.

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
0-30 days	12,968	17,118
31-60 days	16,338	19,370
61-90 days	5,473	2,700
Over 90 days	6,484	5,665
	<u>41,263</u>	<u>44,853</u>
Less: Accumulated loss allowance	(117)	—
	<u>41,146</u>	<u>44,853</u>

## 10. RETENTION RECEIVABLES/OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Non-current:		
Retention receivables ( <i>Note</i> )	—	9,361
Other deposits	881	1,335
Deposits paid for purchase of property, plant and equipment	994	—
	<u>1,875</u>	<u>10,696</u>
Total	<u>1,875</u>	<u>10,696</u>
Current:		
Retention receivables ( <i>Note</i> )	—	7,428
	<u>—</u>	<u>7,428</u>
Advances to suppliers	3,764	5,144
Deposits	27	38
Staff advances	183	293
Prepayments	921	1,063
MPF/ORSO received	390	768
Other receivables	168	59
	<u>5,453</u>	<u>7,365</u>
Total	<u>7,328</u>	<u>25,489</u>

*Note:* Retention monies withheld by customers of contract works are unsecured, interest-free and recoverable after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts, which was mostly within 1 year from the date of completion of respective E&M engineering solutions and services projects. In the opinion of the directors of the Company, the retention receivables to be received after 1 year were classified as non-current assets in consolidated statements of financial position since it was not expected to realise the retention receivables in the Group's normal operating cycle.

## 11. TRADE PAYABLES

The credit period on purchases and subcontracting of contract work services ranges from 30 to 60 days. The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Trade payables:		
0-30 days	<b>5,964</b>	3,464
31-60 days	<b>153</b>	89
61-90 days	<b>1,804</b>	694
91-365 days	<b>467</b>	879
Over 365 days	<b>4,901</b>	4,901
	<b>13,289</b>	10,027

As at 31 March 2019 and 2018, included in the trade payables aged over 365 days was an amount of HK\$4,901,000, representing the full provision of the Group's contractual obligation, which was pending settlement as the Group was in dispute with the counterparty for final settlement. No reversal of this payable was recognised during the two years ended 31 March 2019 as the derecognition criteria in accordance with the Group's accounting policies does not meet.

## 12. OTHER PAYABLES AND ACCRUED CHARGES

	<b>2019</b>	2018
	<b>HK\$'000</b>	HK\$'000
Accrued staff costs	<b>4,053</b>	4,207
Provision for annual leave	<b>2,339</b>	2,309
Provision for long service payments	<b>674</b>	760
Retention payables ( <i>Note</i> )	<b>3,448</b>	2,455
Other accrued charges	<b>2,107</b>	1,861
	<b>12,621</b>	11,592

*Note:* Retention payables to sub-contractors of contract work are interest-free and payable by the Company after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranges from 1 to 2 years from the completion date of the respective E&M engineering solutions and services contracts.

### 13. SHARE CAPITAL

The share capital of the Group at 31 March 2019 and 2018 represents the share capital of the Company as follows:

	Number of shares '000	Amount HK\$'000
Ordinary shares of HK\$0.01 each		
Authorised:		
At 5 May 2017 (date of incorporation)	38,000	380
Addition ( <i>Note a</i> )	<u>3,762,000</u>	<u>37,620</u>
At 31 March 2019 and 2018	<u>3,800,000</u>	<u>38,000</u>
Issued and fully paid:		
At 5 May 2017 (date of incorporation) ( <i>Note b</i> )	–	–
Issue of shares as part of Reorganisation on 6 September 2017 ( <i>Note c</i> )	10	–
Capitalisation Issue ( <i>Note d</i> )	299,990	3,000
Issue of shares on 16 October 2017 by way of share offer and placing ( <i>Note d</i> )	<u>100,000</u>	<u>1,000</u>
At 31 March 2019 and 2018	<u>400,000</u>	<u>4,000</u>

*Notes:*

- (a) On 29 September 2017, the authorised share capital of the Company was increased from HK\$380,000 to HK\$38,000,000 by the creation of a further 3,762,000,000 shares of HK\$0.01 each pursuant to a resolution passed on 20 September 2017.
- (b) On date of incorporation, 1 share of HK\$0.01 was allotted and issued to KML Holdings at a subscription price of HK\$0.01.
- (c) As part of the Reorganisation, the Company issued shares during the current year which are detailed below:
  - (i) On 9 June 2017, 45, 35 and 19 shares of the Company were allocated and issued to KML Holdings, Mr. KM Luk and Madam Leung respectively, and
  - (ii) On 6 September 2017, the Company issued 4,554, 3,465 and 1,881 shares to KML Holdings, Mr. KM Luk and Madam Leung, respectively.
- (d) The shares of the Company have been listed on the GEM of the Stock Exchange by way of share offer and placing on 16 October 2017. 100,000,000 shares of the Company of HK\$0.01 each were issued at an offer price of HK\$0.60 per share by way of share offer and placing (the “**Share Offer**”). On the same date, 299,990,000 of the Company’s new shares were issued through capitalisation of HK\$2,999,900 standing to the credit of share premium account of the Company (the “**Capitalisation Issue**”) to Controlling Shareholders.

## 14. COMMITMENTS

### (a) Operating lease commitments

#### The Group as lessee

The Group leases various office premises under non-cancellable operating lease agreements. The lease terms are between 2-5 years, and the majority of lease agreements are renewable at the end of the lease period at market rates.

As at 31 March 2019 and 2018, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Land and buildings		
Within one year	5,701	5,402
In the second to fifth year inclusive	150	4,776
	<u>5,851</u>	<u>10,178</u>

### (b) Capital commitments

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Capital expenditure in respect of addition of property, plant and equipment:		
– Contracted for but not provided in the consolidated financial statements	<u>1,200</u>	<u>–</u>

## 15. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with its related parties during the both years:

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Purchase of materials from Logistic Industrial ( <i>Note a</i> )	<u>131</u>	<u>35</u>
Rental fee paid to		
KML Limited ( <i>Note b</i> )	4,847	4,206
K.M. Luk & Engineers Limited	<u>–</u>	<u>26</u>

*Notes:*

- (a) Logistic Industrial Supply Company Limited (“**Logistic Industrial**”) is a company which Mr. KM Luk and Madam Leung have significant influence over it.
- (b) KML Limited is controlled by Mr. KM Luk. The rental fee paid is regarded as a continuing connected transaction.

## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

The Group has been providing E&M engineering solutions and services in Hong Kong for over 40 years. Our principal business is the provision of E&M engineering works, and comprises (i) E&M engineering solutions and services on Transportation Mission Critical Systems Solutions and other E&M engineering solutions and services; (ii) E&M engineering design and fabrication services; (iii) E&M engineering maintenance services; and (iv) sales of parts and components. Depending on our customers' needs and requirements, we provide a full spectrum of solutions and services covering design, equipment assembly, supply, installation, fabrication, testing, and commissioning and maintenance support with a focus on Hong Kong Transportation Mission Critical System Solutions.

The following table sets forth the details of our Group's revenue by type of projects and services we undertook for the year ended 31 March 2019 and 2018:

Type of Projects	For the year ended 31 March			
	2019 HK\$'000	%	2018 HK\$'000	%
E&M Solutions and Services				
– Transportation Mission Critical System Solutions	76,698	36.4	82,233	42.4
– Other E&M Solutions and Services	96,313	45.8	82,556	42.5
Subtotal	173,011	82.2	164,789	84.9
E&M Design and Fabrication Services	8,282	3.9	7,031	3.6
E&M Maintenance Services	28,399	13.5	20,100	10.4
Sale of Parts and Components	904	0.4	2,053	1.1
<b>Total</b>	<b>210,596</b>	<b>100.0</b>	<b>193,973</b>	<b>100.0</b>

Our Group's revenue for the year ended 31 March 2019 amounted to approximately HK\$210.6 million, representing an increase of approximately HK\$16.6 million or approximately 8.6% as compared with approximately HK\$194.0 million for the year ended 31 March 2018.

E&M Solutions and Services segment accounts for the largest business segment of our Group's business. Approximately 82.2% of the revenue was attributable to this segment for the year ended 31 March 2019. During this reporting period, we have substantially completed the projects including (i) Supply and Installation of "Stop-and-go" e-Payment System at Government Tolled Tunnels and Roads; (ii) Provision of over 400 units of Octopus-enabled kiosks to facilitate a public services project; (iii) Refurbishment of Kowloon Canton Railway Through Train; and (iv) mobile payment of Taoyuan Metro Phase I. For the next year, the Group will continue to undertake projects including (i) advance works related to the Airport Three Runway System; (ii) Replacement and Modification of Smoke Curtains System at Airport Express Line and Tung Chung Line; and (iii) retrofit of about 1,000 ticket gates to enable Alipay HK quick response code ("QR Code") payment for travel on Hong Kong's mass transit railway system.

## **OUTLOOK**

### **Modernisation and Upgrading of Transportation System**

While our Group continues to focus on deepening our penetration of the Hong Kong E&M engineering industry with special focus on the Transportation Mission Critical System Solutions market, in order to keep pace with the growing transport needs, modernization, upgrading and expansion projects, the Group has been devoting more resources to the development and application of different technologies such as QR Code and different emerging payment methods. For the year ended 31 March 2019, the Group has been awarded over 170 projects including (i) Taoyuan Metro Mobile Payment Design and Implementation; and (ii) Partnering with Alipay HK to retrofit about 1,000 ticket gates to enable Alipay HK QR Code payment for travel on Hong Kong's MTR system. The awarding of these two projects signifies the success of the Group in deploying the latest technology particularly in relation to mobile payment to our projects in terms of system design and integration. The Group will continue to develop and deploy related application and technology to meet the emerging needs of smart mobility.

In addition, one of our major customers is engaged in a programme of continuous renovations and upgrades to enhance passengers' comfort and overall travelling experience. The Group expects that the launching out of these network-wide replacement works will create unprecedented opportunities to the Group. In order to increase our competitiveness in terms of financial and technical capability, the Group has teamed up with various partners including some state-owned enterprises. We believe by having synergy with our business partners will increase the chance of awarding the projects to the parties.

## **FINANCIAL REVIEW**

### **Revenue**

Revenue of the Group for the year ended 31 March 2019 amounted to approximately HK\$210.6 million, representing an increase of approximately HK\$16.6 million or approximately 8.6% as compared with approximately HK\$194.0 million for the year ended 31 March 2018. Such increase was mainly contributed by (i) an increase of number of projects undertaken by the Group including a new maintenance contract in relation to the signalling equipment for the Guangzhou-Shenzhen-Hong Kong Express Rail Link for the year ended 31 March 2019; and (ii) a variation order with substantial amount received during the year.

### **Cost of Sales and Gross Profit**

The majority of the Group's cost of sales comprised (i) material and equipment; (ii) direct labour; and (iii) subcontracting cost. The cost of sales increased by approximately 4.7% from approximately HK\$138.0 million for the year ended 31 March 2018 to approximately HK\$144.5 million for the year ended 31 March 2019. The increase in cost of sales is mainly due to the increase in the number of projects undertaken by the Group during the year. The gross profit of the Group increased by approximately 18.0% from approximately HK\$56.0 million for the year ended 31 March 2018 to approximately HK\$66.1 million for the year ended 31 March 2019. The increase in gross profit is mainly due to (i) the increase in revenue as discussed above; and (ii) a relative reduction of cost of sales.

### **Administrative Expenses**

The Group's administrative expenses increased by approximately 8.7% from approximately HK\$40.1 million for the year ended 31 March 2018 to approximately HK\$43.6 million for the year ended 31 March 2019. The increase is mainly due to (i) the increase of professional fee after listing; and (ii) the increase of staff costs including the addition of the fair value of the share options granted on 3 September 2018 and the setup fee and maintenance fee of the share award scheme adopted on 5 November 2018.

### **Profit attributable to owners of the Company**

The Group recorded net profit attributable to the owners of the Company of approximately HK\$19.3 million for the year ended 31 March 2019 (2018: net loss of approximately HK\$2.1 million).

## **FINANCIAL POSITION**

### **Liquidity, Financial Resources and Capital Structure**

Historically, the Company has met the liquidity and capital requirements primarily through operating cash flows and capital contribution from its shareholders.

The Company requires cash primarily for working capital needs. As at 31 March 2019, the Company had approximately HK\$77.0 million in (i) bank balances and cash; and (ii) time deposits with original maturity over three months (2018: approximately HK\$60.2 million), representing an increase of approximately HK\$16.8 million as compared to that as at 31 March 2018.

On 16 October 2017 (the “**Listing Date**”), the ordinary shares of the Company (the “**Shares**”) were listed on GEM by way of share offer (the “**Share Offer**”) and completed the Share Offer of its 100,000,000 Shares, comprising 50,000,000 Shares offered by the Company for subscription and 50,000,000 Shares offered by the Company for placing, with a par value of HK\$0.01 each at offer price of HK\$0.6 per Share for the net proceeds of approximately HK\$36.0 million. The Company believed that the funding from the Share Offer on the GEM would allow the Group to access the capital market for raising funds in the future. There has been no change on the capital structure of the Group for the year ended 31 March 2019. The capital of the Company only comprises of ordinary shares.

### **Capital Expenditure**

The Group purchased property, plant and equipment amounting to approximately HK\$0.8 million for the year ended 31 March 2019 which comprised of the acquisition of furniture, fixtures and office equipment (2018: approximately HK\$1.9 million).

### **Final Dividend**

The Board does not recommend the payment of a final dividend for the year ended 31 March 2019 (2018: Nil).

### **Employees and Remuneration Policies**

As at 31 March 2019, the Group employed 202 employees (2018: 212 employees). The Group’s remuneration policies are in line with the prevailing market practice and are determined on the basis of performance, qualification and experience of individual employee. On top of basic salaries, bonus may be paid with reference to the Group’s performance as well as individual’s performance. Other staff benefits include provision of retirement benefits, medical benefits and life insurance benefits. Share options and/or share awards may also be granted to eligible employees by reference to the Group’s performance as well as the individual contribution.

## Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Company's prospectus dated 29 September 2017 (the "Prospectus") with the Group's actual business progress for the period from the Listing Date to 31 March 2019 is set out below:

### Business strategy

### Actual business progress up to 31 March 2019

Expand and enhance our E&M engineering technical capabilities by:

- (i) Increasing our productivity through the purchase of new machineries and equipment;
- (ii) Improving our material handling and field service capacity;
- (iii) Purchasing and implementing information technology solutions; and
- (iv) Retaining our talents and enhancing the risk mitigation measures.

The Group has purchased several fibre cable testing related equipment in order to maintain our competitiveness in the railway sector as the Group anticipates that E&M engineering systems in the railways will rely increasingly on optical fibre networks to transfer relevant system data in the future.

The Group has enhanced our insurance coverage and employee remuneration packages, including (i) upgrading of employees' medical insurance plan; (ii) purchasing of the Group's professional indemnity insurance plan; (iii) purchasing of the Group's product liability insurance plan; and (iv) providing funds for the employees' performance bonus scheme.

The Group has rented additional space and storage facilities to cater for additional space required for operation and to accommodate the new machineries and equipment to be purchased.

The Group has purchased four vehicles to increase our travelling efficiency and allow or project teams to transport additional spare parts and equipment for use in our operations.

## **Business strategy**

Deepen our penetration of the E&M engineering industry with special focus on the Transportation Mission Critical System Solutions market by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts through:

- (i) Expanding our office space and work area;
- (ii) Increasing our marketing efforts and business exposure; and
- (iii) Enhancement of our research and development capabilities.

Strengthen our financial capabilities to undertake larger-scale E&M engineering projects in the future.

## **Use of Proceeds from the Listing**

On 16 October 2017, the Shares were listed on GEM by way of Share Offer. The Group intends to apply the proceeds from the Listing in accordance with the proposed applications set out in the section headed “Future Plans and Use of Proceeds” in the Prospectus.

As set out in the Prospectus, the business objectives and strategies of the Group are: (i) expand and enhance our E&M engineering technical capability; (ii) deepen our penetration of the Hong Kong E&M engineering industry with special focus on the Transportation Mission Critical System Solutions market by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts; and (iii) strengthen the Group’s financial capabilities to undertake larger scale E&M engineering projects in the future.

## **Actual business progress up to 31 March 2019**

The Group has (i) arranged our employees to participate in exhibitions, conferences and symposiums; and (ii) been making an effort to increase business exposure in Taiwan.

The Group has produced corporate and promotional video in order to increase our corporate image as well as brand awareness.

The Group has purchased three-dimensional design software, enabling us to create three-dimensional drawings and designs for our products.

The Group is in the process of (i) recruiting additional marketing staff; and (ii) setting up the marketing and demonstration area.

The Group has further enhanced our banking facilities in order to improve the provision of performance guarantees such that the Group could undertake large-scale E&M engineering projects.

After deduction of all related listing expenses and commissions, the net proceeds from Listing amounted to approximately HK\$36.0 million. Up to 31 March 2019, the Group has utilized approximately HK\$16.5 million of the net proceeds from Listing as follows:

	<b>Planned use of net proceeds as stated in the Prospectus up to 31 March 2019 <i>HK'000</i></b>	<b>Actual use of net proceeds up to 31 March 2019 <i>HK'000</i></b>
Expand and enhance our E&M engineering technical capabilities	<b>16,054</b>	<b>5,673</b>
Deepen our penetration of the Hong Kong E&M engineering industry with special focus on the Transportation Mission Critical System Solutions market by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts	<b>7,564</b>	<b>790</b>
Strengthen our financial capabilities to undertake larger-scale E&M engineering projects in the future	<b>6,000</b>	<b>10,000</b>
Total	<b><u>29,618</u></b>	<b><u>16,463</u></b>

The business objectives, future plans and planned use of proceeds as stated in the Prospectus were based on the best estimation and assumption of future market conditions by the Group at the time of preparing the Prospectus while the proceeds were applied based on the actual development of the Group's business and the market conditions.

## **GEARING RATIO**

The ratio was not applicable for the year ended 31 March 2019 as no borrowing was incurred (2018: not applicable).

## **FOREIGN EXCHANGE EXPOSURE**

We conducted business with customers, suppliers and subcontractors located in Hong Kong, the People's Republic of China (the "PRC") and overseas. The Group's exposure to the currency risk mainly arises from the fluctuation of Renminbi ("RMB"), Euro ("EUR") or United States dollars ("USD"). The Group currently does not have any hedging policy in place for its foreign currency exposure. The management will consider hedging significant currency exposure should the need arise.

## **TREASURY POLICIES**

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the year ended 31 March 2019. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

## **SIGNIFICANT INVESTMENTS AND FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS**

The Group did not hold any significant investments in equity interest in any other companies as at 31 March 2019. Except for those included in the section headed "Future Plans and Use of Proceeds" for inclusion in the Prospectus, the Group had no definite future plans for material investments and capital assets.

## **MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES**

Apart from the reorganisation in relation to the Listing as disclosed in the Prospectus, there were no other significant investments held, material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 March 2019.

## **PLEDGES OF ASSETS**

As at 31 March 2019, the Group has pledged bank deposits at HK\$10.8 million (2018: HK\$5.0 million) to secure the banking facilities.

## **COMMITMENTS**

The commitments of the Group were primarily related to the leases of its office premises and workshops. The Group's future commitments as at 31 March 2019 were mainly in relation to (i) operating lease commitments amounted to approximately HK\$5.9 million (2018: approximately HK\$10.2 million); and (ii) capital commitments amounted to approximately HK\$1.2 million of additional equipment (2018: Nil).

## **CONTINGENT LIABILITIES**

As at 31 March 2019, the Group did not have any significant contingent liabilities (2018: Nil).

## **OTHER INFORMATION**

### **CORPORATE GOVERNANCE PRACTICES**

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the “**Shareholders**”) and to enhance corporate value and accountability. The Company has adopted the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules as its own code of corporate governance. The Company has complied with all applicable code provisions of the CG Code for the year ended 31 March 2019. The Company will continue to review and monitor its corporate governance practices to ensure compliance with the CG Code.

### **COMPLIANCE WITH THE REQUIRED STANDARD OF DEALINGS IN SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules as its own code of conduct regarding Directors’ securities transactions. Having made specific enquiries of all the Directors, each of the Directors has confirmed that he has complied with the required standard of dealings for the year ended 31 March 2019.

### **AUDIT COMMITTEE AND REVIEW OF ANNUAL RESULTS**

The Company has established an audit committee (the “**Audit Committee**”) with written terms of reference in compliance with Rules 5.28 to 5.33 of the GEM Listing Rules and the CG Code. The Audit Committee comprises three members, namely Mr. Lau On Kwok (chairman), Mr. Law Wing Chi Stephen and Dr. Tse Chi Kong, all of them are independent non-executive Directors. The Audit Committee has reviewed with the management the accounting policies and practices adopted by the Group and discussed with the management internal control and financial reporting matters of the Company, including the review of the audited consolidated results of the Group for the year ended 31 March 2019 and the annual report. The Audit Committee is of the opinion that the audited consolidated results of the Group for the year ended 31 March 2019 comply with the applicable accounting standards and that adequate disclosure has been made.

The figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 March 2019 as set out in the preliminary announcement have been agreed by the Group’s auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group’s audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the results announcement.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

## INTERESTS OF COMPLIANCE ADVISER

As notified by the Company's compliance adviser, Kingsway Capital Limited ("**Kingsway Capital**"), neither Kingsway Capital nor any of its directors or employees or close associates had any interest in the share capital of the Company or any member of the Group (including options or rights to subscribe for such securities) or otherwise in relation to the Company which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules and all Directors and controlling Shareholders and their respective close associates as referred to in Rule 11.04 of the GEM Listing Rules (except for the compliance adviser service provided by Kingsway Capital as at the date of this announcement (i.e. 19 June 2019) (the "**Date of this Announcement**").

## SHARE OPTION SCHEME

In order to recognise and acknowledge the contributions that the directors and employees of the Group have made or may make to the Group, the Company approved and adopted the share option scheme pursuant to the written resolutions of the Shareholders passed on 20 September 2017 (the "**Share Option Scheme**").

- (i) The Board may, at its absolute discretion and on such terms as it may think fit, grant an option to subscribe any director or employee of the Group, from time to time, on the basis of his/her contribution or potential contribution to the development and growth of the Group.
- (ii) On 3 September 2018, 9,200,000 share options ("**Options**") were granted by the Company under the Share Option Scheme. Among the Options granted, 4,000,000 Options were granted to 1 Director, 1,400,000 Options were granted to 1 Director of a subsidiary of the Company and 600,000 Options were granted to an associate to a Director. Among the 9,200,000 Options granted, approximately 48.9% has been vested on 3 March 2019 and approximately 51.1% will be vested on 3 March 2020, provided that the grantee has to remain as an Eligible Participant (as defined in the Share Option Scheme) on such vesting date.
- (iii) For the year ended 31 March 2019, 9,200,000 Options were granted on 3 September 2018 and the fair value of the Options granted was approximately HK\$1,706,448, which was calculated by using the binomial option pricing model based on following inputs. The values of the Options are subject to certain fundamental limitations, including the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The expected volatility was determined with reference to the historical daily volatilities of the share price of the Company. The risk-free rate was determined with reference to the prevailing rate on debt securities with reference to Thomson Reuters.

## **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

Save as otherwise disclosed in this announcement, at no time during the year ended 31 March 2019 and up to the Date of this Announcement was the Company or any of its subsidiaries a party to any arrangement that would enable the Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors or any of their spouses or children under the age of 18 were granted any right to subscribe for the equity or debt securities of the Company or any other body corporate or had exercised any such right.

## **DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN COMPETING BUSINESS**

Up to the Date of this Announcement, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

## **EVENTS AFTER THE END OF THE REPORTING PERIOD**

Since the end of the reporting period and up to the Date of this Announcement, there was no important events affecting the Group.

## **PUBLICATION OF THE ANNUAL RESULTS AND 2018/19 ANNUAL REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY**

This annual results announcement is published on the websites of the Stock Exchange ([www.hkexnews.hk](http://www.hkexnews.hk)) and the Company ([www.kml.com.hk](http://www.kml.com.hk)), and the 2018/19 annual report containing all the information required by the GEM Listing Rules will be dispatched to the Shareholders and will be published on the respective websites of the Stock Exchange and the Company in due course.

By order of the Board  
**KML Technology Group Limited**  
**Luk Kam Ming**  
*Chairman and Executive Director*

Hong Kong, 19 June 2019

*As at the date of this announcement, the executive Directors are Mr. LUK Kam Ming, Mr. CHAN Chak Lun Philip, Mr. LUK Kwai Lung and Mr. LUK Yin Cheung; and the independent non-executive Directors are Mr. LAU On Kwok, Mr. LAW Wing Chi Stephen and Dr. TSE Chi Kong.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at [www.hkgem.com](http://www.hkgem.com) for a minimum period of 7 days from the date of publication and on the website of the Company at [www.kml.com.hk](http://www.kml.com.hk).*