

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

This announcement, for which the directors (the “Director(s)”) of KML Technology Group Limited (the “Company”, together with its subsidiaries, collectively the “Group” or “We”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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 2018

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 2018 amounted to approximately Hong Kong dollars (“HK\$”) 194.0 million, representing an increase of approximately HK\$22.9 million or 13.4% as compared with approximately HK\$171.1 million for the year ended 31 March 2017.

Gross profit of the Group for the year ended 31 March 2018 amounted to approximately HK\$56.0 million (2017: approximately HK\$55.5 million).

The net loss of the Group for the year ended 31 March 2018 amounted to approximately HK\$2.1 million (2017: net profit approximately HK\$13.3 million). The net loss of the Group is mainly due to the listing expenses of approximately HK\$15.8 million incurred by the Company during the year.

The board of directors does not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: 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 2018, together with the audited comparative figures for the year ended 31 March 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2018

	<i>Notes</i>	2018 HK\$'000	2017 HK\$'000
Revenue	5	193,973	171,116
Cost of sales		<u>(138,019)</u>	<u>(115,630)</u>
Gross profit		55,954	55,486
Other income		374	612
Other gain and losses, net		298	(301)
Administrative expenses		(40,067)	(39,179)
Listing expenses		<u>(15,847)</u>	<u>(553)</u>
Profit before taxation	6	712	16,065
Income tax expense	7	<u>(2,858)</u>	<u>(2,738)</u>
(Loss) profit for the year		<u>(2,146)</u>	<u>13,327</u>
(Loss) profit and total comprehensive (expense) income for the year attributable to owners of the Company		<u>(2,146)</u>	<u>13,327</u>
(Loss) earnings per share			
Basic (HK cents)	9	<u>(0.62)</u>	<u>4.44</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		3,312	2,386
Deposits	<i>11</i>	1,335	693
Retention held by customers for contract works	<i>11</i>	9,361	6,085
		<u>14,008</u>	<u>9,164</u>
Current assets			
Inventories		508	535
Trade receivables	<i>10</i>	44,853	31,478
Retention held by customers for contract works	<i>11</i>	7,428	5,262
Other receivables, deposits and prepayments	<i>11</i>	7,365	4,071
Amounts due from customers for contract works		27,225	32,243
Tax recoverable		73	–
Pledged bank deposit		5,000	–
Time deposits with original maturity over three months		20,007	–
Bank balances and cash		40,225	58,619
		<u>152,684</u>	<u>132,208</u>
Current liabilities			
Trade payables	<i>12</i>	10,027	8,793
Other payables and accrued charges	<i>13</i>	11,592	10,545
Amounts due to customers for contract works		21,022	19,257
Tax payable		–	3,289
		<u>42,641</u>	<u>41,884</u>
Net current assets		<u>110,043</u>	<u>90,324</u>
Total assets less current liabilities		<u>124,051</u>	<u>99,488</u>
Non-current liabilities			
Deferred tax liabilities		248	91
Net assets		<u>123,803</u>	<u>99,397</u>
Capital and reserves			
Share capital	<i>14</i>	4,000	14,339
Share premium and reserves		119,803	85,058
Total equity		<u>123,803</u>	<u>99,397</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 March 2018

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 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 ("HK\$"), which is the same as the functional currency of the Company and its principal subsidiaries.

2. GROUP REORGANISATION AND BASIS OF PREPARATION

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") (collectively 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 2017 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 both years have 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 both years or since their respective dates of incorporation, where there is a shorter period. The consolidated statement of financial position of the Group as at 31 March 2017 has been prepared to present the assets and liabilities of the companies now comprising the Group, as if the current group structure has been in existence at that date taking into account the respective dates of incorporation, where applicable.

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

For the purpose of preparing and presenting the consolidated financial statements for both years, the Group has consistently adopted the HKFRSs issued by the HKICPA that are effective for the Group’s financial year beginning on 1 April 2017.

At the date of this announcement, HKICPA has issued the following new and revised HKFRSs that are not yet effective. The Group has not early adopted these new and revised HKFRSs.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement ²
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 40	Transfer of Investment Property ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ¹
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018.

² Effective for annual periods beginning on or after 1 January 2019.

³ Effective for annual periods beginning on or after a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

4. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements has been prepared on the historical cost basis and in accordance with the following accounting policies which conform with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements includes the applicable disclosures required by the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and by the Hong Kong Companies Ordinance.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

5. REVENUE AND SEGMENTAL INFORMATION

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

	2018	2017
	HK\$'000	HK\$'000
E&M engineering solutions and services (<i>Note a</i>)	164,789	131,288
E&M engineering maintenance services	20,100	22,345
E&M engineering design and fabrication services (<i>Note b</i>)	7,031	13,388
Sales of parts and component	2,053	4,095
	193,973	171,116

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”).
- (b) 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, control room technical furniture and industrial enclosures and instrument cabinets, and also the conducting of ergonomic and work place studies without supply, installation of systems and implementation of E&M engineering solutions and services (“E&M engineering design and fabrication services”).

Segment information

The Group's operations 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) (the “CODM”) reviews the overall results and financial position of the Group as a whole which is prepared based on the same accounting policies as set out in note 4. Accordingly, the Group has only one single operating segment and no further analysis of this single segment is presented.

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	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Hong Kong	191,606	161,996	3,312	2,386
Taiwan	1,110	2,493	–	–
Singapore	104	51	–	–
Canada	710	6,503	–	–
Others	443	73	–	–
	193,973	171,116	3,312	2,386

Note: Non-current assets excluded financial instruments.

Information about major customers

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Customer A	111,643	104,318
Customer B	19,670	21,433

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 2018 and 2017.

6. PROFIT BEFORE TAXATION

2018 2017
HK\$'000 HK\$'000

Profit before taxation has been arrived at after charging (crediting):

Auditor's remuneration	1,100	386
Depreciation of property, plant and equipment	1,007	1,093
Directors' remuneration	4,029	3,726
Other staff costs		
Salaries and other benefits	68,859	65,640
Retirement benefits scheme contributions	2,763	2,850
Total staff costs	75,651	72,216
Contract costs recognised as expense		
– E&M engineering solutions and services	117,264	91,206
Lease payments under operating leases in respect of:		
– office premises	5,459	4,376
– motor vehicles	26	103
Net foreign exchange (gain) loss	(291)	82
(Gain) loss on disposal of property, plant and equipment	(7)	219

7. INCOME TAX EXPENSE

2018 2017
HK\$'000 HK\$'000

Current tax:		
Hong Kong	2,701	2,735
Deferred tax	157	3
	2,858	2,738

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

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.

8. 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 during both years.

9. (LOSS) EARNINGS PER SHARE

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss) earnings:		
(Loss) earnings for the purpose of calculating basic (loss) earnings per share		
– (Loss) profit for the year attributable to the owners of the Company	<u>(2,146)</u>	<u>13,327</u>
	<i>'000</i>	<i>'000</i>
Weighted average number of shares:		
Number of ordinary shares for the purpose of calculating basic (loss) earnings per share	<u>345,753</u>	<u>300,000</u>

The weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share has been determined on the assumption that the Reorganisation, the Capitalisation Issue and Share Offer as defined and described in notes 2 and 14 respectively had been effective on 1 April 2016.

No diluted (loss) earnings per share for both years were presented as there were no potential ordinary shares in issue during both years.

10. 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.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0-30 days	17,118	20,650
31-60 days	19,370	6,240
61-90 days	2,700	4,138
Over 90 days	<u>5,665</u>	<u>450</u>
	<u>44,853</u>	<u>31,478</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. As at 31 March 2018, approximately 48% (2017: 80%) of trade receivables are neither past due nor impaired have good credit quality. These customers have no default of payment in the past.

The Group has a policy for allowance of bad and doubtful debts which is based on the evaluation of collectability and ageing analysis of accounts and on management's judgement including the creditworthiness and the past collection history of each customer.

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK\$23,547,000 (2017: HK\$6,169,000) which are past due at 31 March 2018, for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivable and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Ageing analysis of trade receivables which are past due but not impaired based on the invoice date at the end of the reporting period.

	2018	2017
	HK\$'000	HK\$'000
31-60 days	15,182	1,581
61-90 days	2,700	4,138
Over 90 days	5,665	450
	<hr/>	<hr/>
Total	23,547	6,169
	<hr/>	<hr/>

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of each reporting period. The trade receivables past due but not provided for as at the end of each reporting period were either subsequently settled or from customers with no history of default. The directors of the Company believe no further credit provision is required in excess of the allowance for doubtful debts.

Trade receivables of HK\$209,000 (2017: HK\$215,000) were denominated in United States Dollars ("USD") at 31 March 2018.

11. RETENTION RECEIVABLES/OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018	2017
	HK\$'000	HK\$'000
Non-current:		
Retention receivables (<i>Note</i>)	9,361	6,085
Deposits	1,335	693
	<hr/>	<hr/>
Total	10,696	6,778
	<hr/>	<hr/>
Current:		
Retention receivables (<i>Note</i>)	7,428	5,262
	<hr/>	<hr/>
Advances to suppliers	5,144	1,533
Deposits	38	651
Staff advances	293	425
Prepayments	1,063	677
Prepaid listing expenses	–	362
Deferred listing expense	–	185
ORSO received	768	203
Other receivables	59	35
	<hr/>	<hr/>
	7,365	4,071
	<hr/>	<hr/>
Total	25,489	16,111
	<hr/>	<hr/>

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 is mostly within 1 year from the date of completion of respective engineering service projects. In the opinion of the directors of the Company, the retention receivables to be received after 1 year are classified as non-current assets in consolidated statements of financial position since it is not expected to realise the retention receivables in the Group's normal operating cycle.

The retention receivables are to be settled, based on the expiry of the defects liability period, at the end of each reporting period:

	2018	2017
	HK\$'000	HK\$'000
On demand or within one year	7,428	5,262
After one year	9,361	6,085
	16,789	11,347

12. 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:

	2018	2017
	HK\$'000	HK\$'000
Trade payables:		
0-30 days	3,464	2,303
31-60 days	89	1,378
61-90 days	694	85
91-365 days	879	82
Over 365 days	4,901	4,945
	10,027	8,793

As at 31 March 2018 and 2017, 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 2018 as the derecognition criteria in accordance with the Group's accounting policies does not meet.

As at 31 March 2018, trade payables of HK\$370,000 (2017: HK\$480,000) and HK\$98,000 (2017: HK\$38,000) were denominated in USD and New Taiwan Dollar respectively.

13. OTHER PAYABLES AND ACCRUED CHARGES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Accrued staff costs	4,207	4,083
Provision for annual leave	2,309	2,241
Provision for long service payments	760	965
Retention payables (<i>Note</i>)	2,455	1,861
Accrued management service fee to Mr. KM Luk (<i>Note 16</i>)	–	508
Other accrued charges	1,861	886
Other payable	–	1
	<u>11,592</u>	<u>10,545</u>

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 engineering service contracts.

14. SHARE CAPITAL

The share capital of the Group at 1 April 2016 and 31 March 2017 represent the aggregate share capital of KML Engineering Limited and KML Technology Limited directly held by the Controlling Shareholders prior to the Reorganisation.

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

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

Notes:

- (i) 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.
- (ii) 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.
- (iii) As part of the Reorganisation, the Company issued shares during the year which are detailed below:–
- (a) 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
- (b) 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.
- (iv) The shares of the Company have been listed on the GEM of the Stock Exchange by way of placing and share offer 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 placing and share offer (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.

15. OPERATING LEASE

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 2018 and 2017, the Group had commitment for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2018	2017
	<i>HK\$’000</i>	<i>HK\$’000</i>
Land and buildings		
Within one year	5,402	5,282
In the second to fifth year inclusive	4,776	918
	10,178	6,200

16. RELATED PARTY TRANSACTIONS

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

	2018 HK\$'000	2017 HK\$'000
Management and consultation service fee paid to K.M. Luk & Engineers Limited (<i>Note a</i>)	<u>–</u>	<u>1,308</u>
Purchase of materials from Logistic Industrial (<i>Note b</i>)	<u>35</u>	<u>149</u>
Rental fee paid to KML Ltd. (<i>Note c</i>)	4,206	3,960
K.M. Luk & Engineers Limited	<u>26</u>	<u>103</u>

Notes:

- (a) Amount represents management and consultation service fee paid to K.M.Luk & Engineers Limited, a company jointly controlled by Mr. KM Luk, Mr. KL Luk, Mr. YC Luk and Madam Leung, in respect of management and consultation service rendered by Mr. KM Luk and his spouse, Madam Leung, both of them are employees of K.M.Luk & Engineers Limited.

During the year ended 31 March 2018, no service was rendered by Madam Leung to the Group.

Starting from 1 April 2017, the service fee, in respect of management and consultation service rendered by Mr. KM Luk to the Group, was paid to Mr. KM Luk directly and was included as director's remuneration.

- (b) Logistic Industrial Supply Company Limited ("Logistic Industrial") is a company which Mr. KM Luk and Madam Leung have significant influence over it.
- (c) KML Ltd. is controlled by Mr. KM Luk.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group has been providing electrical and mechanical (“E&M”) engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions in Hong Kong for over 40 years. We mainly undertake projects that are related to the design, supply, installation, fabrication and/or maintenance of, among others, the following, depending on our customers’ needs:

- (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 signalling communication and control system.

We also undertake other E&M engineering solutions and services, comprising:

- (i) Security and access control system;
- (ii) Railway station E&M engineering services and architectural works;
- (iii) Rolling stock refurbishment and renovation works; and
- (iv) Trackside and depot E&M engineering works.

Our customers comprise mainly transportation companies and other engineering companies in Hong Kong and Taiwan, and also various governmental departments of Hong Kong.

With technical knowledge in the areas of electrical, mechanical and electronic engineering, and a strong focus on product design and research and development, and through our vertically-integrated business model that combines design and fabrication, equipment assembly and system implementation, we are an E&M engineering solutions and services provider in Hong Kong who is capable of independently providing a full suite of custom-built products and services. We provide services and technical support to our customers on system solutions, equipment assembly and installation, network optimisation, inspection and testing. We possess technologies and know-how in the Hong Kong Transportation Mission Critical System Solution market and have strong system integration capabilities. Our comprehensive offerings enable us to provide our customers with a complete and convenient one-stop solution, which reduces their operation and management costs and mitigates the incompatibility risks of different E&M engineering systems. In turn, our vertically-integrated business model enhances our ability to customise our products and services to address customers’ needs and become more competitive in bidding for new projects. In addition, our business model also promotes the synergies among our

individual products and services, reduces our marketing costs and lays a solid foundation for us to develop our maintenance services after our systems and equipment are put into operation. During the year ended 31 March 2018, our Group has undertaken over 200 projects. Some of the major projects include:

- (i) Design, supply and installation of the “Stop-and-go” electronic payment system which allows motorists to use contactless smart cards and credit cards as alternative payment methods at tolled tunnels and bridges owned by the Hong Kong Government;
- (ii) Refurbishment of KTT trains including (a) replacement of passenger seat assembly components; (b) replacement of carpets in the train compartments with floor mats; (c) replacement of pipework; and (d) upgrade of toiletry facilities components;
- (iii) Provision and installation of turnstile systems including upgrade of payment systems at various ferry piers in Hong Kong;
- (iv) Installation and testing of railway signalling system for the high speed rail including cabling and site acceptance test for signalling equipment room and trackside field equipment; and
- (v) Installation and testing of railway signalling system for the Shatin-Central-Link.

Revenue of the Group for the year ended 31 March 2018 amounted to approximately HK\$194.0 million (2017: approximately HK\$171.1 million) while gross profit of the Group for the year ended 31 March 2018 amounted to approximately HK\$56.0 million (2017: approximately HK\$55.5 million).

The net loss after tax of the Group for the year ended 31 March 2018 amounted to approximately HK\$2.1 million (2017: net profit after tax of approximately HK\$13.3 million). The reason for turning from profit to loss is mainly due to the listing expenses of approximately HK\$15.8 million incurred by the Company during the year. Should this non-recurring listing expenses be excluded, the net profit before tax of the Group for the year ended 31 March 2018 would amount to approximately HK\$16.6 million.

OUTLOOK

Modernisation and Upgrading of Transportation System

To keep pace with the growing transport needs, modernisation, upgrading and expansion projects are being launched. It is expected that there will be increasing opportunities for the Transportation Mission Critical System Solutions market in the coming years mainly from projects in relation to (i) railway signaling communication and control system relating to the expansion of Hong Kong International Airport into a Three Runway system; (ii) road and tunnel toll collection system replacement or upgrade at various government tunnels; (iii) automatic fare collection system upgrade in Taiwan railway and metro; and (iv) upgrade of the electrical system, air-conditioning system and fire services system in the Hong Kong metro.

Vision of Smart City

To foster the knowledge economy, enhance quality of life and create a vibrant eco-system by using information technology and promoting more effective resource management, the development of a smart city is the vision of the Hong Kong society. Application of Internet of Things (IoT) at the Group's future products and services aims to tie in this trend. The technology will also enhance the reliability and maintainability of the Group's products and services.

Given our Group's extensive experience in automatic fare collection system and toll collection, the Group will devote more resources in the application and integration of different technologies such as quick response code ("QR Code") and different emerging payment methods to our products and services in response to the evolving market conditions as well as changing customers' requirements. Our Group believes our city embracing mobile payment technology will bring benefits to the government, economy and individuals in the long run.

FINANCIAL REVIEW

Revenue

The Group's revenue increased from approximately HK\$171.1 million for the year ended 31 March 2017 to approximately HK\$194.0 million for the year ended 31 March 2018, representing a growth of approximately 13.4%. Such increase was mainly contributed by the contracts awarded during the years ended 31 March 2016 and 2017 which have substantial work completed during the year ended 31 March 2018.

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 19.4% from approximately HK\$115.6 million for the year ended 31 March 2017 to approximately HK\$138.0 million for the year ended 31 March 2018. The gross profit of the Group increased by approximately 0.8% from approximately HK\$55.5 million for the year ended 31 March 2017 to approximately HK\$56.0 million for the year ended 31 March 2018.

Administrative Expenses

The Group's administrative expenses increased by approximately 2.3% from approximately HK\$39.2 million for the year ended 31 March 2017 to approximately HK\$40.1 million for the year ended 31 March 2018, which is mainly due to the maintenance cost relating to the listed entity.

(Loss) profit attributable to the owners of the Company

The Group recorded a loss attributable to the owners of the Company of approximately HK\$2.1 million for the year ended 31 March 2018 (2017: profit of approximately HK\$13.3 million). The result turning from profit to loss is mainly due to the Company's incurrence of the listing expenses of approximately HK\$15.8 million for the year ended 31 March 2018.

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 2018, the Company had approximately HK\$60.2 million in (i) bank balances and cash; and (ii) time deposits with original maturity over three months (2017: approximately HK\$58.6 million), representing an increase of approximately HK\$1.6 million as compared to that as at 31 March 2017.

On 16 October 2017 (the "Listing Date"), the ordinary shares of the Company (the "Shares") were listed on GEM (the "Listing") by way of placing and share offer (the "Share Offer") and completed the placing and 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 since the Listing Date and up to the date of this announcement (i.e. 19 June 2018) (the "Date of this Announcement"). The capital of the Company only comprises of ordinary shares.

Capital Expenditure

The Group purchased property, plant and equipment amounting to approximately HK\$1.9 million for the year ended 31 March 2018 which comprised acquisition of furniture, fixtures and office equipment (2017: approximately HK\$1.6 million).

Final Dividend

The Board does not recommend the payment of a final dividend for the year ended 31 March 2018 (2017: Nil).

Employees and Remuneration Policies

As at 31 March 2018, the Group employed 212 employees (31 March 2017: 216 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 may also be granted to eligible employees by reference to the Group’s performance as well as the individual contribution.

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 Company’s prospectus dated 29 September 2017 (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.

After deduction of all related listing expense and commissions, the net proceeds from Listing amounted to approximately HK\$36.0 million. Up to 31 March 2018, the Group has utilised HK\$5.4 million of the net proceeds from Listing as follows:

	Planned use of net proceeds as stated in the Prospectus up to 31 March 2018 <i>HK\$’000</i>	Actual use of net proceeds up to 31 March 2018 <i>HK\$’000</i>
Expand and enhance our E&M engineering technical capabilities	5,444	418
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	1,400	27
Strengthen our financial capabilities to undertake larger-scale E&M engineering projects in the future	5,000	5,000
Total	<u>11,844</u>	<u>5,445</u>

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 March 2018 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.

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.

Actual business progress up to 31 March 2018

The Group has purchased several fibre cable testing related equipment.

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 is in the process of identifying potential material handling and storage facilities.

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 is in the process of (i) recruiting additional research and development staff; and (ii) approaching suppliers offering human face recognition software.

The Group has strengthened our financial capabilities to undertake large-scale E&M engineering projects through the provision of performance guarantees.

Gearing Ratio

The ratio was not applicable for the year ended 31 March 2018 as no borrowing was incurred (2017: not applicable).

Foreign Exchange Exposure

We conducted business with customers, suppliers and subcontractors located in Hong Kong, the People's Republic of China and overseas. The Group's exposure to the currency risk mainly arises from the fluctuation of Renminbi, Euro, New Taiwan Dollar or United States dollars. 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 2018. 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 2018. 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 2018.

Pledges Of Assets

As at 31 March 2018, the Group has a pledged bank deposit at HK\$5.0 million (31 March 2017: Nil).

Commitments

The operating lease commitments of the Group were primarily related to the leases of its office premises and the workshops. The Group's future operating lease commitments amounted to approximately HK\$10.2 million as at 31 March 2018 (2017: approximately HK\$6.2 million).

Contingent Liabilities

As at 31 March 2018, the Group did not have any significant contingent liabilities (2017: 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 from the Listing Date. 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 from the Listing Date to the Date of this Announcement.

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 2018 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 2018 comply with the applicable accounting standards, the GEM Listing Rules and legal requirements 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 2018 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 preliminary announcement.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

From the Listing Date to the Date of this Announcement, 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).

SHARE OPTION SCHEME

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

The Board may, at its discretion, offer to grant an option to any director or employee of any company within the Group.

No option has been granted by the Company under the Share Option Scheme as at 31 March 2018. The Company did not have any outstanding share options, warrants derivatives or securities which are convertible or exchangeable into Shares as at 31 March 2018 and up to the Date of this Announcement.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this announcement, at no time during the year ended 31 March 2018 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 31 March 2018 to the Date of this Announcement, there was no important events affecting the Group.

PUBLICATION OF THE ANNUAL RESULTS AND 2017/18 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 2017/18 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 2018

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.