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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 2020

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 2020 amounted to approximately Hong Kong dollars (“**HK\$**”) 224.2 million, representing an increase of approximately HK\$13.6 million or approximately 6.5% as compared with approximately HK\$210.6 million for the year ended 31 March 2019.

Gross profit of the Group for the year ended 31 March 2020 amounted to approximately HK\$71.3 million (2019: approximately HK\$66.1 million).

The net profit of the Group for the year ended 31 March 2020 amounted to approximately HK\$21.6 million (2019: approximately HK\$19.3 million).

The Board recommends the payment of a final dividend of HK2.0 cents per ordinary share for the year ended 31 March 2020 (2019: Nil).

FINANCIAL RESULTS

The board of Directors (the “**Board**”) of the Company is pleased to announce the consolidated results of the Group for the year ended 31 March 2020, together with the comparative figures for the year ended 31 March 2019 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME*For the year ended 31 March 2020*

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
REVENUE	3	224,228	210,596
Cost of sales		<u>(152,897)</u>	<u>(144,520)</u>
Gross profit		71,331	66,076
Other income		1,395	1,230
Other gain and loss, net		140	(133)
Impairment losses on financial assets and contract assets, net of reversal		(113)	(148)
Administrative expenses		(46,059)	(43,551)
Finance costs	4	<u>(159)</u>	<u>–</u>
PROFIT BEFORE TAX	5	26,535	23,474
Income tax expense	6	<u>(4,923)</u>	<u>(4,219)</u>
PROFIT FOR THE YEAR		<u>21,612</u>	<u>19,255</u>
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>21,612</u>	<u>19,255</u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic	8	<u>HK5.41 cents</u>	<u>HK4.81 cents</u>
Diluted	8	<u>HK5.41 cents</u>	<u>HK4.81 cents</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
NON-CURRENT ASSETS			
Property, plant and equipment		5,973	2,924
Right-of-use assets		8,687	–
Deposits	10	1,145	1,875
Contract assets		–	6,785
Financial assets at fair value through profit or loss		<u>5,181</u>	–
Total non-current assets		<u>20,986</u>	11,584
CURRENT ASSETS			
Inventories		346	463
Trade receivables	9	45,665	41,146
Other receivables, deposits and prepayments	10	9,252	5,453
Contract assets		63,125	42,548
Pledged bank deposits		14,045	10,782
Time deposits with original maturity over three months		6,347	40,050
Bank balances and cash		<u>76,652</u>	36,989
Total current assets		<u>215,432</u>	177,431
CURRENT LIABILITIES			
Trade and other payables	11	29,269	25,910
Lease liabilities		5,611	–
Contract liabilities		31,462	17,145
Tax payable		<u>448</u>	1,617
Total current liabilities		<u>66,790</u>	44,672
NET CURRENT ASSETS		<u>148,642</u>	132,759
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>169,628</u>	144,343
NON-CURRENT LIABILITIES			
Lease liabilities		3,090	–
Deferred tax liabilities		<u>352</u>	208
Total non-current liabilities		<u>3,442</u>	208
Net assets		<u>166,186</u>	144,135
EQUITY			
Share capital	12	4,000	4,000
Reserves		<u>162,186</u>	140,135
Total equity		<u>166,186</u>	144,135

NOTES TO THE FINANCIAL INFORMATION

For the year ended 31 March 2020

1. CORPORATE AND GROUP INFORMATION

The Company is a limited liability company incorporated in the Cayman Islands. The registered office address of the Company is 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 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.

2.1 BASIS OF PREPARATION

This financial information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. It has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value. This financial information is presented in HK\$ and all values are rounded to the nearest thousand except when otherwise indicated.

2.2 CHANGES IN ACCOUNTING POLICIES

The Group has adopted the following new and revised HKFRSs for the first time for the current year’s financial information.

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
<i>Annual Improvements to HKFRSs 2015-2017 Cycle</i>	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i>

Other than as explained below regarding the impact of HKFRS 16 *Leases* and Amendment to HKFRS16 *Covid-19-Related Rent Concessions*, the new and revised standards are not relevant to the preparation of the Group’s financial information. The nature and impact of the new and revised HKFRSs are described below:

- (a) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 April 2019. Under this method, the standard has been applied retrospectively with no impact to the opening balance of accumulated profits at 1 April 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 April 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts of properties. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for exemptions for leases with a lease term of 12 months or less (“**short-term leases**”) (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 April 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 April 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 April 2019 and were separately disclosed in the consolidated statement of financial position.

The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 April 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 April 2019:

- Using a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The impact arising from the adoption of HKFRS 16 at 1 April 2019 was as follows:

	Increase <i>HK\$'000</i>
Assets	
Right-of-use assets	5,728
Total assets	<u>5,728</u>
Liabilities	
Lease liabilities	5,728
Total liabilities	<u>5,728</u>

The lease liabilities as at 1 April 2019 reconciled to the operating lease commitments as at 31 March 2019 are as follows:

	<i>HK\$'000</i>
Operating lease commitments as at 31 March 2019	5,851
Weighted average incremental borrowing rate as at 1 April 2019	<u>4.5%</u>
Discounted operating lease commitments as at 1 April 2019	<u>5,728</u>
Lease liabilities as at 1 April 2019	<u>5,728</u>

- (b) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the covid-19 pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due to or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective retrospectively for annual periods beginning on or after 1 June 2020 with earlier application permitted. The Group has early adopted the amendment on 1 April 2019 and elected not to apply lease modification accounting for all rent concessions granted by the lessors as a result of the covid-19 pandemic during the year ended 31 March 2020. Accordingly, a reduction in lease payments arising from the rent concessions is accounted for as a variable lease payment.

3. REVENUE AND SEGMENTAL INFORMATION

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Revenue from contracts with customers		
E&M engineering solutions and services	184,501	173,011
E&M engineering maintenance services	34,354	28,399
E&M engineering design and fabrication services	4,434	8,282
Sales of parts and components	939	904
	<u>224,228</u>	<u>210,596</u>

(a) Disaggregated revenue information

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
By timing of revenue recognition:		
Transferred at a point in time	5,373	9,186
Transferred over time	218,855	201,410
	<u>224,228</u>	<u>210,596</u>
Total revenue from contracts with customers	<u>224,228</u>	<u>210,596</u>

(b) Performance obligations

The amounts of transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at the end of the reporting period are as follows:

2020	E&M engineering solutions and services <i>HK\$'000</i>	E&M engineering maintenance services <i>HK\$'000</i>	Others <i>HK\$'000</i>
Within one year	214,989	34,037	5,254
More than one year	128,601	28,956	–
	<u>343,590</u>	<u>62,993</u>	<u>5,254</u>

2019	E&M engineering solutions and services <i>HK\$'000</i>	E&M engineering maintenance services <i>HK\$'000</i>	Others <i>HK\$'000</i>
Within one year	193,675	28,860	2,208
More than one year	57,374	43,103	–
	<u>251,049</u>	<u>71,963</u>	<u>2,208</u>

Segment information

The Group's operation is derived from E&M engineering solutions and services, and E&M engineering maintenance services with focus on (i) the automatic fare collection system at railway stations; (ii) the electronic payment and ticketing system; (iii) the road and tunnel toll collection system; (iv) the traffic control and surveillance system; and (v) the railway signaling communication and control system, E&M engineering design and fabrication services, as well as 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) 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 the 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	
	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>	2020 <i>HK\$'000</i> <i>(note)</i>	2019 <i>HK\$'000</i> <i>(note)</i>
Hong Kong	219,468	198,953	14,660	2,924
Taiwan	3,482	3,789	–	–
Singapore	–	1,784	–	–
Canada	207	2,933	–	–
Others	1,071	3,137	–	–
	<u>224,228</u>	<u>210,596</u>	<u>14,660</u>	<u>2,924</u>

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

Information about major customers

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Customer A	<u>143,812</u>	<u>139,073</u>

Other than disclosed above, there was no revenue from customers individually contributing over 10% to the total revenue of the Group during the years ended 31 March 2020 and 2019.

4. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Interest on a bank loan	35	–
Interest on lease liabilities	<u>124</u>	<u>–</u>
	<u>159</u>	<u>–</u>

5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Depreciation of property, plant and equipment	1,618	1,195
Depreciation of right-of-use assets	5,596	–
Cost of sales		
– E&M engineering solutions and services	126,578	117,646
– Others	26,319	26,874
Minimum lease payments under operating leases	–	5,777
Lease payments not included in the measurement of lease liabilities	86	–
Fair value loss on financial assets at fair value through profit or loss	1,207	–
Gain on disposal of property, plant and equipment	<u>(185)</u>	<u>(4)</u>

6. INCOME TAX EXPENSE

	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – Hong Kong		
Charge for the year	4,527	4,259
Underprovision in prior years	252	–
Deferred	144	(40)
	<hr/>	<hr/>
Total tax expense for the year	4,923	4,219
	<hr/>	<hr/>

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong during the year, except for one subsidiary of the Group which is a qualifying entity under the two-tiered profits tax rates regime effective from the year of assessment 2018/2019. The first HK\$2,000,000 (2019: HK\$2,000,000) of assessable profits of this subsidiary is taxed at 8.25% and the remaining assessable profits are taxed at 16.5%.

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands pursuant to the rules and regulations in those jurisdictions.

7. DIVIDEND

The final dividend of HK2.0 cents per share in respect of the year ended 31 March 2020 has been proposed by Directors and is subject to approval at the forthcoming annual general meeting.

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amount for the year ended 31 March 2020 is based on the profit for the year attributable to owners of the Company of HK\$21,612,000 (2019: HK\$19,255,000), and the weighted average number of ordinary shares in issue less treasury shares held under share award scheme during the year of 399,849,000 (2019: 400,000,000).

No adjustment has been made to the basic earnings per share amount presented for the years ended 31 March 2020 and 2019 in respect of a dilution as the impact of the share options outstanding had no dilutive effect on the basic earnings per share amount presented.

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 ageing analysis of the trade receivables is presented based on the invoice date at the end of the reporting period.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
0-30 days	21,943	12,968
31-60 days	17,403	16,339
61-90 days	3,350	7,934
Over 90 days	<u>3,286</u>	<u>4,022</u>
	45,982	41,263
Less: Accumulated loss allowance	<u>(317)</u>	<u>(117)</u>
Total	<u>45,665</u>	<u>41,146</u>

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of diversified customers, there is no significant concentration of credit risk. Trade receivables are non-interest-bearing.

10. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Non-current:		
Deposits paid for purchase of property, plant and equipment	–	994
Other deposits	<u>1,145</u>	<u>881</u>
	<u>1,145</u>	<u>1,875</u>
Current:		
Advances to suppliers	7,163	3,764
Prepayments	1,850	921
Interest receivables	107	168
Others	<u>132</u>	<u>600</u>
	<u>9,252</u>	<u>5,453</u>
Total	<u>10,397</u>	<u>7,328</u>

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

11. TRADE AND OTHER PAYABLES

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade and retention payables (<i>note (a)</i>)	18,570	16,737
Other payables and accrued charges (<i>note (b)</i>)	<u>10,699</u>	<u>9,173</u>
Total trade and other payables and accrued charges	<u>29,269</u>	<u>25,910</u>

(a) Trade and retention payables

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade payables:		
0-30 days	7,311	5,964
31-60 days	171	153
61-90 days	115	38
91-365 days	366	1,800
Over 365 days	<u>5,391</u>	<u>5,334</u>
	13,354	13,289
Retention payables	<u>5,216</u>	<u>3,448</u>
Total trade and retention payables	<u>18,570</u>	<u>16,737</u>

As at 31 March 2020, included in the trade payables aged over 365 days was an amount of HK\$4,901,000 (2019: HK\$4,901,000), representing the full provision for 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 2020 and 2019 as the derecognition criteria in accordance with the Group's accounting policies were not met.

As at 31 March 2020, trade payables of HK\$39,000 (2019: HK\$590,000) were denominated in United States dollars.

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

(b) Other payables and accrued charges

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Accrued staff costs	4,100	4,053
Provision for annual leave	2,416	2,339
Other accrued charges	4,183	2,781
	<u>10,699</u>	<u>9,173</u>
Total other payables and accrued charges	<u>10,699</u>	<u>9,173</u>

12. SHARE CAPITAL

	Number of shares '000	Amount <i>HK\$'000</i>
Ordinary shares of HK\$0.01 each		
Authorised:		
At 31 March 2020 and 2019	<u>3,800,000</u>	<u>38,000</u>
Issued and fully paid:		
At 31 March 2020 and 2019	<u>400,000</u>	<u>4,000</u>

13. COMMITMENTS

Capital commitments

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Capital expenditure in respect of addition of property, plant and equipment:		
Contracted but not provided for	<u>–</u>	<u>1,200</u>

Operating lease commitments as at 31 March 2019

The Group as lessee

The Group leased various office premises under non-cancellable operating lease agreements and the lease terms were 1 to 3 years.

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

	2019 HK\$'000
Land and buildings	
Within one year	5,701
In the second to fifth years, inclusive	150
	<u>5,851</u>

14. RELATED PARTY TRANSACTIONS

The Group had the following transactions with related parties during the year ended 31 March 2020:

	2020 HK\$'000	2019 HK\$'000
Purchase of materials from Logistic Industrial Supply Company Limited ("Logistic Industrial") (note a)	<u>120</u>	<u>131</u>
Rental payments K M L Limited (note b)	<u>5,402</u>	<u>4,847</u>

Notes:

- (a) Logistic Industrial is a company over which Mr. Luk Kam Ming ("Mr. KM Luk") and Ms. Leung Kwok Yee have significant influence. The purchase prices of goods were mutually agreed between the parties.
- (b) K M L Limited is controlled by Mr. KM Luk. Rental payments were on a mutually-agreed basis and constitute connected transactions or continuing connected transactions as defined in Chapter 20 of the GEM Listing Rules.

Save as disclosed elsewhere in this financial information, the Group had no material transactions and outstanding balances with related parties during the years ended 31 March 2020 and 2019.

15. SHARE AWARD SCHEME

On 5 November 2018, the Company adopted a share award scheme (the "Share Award Scheme") for the purpose of recognising the contributions by certain eligible persons for the growth and development of the Group and to provide them with incentives in order to retain them for the continual operation and development of the Group.

During the year ended 31 March 2020, the Company purchased 1,665,000 of its own shares through its trustee from open market. The total amount paid to acquire the shares was HK\$406,000 and has been deducted from equity. In addition, 2,000,000 shares were contributed by Mr. KM Luk, the controlling shareholder and an executive Director to the trust of the Share Award Scheme as gift. The fair value of those shares contributed amounted to HK\$452,000. The aggregate amount paid to acquire the shares and the fair value of the share contribution of HK\$858,000 has been deducted from equity and classified as treasury shares of the Company as they were not yet awarded to any selected participants.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has been providing electrical and mechanical (“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 2020 and 2019:

Type of Projects	For the year ended 31 March			
	2020		2019	
	HK\$’000	%	HK\$’000	%
E&M Engineering Solutions and Services				
– Transportation Mission Critical System Solutions	51,615	23.0	76,698	36.4
– Other E&M Engineering Solutions and Services	132,886	59.3	96,313	45.8
Subtotal	184,501	82.3	173,011	82.2
E&M Engineering Design and Fabrication Services	4,434	2.0	8,282	3.9
E&M Engineering Maintenance Services	34,354	15.3	28,399	13.5
Sale of Parts and Components	939	0.4	904	0.4
Total	224,228	100.0	210,596	100.0

Our Group’s revenue for the year ended 31 March 2020 amounted to approximately HK\$224.2 million, representing an increase of approximately HK\$13.6 million or approximately 6.5% as compared with approximately HK\$210.6 million for the year ended 31 March 2019.

E&M Engineering Solutions and Services segment accounts for the largest business segment of our Group's business. Approximately 82.3% of the revenue was attributable to this segment for the year ended 31 March 2020. The second largest segment is E&M Engineering Maintenance Services. Revenue from this segment increased by approximately 21.1% from approximately HK\$28.4 million for the year ended 31 March 2019 to approximately HK\$34.4 million for the year ended 31 March 2020. During the year, the Group has completed some major projects including (i) the integration of mobile payment application at the Taiwan Taoyuan Metro with quick response code ("**QR Code**"), contactless payment including VISA payWave, Mastercard Contactless and UnionPay QuickPass; (ii) provision of new fare savers with cloud based central management system for MTR; (iii) installation of external and in-saloon doorway closed circuit television ("**CCTV**") system for light rail vehicles; and (iv) installation of optical fibre backbones for communication-based train control ("**CBTC**") signalling systems in various railway lines.

During the year ended 31 March 2020, the Group has submitted 325 tenders and quotations to our customers (2019: 384 tenders) with 165 contracts being awarded (2019: 175 contracts) including (i) several subcontracts in relation to the replacement works of the CCTV systems in various railway lines; (ii) maintenance services contract for automatic fare collection ("**AFC**") Equipment at MTR Shatin to Central Link; and (iii) a project in relation to the replacement and upgrading of AFC gates and ticket issuing machines at various railway lines (the "**Project**"). The Project amounting to approximately HK\$441.6 million will last for approximately 8 years. KML Engineering Limited ("**KML Engineering**"), together with another contractor have been jointly awarded the contract to carry out the Project which includes the replacement and upgrade of AFC equipment, the retrofit and upgrade of gates, ticket machines, self-service point, first class processors to support multiple electronic payment system, accepting new payment methods including but not limited to QR Code based payment and contactless credit cards; thus bringing the travelers fresh and intelligent journey experience, and we are expected to carry out approximately 30% of the Project works. The Group will continue to grasp opportunities at the existing E&M market among those emerging opportunities while at the same time explore and expand our clientele as well as diversify our business into other emerging markets.

In March 2020, KML Engineering has marched in to the Hong Kong Science and Technology Park. The brand-new working environment is anticipated to catalyse our research and development activities on the pipeline, such as mobile payment apps, smart maintenance platform, embedding Internet of Things ("**IoT**") technology and Artificial Intelligence ("**AI**") enhanced user interfaces into our next generation of product lines. It will reinforce our ability to adopt the state-of-the-art technologies into our future product and service platform. It will certainly enable us to seize the business opportunities brought about by the trend of fast-growing smart cities.

OUTLOOK

The Group has been providing a full spectrum of E&M engineering solutions and services including development, design, fabrication, installation and maintenance for our customers. Apart from the existing business, the Group has been and will continue to expand our business scope as well as explore different market sectors. In April 2020, KML Engineering has been successfully admitted to the List of Approved Suppliers of Materials and Specialist Contractors for Public Works under the category of Video Electronics Installation. The Group expects that we could expand our market portfolio by undertaking more projects in relation to the video electronics and CCTV.

Besides, to align with the recent initiative of early deployment of the fifth generation of wireless technologies (“5G”) by The Government of Hong Kong Special Administrative Region, the Group will expediate the research and development in this area particularly with the application of smart maintenance. We expect that by having less machine downtime, higher product quality, predictive maintenance and more informed decision making would benefit our customers both economically and operationally.

The unexpected significant influence from the outbreak of novel coronavirus across the world brings uncertainties and challenges to the Group. The Group will closely monitor the situation and will notify the stakeholders of the Company from time to time in relation to the situation affecting the Group.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the year ended 31 March 2020 amounted to approximately HK\$224.2 million, representing an increase of approximately HK\$13.6 million or approximately 6.5% as compared with approximately HK\$210.6 million for the year ended 31 March 2019. Such increase was mainly contributed by (i) an increase of revenue generated from maintenance contracts; and (ii) recognition of revenue from a contract with relatively substantial contract value 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) sub-contracting cost. The cost of sales increased by approximately 5.8% from approximately HK\$144.5 million for the year ended 31 March 2019 to approximately HK\$152.9 million for the year ended 31 March 2020. The increase in cost of sales was 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 7.9% from approximately HK\$66.1 million for the year ended 31 March 2019 to approximately HK\$71.3 million for the year ended 31 March 2020. The increase in gross profit was 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 5.7% from approximately HK\$43.6 million for the year ended 31 March 2019 to approximately HK\$46.1 million for the year ended 31 March 2020. Such increase was mainly due to (i) an increase of professional and legal fees; and (ii) additional consultancy fee incurred in relation to the preparation of tender submission.

Profit attributable to the owners of the Company

As at 31 March 2020, the Company’s reserves available for distribution to the shareholders of the Company (the “Shareholder(s)”), amounted to approximately HK\$25.7 million (2019: approximately HK\$24.1 million) comprising accumulated loss of approximately HK\$21.9 million and share premium amounting to approximately HK\$47.6 million.

FINANCIAL POSITION

Liquidity, Financial Resources and Capital Structure

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

The Group requires cash primarily for working capital needs. As at 31 March 2020, the Group had approximately HK\$83.0 million in (i) bank balances and cash; and (ii) time deposits with original maturity over three months (2019: approximately HK\$77.0 million), representing an increase of approximately HK\$6.0 million as compared to that as at 31 March 2019.

On 16 October 2017 (the “**Listing Date**”), the ordinary shares of the Company (the “**Share(s)**”) were successfully listed on GEM. There has been no change on the capital structure of the Group for the year ended 31 March 2020 and up to the date of this announcement (i.e. 18 June 2020) (the “**Date of this Announcement**”). The share capital of the Company only comprises ordinary shares.

As at 31 March 2020, the issued share capital of the Company was HK\$4,000,000 divided into 400,000,000 Shares of HK\$0.01 each.

Capital Expenditure

The Group purchased property, plant and equipment amounting to approximately HK\$4.8 million for the year ended 31 March 2020 which comprised acquisition of furniture, fixtures and office equipment (2019: approximately HK\$0.8 million).

Final Dividend

The Board recommends the payment of a final dividend of HK2.0 cents per Share for the year ended 31 March 2020 (2019: Nil). Such final dividend is subject to the approval by the Shareholders at the annual general meeting. The dividend is expected to be paid on or about 1 September 2020 to the Shareholders whose names appear on the register of members of the Company on 21 August 2020.

Closure of Register of Members

The Register of Members will be closed from Wednesday, 19 August 2020 to Friday, 21 August 2020, both days inclusive, in order to determine the entitlement of the Shareholders who are entitled to receive the final dividend, during which period no transfers of shares shall be effected. In order to qualify for the entitlement of final dividend, all transfer of Shares, accompanied by the relevant share certificates and transfer forms, must be lodged for registration with the Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen’s Road East, Hong Kong, not later than 4:30 p.m. on Tuesday, 18 August 2020.

Employees and Remuneration Policies

As at 31 March 2020, the Group employed 199 employees (2019: 202 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 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 2020 is set out below:

Business strategy

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.

Actual business progress up to 31 March 2020

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 our 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) to expand and enhance our E&M engineering technical capability; (ii) to 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) to strengthen the Group’s financial capabilities to undertake larger scale E&M engineering projects in the future.

Actual business progress up to 31 March 2020

The Group has (i) arranged our employees to participate in exhibitions, conference 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 has purchased additional computer hardware and software, enhancing the development of electronic payment system.

The Group has marched in to the Hong Kong Science and Technology Parks.

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 largescale 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. The Board resolved on 10 July 2019 to change the intended use of part of the net proceeds from Listing. For further details, please refer to the announcement of the Company dated 10 July 2019.

The net proceeds have been utilised in a manner consistent with the disclosures set out in the Prospectus and the said announcement of the Company dated 10 July 2019. An analysis of the planned usage of net proceeds, the actual utilisation of the net proceeds from the Listing Date up to 31 March 2020, the revised use of net proceeds and the expected time line for utilising the remaining unused net proceeds are set out as below:

	Planned use of net proceeds as stated in the Prospectus <i>HK\$'000</i>	Revised use of net proceeds <i>HK\$'000</i>	Actual use of net proceeds up to 31 March 2020 <i>HK\$'000</i>	Unutilised net proceeds as at 31 March 2020 <i>HK\$'000</i>	Expected timeline for utilising the remaining unused net proceeds
Expand and enhance our E&M engineering technical capabilities	17,952	9,601	7,438	2,163	From 1 April 2020 to 31 March 2021
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	9,252	8,603	3,011	5,592	From 1 April 2020 to 31 March 2021
Strengthen our financial capabilities to undertake larger-scale E&M engineering projects in the future	6,000	15,000	15,000	–	Not applicable
Working Capital and other general corporate purposes	2,796	2,796	2,796	–	Not applicable
Total	<u>36,000</u>	<u>36,000</u>	<u>28,245</u>	<u>7,755</u>	

GEARING RATIO

The ratio was not applicable for the year ended 31 March 2020 as no borrowing was incurred (2019: nil).

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 2020. 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 2020. Except for those included in the section headed "Future Plans and Use of Proceeds" 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

There were no other significant investments held, material acquisitions or disposals of subsidiaries, associates or joint ventures during the year ended 31 March 2020.

PLEDGES OF ASSETS

As at 31 March 2020, the Group pledged certain amount of bank deposit and investments in life insurance policies to secure general banking facilities granted to the Group.

COMMITMENTS

The Group did not have any capital commitments or operating lease commitments as at 31 March 2020 (2019: operating lease commitments amounted to approximately HK\$5.9 million).

CONTINGENT LIABILITIES

As at 31 March 2020, the Group did not have any significant contingent liabilities (2019: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Group is committed to maintaining high standards of corporate governance to safeguard the interests of 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 2020. 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 2020.

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 consolidated results of the Group for the year ended 31 March 2020 and the annual report. The Audit Committee is of the opinion that the consolidated results of the Group for the year ended 31 March 2020 comply with the applicable accounting standards and that adequate disclosure has been made.

SCOPE OF WORK OF THE COMPANY’S AUDITOR

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 2020 as set out in the preliminary announcement have been agreed by the Company’s auditor to the amounts set out in the Group’s consolidated financial statements for the year. The work performed by the Company’s auditor 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 the Company’s auditor on the preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 March 2020, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities, except that trustee of the share award scheme adopted by the Company on 5 November 2018 (the “**Share Award Scheme**”), pursuant to the terms of the rules and trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 1,665,000 Shares at a total consideration of approximately HK\$406,000.

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).

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 has been granted by the Company under the Share Option Scheme. Among the options granted, 4,000,000 options were granted to a Director, 1,400,000 options were granted to a director of a subsidiary of the Company and 600,000 options were granted to an associate to a Director.
- (iii) No grantee has exercised the options since they were granted for the period from 3 September 2018 to 2 January 2020. Taking into account the exercise price of these options was comparatively high as compared with the recent market prices of the Shares, which deterred the grantees from exercising these options to subscribe for the Shares, on January 2020, as approved by the Board and consented from each of the relevant grantees, an aggregate of the aforementioned 9,200,000 options were cancelled with effect from 2 January 2020 in accordance with the terms of the Share Option Scheme.

On the same day, the Company granted 9,800,000 share options (“**Options**”) to certain eligible participants (the “**Grantee(s)**”), subject to acceptance by the Grantees, to subscribe for Shares with nominal value of HK\$0.01 each of the Company under the Share Option Scheme. Among the Options granted, 2,000,000 Options were granted to a Director, 700,000 Options were granted to a director of a subsidiary of the Company and 300,000 Options were granted to an associate to a Director.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this announcement, at no time during the year ended 31 March 2020 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

Save as disclosed in this announcement, up to the Date of this Announcement, there were no subsequent events after this reporting period.

PUBLICATION OF THE ANNUAL RESULTS AND 2019/20 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) and the Company (www.kml.com.hk), and the 2019/20 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, 18 June 2020

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 for a minimum period of 7 days from the date of publication and on the website of the Company at www.kml.com.hk.