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*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 the 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)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2020

CHARACTERISTICS OF THE 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 that 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 six months ended 30 September 2020 amounted to approximately Hong Kong dollars (“**HK\$**”) 120.6 million, representing an increase of approximately HK\$14.0 million or 13.1% as compared with the revenue of approximately HK\$106.6 million for the six months ended 30 September 2019.

Gross profit of the Group for the six months ended 30 September 2020 amounted to approximately HK\$31.2 million (2019: approximately HK\$28.7 million).

The net profit of the Group for the six months ended 30 September 2020 amounted to approximately HK\$15.7 million (2019: net profit approximately HK\$6.0 million).

The board of directors (the “**Board**”) does not recommend a payment of an interim dividend for the six months ended 30 September 2020 (2019: Nil).

FINANCIAL RESULTS

The Board is pleased to announce the condensed consolidated interim results of the Group for the six months ended 30 September 2020, together with the unaudited comparative figures for the same period in 2019 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER
COMPREHENSIVE INCOME**

For the six months ended 30 September 2020

		Six months ended	
		30 September	
	<i>Notes</i>	2020	2019
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
Revenue	4	120,645	106,589
Cost of sales		(89,402)	(77,920)
Gross profit		31,243	28,669
Other income	5	7,482	511
Other gains and loss, net		148	8
Impairment losses on financial assets and contract assets, net of reversal		239	(107)
Administrative expenses		(21,551)	(21,713)
Finance costs	6	(158)	(92)
Profit before tax		17,403	7,276
Income tax expense	7	(1,655)	(1,243)
Profit and total comprehensive income for the period attributable to owners of the Company		15,748	6,033
Earnings per share attributable to ordinary equity holders of the Company	9		
Basic		HK3.98 cents	HK1.51 cents
Diluted		HK3.98 cents	HK1.51 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2020

		As at	
		30 September 2020	31 March 2020
	Notes	<i>HK\$'000</i> (unaudited)	<i>HK\$'000</i> (Audited)
Non-current assets			
Property, plant and equipment	10	6,775	5,973
Right-of-use assets		6,355	8,687
Deposits		1,211	1,145
Financial assets at fair value through profit or loss	11	5,293	5,181
Total non-current assets		<u>19,634</u>	<u>20,986</u>
Current assets			
Inventories		281	346
Trade receivables	12	49,669	45,665
Other receivables, deposits and prepayments		5,623	9,252
Contract assets		62,209	63,125
Pledged bank deposits		14,166	14,045
Time deposits with original maturity over three months		16,466	6,347
Bank balances and cash		75,094	76,652
Total current assets		<u>223,508</u>	<u>215,432</u>
Current liabilities			
Trade and other payables	13	34,917	29,269
Lease liabilities		2,916	5,611
Contract liabilities		24,755	31,462
Tax payable		1,831	448
Total current liabilities		<u>64,419</u>	<u>66,790</u>
Net current assets		<u>159,089</u>	<u>148,642</u>
Total assets less current liabilities		<u>178,723</u>	<u>169,628</u>
Non-current liabilities			
Lease liabilities		3,530	3,090
Deferred tax liabilities		623	352
Total non-current liabilities		<u>4,153</u>	<u>3,442</u>
Net assets		<u>174,570</u>	<u>166,186</u>
Equity			
Share capital		4,000	4,000
Reserves		170,570	162,186
Total equity		<u>174,570</u>	<u>166,186</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2020

	Attributable to owners of the Company						Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Shares held under the share award scheme HK\$'000	Other reserves HK\$'000 (Note)	Share-based payments reserves HK\$'000	Accumulated profits HK\$'000	
Six months ended 30 September 2020							
At 31 March 2020 and 1 April 2020 (audited)	4,000	47,552	(858)	14,791	305	100,396	166,186
Profit and total comprehensive income for the period	-	-	-	-	-	15,748	15,748
Equity-settled share option arrangements	-	-	-	-	472	-	472
Purchases of shares and contribution in the share award scheme	-	-	(142)	-	-	-	(142)
Equity-settled share award arrangements	-	-	-	-	237	-	237
Vesting of shares of share award scheme	-	-	176	-	(176)	-	-
Dividend paid	-	-	-	-	-	(7,931)	(7,931)
At 30 September 2020 (unaudited)	<u>4,000</u>	<u>47,552</u>	<u>(824)</u>	<u>14,791</u>	<u>838</u>	<u>108,213</u>	<u>174,570</u>
Six months ended 30 September 2019							
At 31 March 2019 and 1 April 2019 (audited)	4,000	47,552	-	14,339	1,166	77,078	144,135
Profit and total comprehensive income for the period	-	-	-	-	-	6,033	6,033
Equity-settled share option arrangements	-	-	-	-	295	-	295
At 30 September 2019 (unaudited)	<u>4,000</u>	<u>47,552</u>	<u>-</u>	<u>14,339</u>	<u>1,461</u>	<u>83,111</u>	<u>150,463</u>

Note: The Group's other reserves mainly represent (i) the difference between the nominal value of the ordinary shares issued by the Company and the share capital of subsidiaries acquired through a exchange of shares pursuant to the reorganisation of the Group during the year ended 31 March 2018 and (ii) the deemed capital contribution from Mr. Luk Kam Ming ("Mr. KM Luk"), a controlling shareholder and an executive Director of the Company, in respect of the transfer of 2,000,000 shares to the trust of the share award scheme at nil consideration.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2020

	Six months ended	
	30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	21,101	23,746
CASH FLOWS FROM INVESTING ACTIVITIES		
Bank interest received	244	453
Purchase of property, plant and equipment	(1,752)	(3,350)
Proceeds from disposal of property, plant and equipment	–	8
Withdrawn of time deposits with original maturity date over three months	16,632	–
Placement of time deposits with original maturity date over three months	(26,751)	(17,488)
Placement of pledged bank deposits	(121)	–
Addition of financial assets at fair value through profit or loss	–	(6,240)
Net cash flows used in investing activities	(11,748)	(26,617)
CASH FLOWS FROM FINANCING ACTIVITIES		
New bank loan	–	2,600
Purchase of shares for the share award scheme	(142)	–
Principal portion of lease payments	(2,838)	–
Dividend paid	(7,931)	–
Net cash flows from/(used in) financing activities	(10,911)	2,600
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,558)	(271)
Cash and cash equivalents at beginning of the period	76,652	36,989
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	75,094	36,718

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2020

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 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 condensed 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. BASIS OF PREPARATION

The condensed consolidated interim financial statements of Group (the "**Interim Financial Statements**") has been prepared in accordance with Hong Kong Accounting Standard ("**HKAS**") 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and the applicable disclosure requirements of the Rules Governing the Listing of Securities on the GEM of the Stock Exchange of Hong Kong Limited (the "**GEM Listing Rules**") and the Hong Kong Companies Ordinance.

The condensed consolidated interim financial information does not include all the information and disclosures required in the annual financial statements and should read in conjunction with the Group's annual financial statements for the year ended 31 March 2020.

The condensed consolidated interim financial information of the Group has been prepared in accordance with the same accounting policies adopted in the Group's annual financial statements for the year ended 31 March 2020, except for the adoption of (i) accounting for joint operations below and (ii) the revised Hong Kong Financial Reporting Standards ("**HKFRSs**") (which include all Hong Kong Financial Reporting Standards, HKASs and Interpretations) as disclosed in note 3 below.

Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The assets, liabilities, revenues and expenses relating to the Group's interest in a joint operation are accounted for in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

This condensed consolidated interim financial information has not been audited or reviewed by the Company's external auditors, but has been reviewed by the Company's audit committee.

3. CHANGES IN ACCOUNTING POLICIES

In the accounting period beginning from 1 April 2020, the Group has adopted, for the first time, the following amendments to HKFRSs issued by the HKICPA that affect the Group and are adopted for the current period's financial information:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform
Amendments to HKAS 1 and HKAS 8	Definition of Material

These amendments have had no material effect on how the Group's results and financial position for the current or prior periods that have been presented in this Interim Financial Statements. The Group has not applied any other new standards or interpretation that is not yet effective for the current accounting period.

4. REVENUE AND SEGMENTAL INFORMATION

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

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
E&M engineering solutions and services (<i>Note a</i>)	93,584	88,335
E&M engineering maintenance services	19,672	16,177
E&M engineering design and fabrication services (<i>Note b</i>)	6,751	1,580
Sales of parts and components	638	497
	120,645	106,589

Notes:

- (a) Amount represents revenue generated from design, supply, installation of systems and implementation of E&M engineering solutions and services, 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 and also control room technical furniture and industrial enclosures and instrument cabinets without supply, installation of systems and implementation of E&M engineering solutions and services (“**E&M engineering design and fabrication services**”).

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 periods. For the purposes of resource allocation and performance assessment, the chief operation decision maker (i.e. the executive directors of the Company) reviews the overall results and financial position of the Group as a whole. Accordingly, the Group has only one single operating segment and no separate analysis of this single segment is presented other than entity-wide disclosure.

5. OTHER INCOME

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Bank interest income	244	453
Government subsidies	7,001	–
Sundry income	237	58
	<u>7,482</u>	<u>511</u>

6. FINANCE COSTS

An analysis of finance costs is as follows:

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Interest on a bank loan	–	92
Interest on lease liabilities	158	–
	<u>158</u>	<u>92</u>

7. INCOME TAX EXPENSE

	Six months ended 30 September	
	2020	2019
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Hong Kong:		
Charge for the period	1,383	691
Deferred	272	552
	<hr/>	<hr/>
Total tax expense for the period	1,655	1,243
	<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 period, 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 2018/19. The first HK\$2 million (2019: HK\$2 million) 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.

8. DIVIDEND

On 12 August 2020, the Board declared a final dividend of year ending 31 March 2020 of HK2.0 cents per ordinary share (2019: Nil). The total amount of final dividend distributed was HK\$8,000,000 and was paid on 1 September 2020 including dividend of HK\$69,000 for share held under the share award scheme.

The Board does not recommend the payment of any dividend for the six months ended 30 September 2020 (2019: Nil).

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

The calculation of the basic earnings per share amount for the period ended 30 September 2020 is based on the profit for the period attributable to owners of the Company of HK\$15,748,000 (2019: HK\$6,033,000), and the weighted average number of ordinary shares in issue less treasury shares held under share award scheme during the period of 396,045,000 (2019: 400,000,000).

No adjustment has been made to the basic earnings per share amount presented for the periods ended 30 September 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.

10. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 September 2020, the Group had additions to property, plant and equipment of HK\$1,752,000 (2019: HK\$3,350,000).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at	
	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Unlisted investments, at fair value	<u>5,293</u>	<u>5,181</u>

The above unlisted investments as at 30 September 2020 were the deposits paid for life insurance products issued by a bank in Hong Kong. They were classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

The aggregate carrying amounts of HK\$5,293,000 as at 30 September 2020 were pledged as security for a bank facility of the Group and the entire balance of the life insurance products is denominated in United States Dollars (“USD”).

12. TRADE RECEIVABLES

An ageing analysis of the current trade receivables as at the end of this reporting period, based on the invoice date, is as follows:

	As at	
	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
0-30 days	25,436	21,943
31-60 days	15,596	17,403
61-90 days	3,439	3,350
Over 90 days	<u>5,305</u>	<u>3,286</u>
	49,776	45,982
Less: Accumulated loss allowance	<u>(107)</u>	<u>(317)</u>
Total trade receivables	<u>49,669</u>	<u>45,665</u>

13. TRADE AND OTHER PAYABLES

	As at	
	30 September 2020 HK\$'000 (Unaudited)	31 March 2020 HK\$'000 (Audited)
Trade and retention payables (Note a)	18,845	18,570
Other payables and accrued charges (Note b)	<u>16,072</u>	<u>10,699</u>
Total trade and other payables	<u>34,917</u>	<u>29,269</u>

Notes:

- (a) An ageing analysis of the current trade payables as at the end of this reporting period, based on the invoice date, is as follows:

	As at	
	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Trade payables:		
0-30 days	5,330	7,311
31-60 days	469	171
61-90 days	163	115
91-365 days	446	366
Over 365 days	<u>6,175</u>	<u>5,391</u>
	12,583	13,354
Retention payables	<u>6,262</u>	<u>5,216</u>
Total trade and retention payables	<u>18,845</u>	<u>18,570</u>

- (b) Other payables and accrued charges

	As at	
	30 September 2020 <i>HK\$'000</i> (Unaudited)	31 March 2020 <i>HK\$'000</i> (Audited)
Accrued staff costs	4,396	4,100
Provision for annual leave	3,317	2,416
Deferred subsidies income	3,483	–
Other accrued charges	<u>4,876</u>	<u>4,183</u>
Total other payables and accrued charges	<u>16,072</u>	<u>10,699</u>

14. RELATED PARTY TRANSACTIONS

The Group entered into the following transactions with its related parties:

	Six months ended 30 September	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)
Purchase of materials from Logistic Industrial Supply Company Limited ("Logistic Industrial") (Note a)	7	90
Rental payments		
K M L Limited (Note b)	<u>2,779</u>	<u>2,701</u>

Notes:

- (a) Logistic Industrial is a company over which 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.

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 six months ended 30 September 2020 and 2019:

Type of Projects	For the six months ended 30 September			
	2020		2019	
	HK\$’000	%	HK\$’000	%
E&M Engineering Solutions and Services				
– Transportation Mission Critical System Solutions	31,112	25.8	20,014	18.8
– Other E&M Engineering Solutions and Services	62,472	51.8	68,321	64.1
Subtotal	93,584	77.6	88,335	82.9
E&M Engineering Design and Fabrication Services	6,751	5.6	1,580	1.5
E&M Engineering Maintenance Services	19,672	16.3	16,177	15.2
Sale of Parts and Components	638	0.5	497	0.4
Total	120,645	100.0	106,589	100.0

E&M engineering solutions and services and E&M engineering maintenance services segments account for the largest two business segments of our Group’s business. Approximately 93.9% of the revenue was attributable to these two segments for the six months ended 30 September 2020. The Group foresees that revenue generated from these two segments will continue to grow especially in relation to the renovation and replacement of E&M, communication and automatic fare collection (“AFC”) assets projects from our customers as well as new business opportunities the Group has identified.

During the six months ended 30 September 2020, the Group has submitted 168 tenders and quotations to our customers (2019: 147 tenders and quotations) with 66 contracts being awarded (2019: 73 contracts) including (i) light rail ticket machine retrofit and hardening works; (ii) various projects in relation to the replacement or improvement works for the toll equipment at various road tunnels; and (iii) an installation subcontract in relation to the re-signalling at a railway depot. A more keen market competition is expected.

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 Limited (“**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 closed circuit television (CCTV).

In addition, the Group has started to explore more business opportunities including those in relation to the provisioning of electric vehicles charging facilities. Several tenders in relation to the electric vehicles charging facilities in government car parks have been submitted.

Meanwhile, the Group will continue its focus in opportunities in relation to the provision of electronic payment (“**ePayment**”) in different sectors. In October 2020, KML Technology Limited has signed two teaming agreements with a credit card company and a merchant payment solution service provider respectively in relation to the provision of ePayment system. The Group will continue to deepen and widen our penetration in providing or upgrading ePayment services and solutions.

Besides, to align with the recent initiative of early deployment of the fifth generation of wireless technologies (“**5G**”) by the Hong Kong Special Administrative Region (“**HKSAR**”) Government, the Group will expediate the research and development (“**R&D**”) 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 six months ended 30 September 2020 amounted to approximately HK\$120.6 million, representing an increase of approximately HK\$14.0 million or 13.1% as compared

with approximately HK\$106.7 million for the six months ended 30 September 2019. Such increase was mainly contributed by the contracts awarded during year ended 31 March 2019 and 2020 which have substantial work completed during the period.

Cost of Sales and Gross Profit

The majority of the Group's cost of sales comprised (i) material and equipment; (ii) direct labour; and (iii) subcontracting cost. The cost of sales increased by approximately 14.8% from approximately HK\$77.9 million for the six months ended 30 September 2019 to approximately HK\$89.4 million for the six months ended 30 September 2020. The increase in cost of sales is mainly due to the increase of number of projects undertaken during the period. The gross profit of the Group increased by approximately 8.7% from approximately HK\$28.7 million for the six months ended 30 September 2019 to approximately HK\$31.2 million for the six months ended 30 September 2020. The increase in gross profit is mainly due to the increase in revenue as discussed above.

Administrative Expenses

The Group's administrative expenses decreased from approximately HK\$21.7 million for the six months ended 30 September 2019 to approximately HK\$21.6 million for the six months ended 30 September 2020.

Profit attributable to the owners of the Company

The Group recorded net profit attributable to the owners of the Company of approximately HK\$15.7 million for the six months ended 30 September 2020 (2019: net profit approximately HK\$6.0 million). The increase in net profit is mainly due to (i) an increase of gross profit; and (ii) financial support received from the HKSAR Government in response to the novel coronavirus epidemic.

Liquidity, Financial Resources and Capital Structure

Historically, the Group has met the liquidity and capital requirement primarily through operating cash flows and capital contribution from its shareholders. The Group requires cash primarily for working capital needs. As at 30 September 2020, the Group had approximately HK\$91.6 million in (i) bank balances and cash; and (ii) time deposits with original maturity over three months (as at 30 September 2019: approximately HK\$55.9 million), representing an increase of approximately HK\$35.7 million as compared to that as at 30 September 2019. There has been no change on the capital structure of the Group for the six months ended 30 September 2020 and up to the date of this announcement (i.e. 6 November 2020) (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\$1.8 million for the six months ended 30 September 2020 which comprised acquisition of furniture, fixtures and office equipment (2019: approximately HK\$3.4 million).

Employees and Remuneration Policies

As at 30 September 2020, the Group had a total of 213 employees (2019: 204). The total staff cost of the Group for the six months ended 30 September 2020 was approximately HK\$37.8 million (2019: approximately HK\$36.0 million). 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. The Group recognises the importance of a good relationship with its employees. The remuneration payable to its employees includes salaries and allowances. Other benefits include provident fund scheme, medical and life insurance, discretionary bonus, share options and share awards.

Use of Proceeds from the Listing

On 16 October 2017, the Shares were listed on GEM by way of share offer (the "**Listing**"). 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) 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.

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. Up to 30 September 2020, the Group has utilised proceeds from the Listing of approximately HK\$31.1 million. An analysis of the planned usage of net proceeds, the actual utilisation of the net proceeds from the date of listing up to 30 September 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 30 September 2020 <i>HK\$'000</i>	Unutilised net proceeds as at 30 September 2020 <i>HK\$'000</i>	Expected timeline for utilising the remaining unused net proceed
Expand and enhance our E&M engineering technical capabilities	17,952	9,601	8,039	1,562	From 1 October 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	5,294	3,309	From 1 October 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	36,000	36,000	31,129	4,871	

Comparison of Business Objectives with Actual Business Progress

An analysis comparing the business objectives as set out in the Company's Prospectus with the Group's actual business progress for the period from the Listing Date to 30 September 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 30 September 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; (iv) providing funds for the employees' performance bonus scheme; and (v) granting of share awards to certain eligible employees.

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.

The Group is in the process of selecting (i) three-dimensional ("3D") printer; and (ii) laser welding machine.

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.

Gearing Ratio

The ratio was not applicable for the six months ended 30 September 2020 as no borrowing was incurred. (2019: 1.7%).

Actual business progress up to 30 September 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 has completed the renovation of the head office in order to (i) increase the office and working space; and (ii) provide a space for marketing office use.

The Group has recruited three designated staff focusing in R&D activities.

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.

Foreign Exchange Exposure

We conduct business with customers, suppliers and subcontractors located in Hong Kong, the People's Republic of China and overseas. The Group's exposure to currency risk mainly arise from the fluctuation of Renminbi, Euro or United States dollars. The Group currently does not have any hedging policy in place for its foreign exchange exposure. However, the Board will remain alert to any relevant risk and, if necessary, consider hedging any potential material foreign exchange risk.

Treasury Policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout the six months ended 30 September 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 30 September 2020. 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 six months ended 30 September 2020.

Pledge of Assets

As at 30 September 2020, the Group has pledged (i) approximately HK\$14.2 million bank deposits; and (ii) approximately HK\$5.3 million 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 30 September 2020 (2019: operating lease commitments of approximately HK\$2.9 million).

Contingent Liabilities

As at 30 September 2020, the Group did not have any significant contingent liabilities (2019: Nil).

Financial Risk Management

Risk management is carried out by the Group's finance department under policies approved by the Board. The finance department identifies, evaluates and hedges financial risks in close co-operation with the operating units. The Board provides guidance for overall risk management and specific areas, such as market risk, interest rate risk, credit risk and liquidity risk.

Interim Dividend

The Board does not recommend a payment of an interim dividend for the six months ended 30 September 2020 (2019: Nil).

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standards of corporate governance to safeguard the interests of the shareholders of the Company (the “**Shareholder(s)**”) 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. During the six months ended 30 September 2020, the Company has complied with all applicable code provisions of 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 in the securities of the Company. Having made specific enquiries of all the Directors, each of the Director has confirmed that he has complied with the required standard of dealings during the six months ended 30 September 2020 and up to the Date of this Announcement.

AUDIT COMMITTEE AND REVIEW OF INTERIM 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 unaudited condensed consolidated results of the Group for the six months ended 30 September 2020 and the interim results announcement. The Audit Committee is of the opinion that the unaudited condensed consolidated results of the Group for the six months ended 30 September 2020 comply with the applicable accounting standards and that adequate disclosure has been made.

CHANGES TO DIRECTORS INFORMATION

As at the Date of this Announcement, the Directors confirm that no information is required to be disclosed pursuant to GEM Rule 17.50(2) and 17.50A(1) of the GEM Listing Rules during the six months ended 30 September 2020.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2020 (the “**Relevant Period**”), neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities.

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) The maximum number of Shares in respect of which options may be granted under the Share Option Scheme must not in aggregate exceed 40,000,000 Shares, representing 10% of the total number of Shares in issue as at the date of approval of the Share Option Scheme.
- (iii) The total number of Shares issued and to be issued upon exercise of options granted to any participant (including both exercised and outstanding options) under the Share Option Scheme, in any 12-month period up to the date of grant shall not exceed 1% of the Shares in issue. Any further grant of options in excess of such limit must be separately approved by Shareholders in general meeting with such grantee and his/her close associates abstaining from voting.
- (iv) An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed 10 years from the date of grant subject to the provisions of early termination thereof.
- (v) An offer for the grant of options must be accepted within three business days from the date of offer. The amount payable by the eligible persons of an option to the Company on acceptance of the offer for the grant of an option is HK\$10.

- (vi) The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to an eligible person and shall not be less than the highest of: (i) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a business day; (ii) the average closing prices of the Shares as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option.
- (vii) The Share Option Scheme will remain in force for a period of 10 years commencing on the Listing Date and shall expire at the close of business on the business day immediately preceding the 10th anniversary thereof unless terminated earlier by the Shareholders in a general meeting.

On 2 January 2020, 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 of the Company, 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 of the Company.

9,800,000 Options were granted on 2 January 2020. The estimated fair values of the Options granted was approximately HK\$1,057,000, which was calculated by using the binomial option pricing model based on following inputs. The values of the Options are subject to certain fundamental limitations, including the subjective nature of and uncertainty relating to a number of assumptions of the expected future performance input to the model, and certain inherent limitations of the model itself. The expected volatility was determined with reference to the historical daily volatilities of the Share price of the Company. The risk-free rate was determined with reference to the prevailing rates on debt securities as reference from Thomson Reuters.

Date of grant	2 January 2020
Share price at grant date	HK\$0.250
Exercise price	HK\$0.259
Expected volatility	54.96%
Expected life	5 years from the date of grant
Risk-free rate	2.056%
Expected dividend yield	0%
Exercise multiple	2.x

Details regarding the number of Options, date of grant, vesting period, exercise period and exercise price of the Options granted under the Share Option Scheme that were still outstanding as at 30 September 2020 are set out below:

Name of participants	Date of Options granted	Total number of Options granted	Number of Options granted	Vesting period	Exercise period	Exercise price of Options <i>HK\$ per share</i>	Closing price immediately before date of grant <i>HK\$ per share</i>
Mr. Chan Chak Lun Philip (Director and chief executive officer)	2 January 2020	2,000,000	2,000,000	2 January 2020 to 30 June 2021	1 July 2021 to 1 January 2025	0.259	0.25
Ms. Wai Hang Ying Helen (Director of KML Engineering)	2 January 2020	700,000	700,000	2 January 2020 to 30 June 2021	1 July 2021 to 1 January 2025	0.259	0.25
Ms. Woo Siu Wai (Company Secretary)	2 January 2020	300,000	300,000	2 January 2020 to 30 June 2021	1 July 2021 to 1 January 2025	0.259	0.25
Employees	2 January 2020	6,800,000	3,500,000	2 January 2020 to 30 June 2020	1 July 2020 to 1 January 2025	0.259	0.25
			3,300,000	2 January 2020 to 1 January 2021	2 January 2021 to 1 January 2025	0.259	0.25
Total		<u>9,800,000</u>					

Details of the movements of Options granted, exercised or cancelled/lapsed during the six months ended 30 September 2020 and still outstanding as at 30 September 2020 are as follows:

Name of participants	Outstanding as at 1 July 2020	Number of Options granted	Number of Options exercised	Number of Options cancelled	Number of Options lapsed	Outstanding as at 30 September 2020
Mr. Chan Chak Lun Philip (Director and chief executive officer)	2,000,000	-	-	-	-	2,000,000
Ms. Wai Hang Ying Helen (Director of KML Engineering)	700,000	-	-	-	-	700,000
Ms. Woo Siu Wai (Company Secretary)	300,000	-	-	-	-	300,000
Employees	6,800,000	-	-	-	-	6,800,000
Total	9,800,000	-	-	-	-	9,800,000

SHARE AWARD SCHEME

The Company adopted a share award scheme (the “**Share Award Scheme**”) on 5 November 2018 (the “**Adoption Date**”). Subject to any early termination as may be determined by the Board, the Share Award Scheme shall be valid and effective for a term of 15 years commencing on the Adoption Date. Please refer to the announcement dated 5 November 2018 for details.

On 29 June 2020 and 6 July 2020, 800,000 and 1,750,000 Awarded Shares were granted to employees of KML Engineering respectively. The 2,550,000 Awarded Shares granted represent approximately 0.64% of the total number of Shares in issue as at the Date of this Announcement.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as otherwise disclosed in this interim results announcement, at no time during the Relevant Period 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

Save as disclosed in this interim results announcement, during the Relevant Period, 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 businesses of the Group.

EVENTS AFTER THE END OF THE REPORTING PERIOD

As at the Date of this Announcement, there were no subsequent events after this reporting period.

PUBLICATION OF THE INTERIM RESULTS AND 2020 INTERIM REPORT ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This interim results announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kml.com.hk), and the 2020 interim 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.

On behalf of the Board
KML Technology Group Limited
Luk Kam Ming
Chairman and Executive Director

Hong Kong, 6 November 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, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with 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.

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.