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KML Technology Group Limited

高萌科技集團有限公司

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8065)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2022

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 2022 amounted to approximately Hong Kong dollars (“**HK\$**”) 74.7 million, representing a decrease of approximately HK\$20.5 million or approximately 21.5% as compared with the revenue of approximately HK\$95.2 million for the six months ended 30 September 2021.

Gross profit of the Group for the six months ended 30 September 2022 amounted to approximately HK\$17.9 million (2021: approximately HK\$29.0 million).

The net loss of the Group for the six months ended 30 September 2022 amounted to approximately HK\$0.8 million (2021: net profit of approximately HK\$7.5 million).

The board of directors (the “**Board**”) does not recommend a payment of an interim dividend for the six months ended 30 September 2022 (2021: Nil).

FINANCIAL RESULTS

The Board is pleased to announce the condensed consolidated interim results of the Group for the six months ended 30 September 2022, together with the unaudited comparative figures for the same period in 2021 as follows:

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

For the six months ended 30 September 2022

		Six months ended	
		30 September	
		2022	2021
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
REVENUE	4	74,692	95,206
Cost of sales		<u>(56,840)</u>	<u>(66,192)</u>
Gross profit		17,852	29,014
Other income	5	5,365	288
Other gains and loss, net	5	(1,694)	211
(Impairment loss)/reversal of impairment loss on financial assets and contract assets, net		(410)	8
Administrative expenses		(21,714)	(20,519)
Finance costs	6	<u>(116)</u>	<u>(40)</u>
(LOSS)/PROFIT BEFORE TAX		(717)	8,962
Income tax expense	7	<u>(50)</u>	<u>(1,446)</u>
(LOSS)/PROFIT AND TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE COMPANY		<u>(767)</u>	<u>7,516</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY	9		
Basic		HK(0.19) cents	HK1.89 cents
Diluted		<u>HK(0.19) cents</u>	<u>HK1.89 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

		As at	
		30 September 2022	31 March 2022
	Notes	HK\$'000 (Unaudited)	HK\$'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		5,275	4,705
Right-of-use assets		3,101	6,224
Deposits		993	1,011
Financial assets at fair value through profit or loss	11	<u>6,092</u>	<u>5,913</u>
Total non-current assets		<u>15,461</u>	<u>17,853</u>
CURRENT ASSETS			
Inventories		270	237
Trade receivables	12	38,549	50,974
Other receivables, deposits and prepayments		7,190	6,225
Contract assets		46,415	47,930
Financial assets at fair value through profit or loss		2,333	1,323
Tax recoverable		3,330	2,841
Pledged bank deposits		13,848	13,837
Time deposits with original maturity over three months		20,109	16,629
Bank balances and cash		<u>70,519</u>	<u>75,397</u>
Total current assets		<u>202,563</u>	<u>215,393</u>
CURRENT LIABILITIES			
Trade and retention payables	13	8,523	8,643
Other payables and accruals		12,164	11,536
Lease liabilities		3,056	6,190
Contract liabilities		13,110	17,053
Tax payable		<u>–</u>	<u>246</u>
Total current liabilities		<u>36,853</u>	<u>43,668</u>
NET CURRENT ASSETS		<u>165,710</u>	<u>171,725</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>181,171</u>	<u>189,578</u>

	As at	
	30 September 2022 <i>HK\$'000</i> (Unaudited)	31 March 2022 <i>HK\$'000</i> (Audited)
NON-CURRENT LIABILITIES		
Lease liabilities	130	130
Deferred tax liabilities	228	21
	<hr/>	<hr/>
Total non-current liabilities	358	151
	<hr/>	<hr/>
Net assets	180,813	189,427
	<hr/>	<hr/>
EQUITY		
Share capital	4,050	4,025
Reserves	176,763	185,402
	<hr/>	<hr/>
Total equity	180,813	189,427
	<hr/>	<hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2022

	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	Share-based payment reserve HK\$'000	Other reserves HK\$'000 (Note)	Accumulated profits HK\$'000	
Six months ended 30 September 2022							
At 31 March 2022 and 1 April 2022 (audited)	4,025	29,598	(709)	1,205	14,791	140,517	189,427
Loss and total comprehensive loss for the period	-	-	-	-	-	(767)	(767)
Issued new shares for share award scheme	25	-	(25)	-	-	-	-
Purchases of shares for the share award scheme	-	-	(44)	-	-	-	(44)
Equity-settled share award arrangements	-	-	-	209	-	-	209
Vesting of shares under share award scheme	-	-	391	(391)	-	-	-
Forfeiture of share awards	-	-	-	(41)	-	41	-
Dividend paid	-	(8,012)	-	-	-	-	(8,012)
At 30 September 2022 (unaudited)	<u>4,050</u>	<u>21,586</u>	<u>(387)</u>	<u>982</u>	<u>14,791</u>	<u>139,791</u>	<u>180,813</u>
Six months ended 30 September 2021							
At 31 March 2021 and 1 April 2021 (audited)	4,025	40,507	(825)	920	14,791	132,393	191,811
Profit and total comprehensive income for the period	-	-	-	-	-	7,516	7,516
Equity-settled share option arrangements	-	-	-	57	-	-	57
Equity-settled share award arrangements	-	-	-	237	-	-	237
Vesting of shares under share award scheme	-	-	125	(125)	-	-	-
Cancellation of share options	-	-	-	(63)	-	63	-
Dividend paid	-	(10,909)	-	-	-	-	(10,909)
At 30 September 2021 (unaudited)	<u>4,025</u>	<u>29,598</u>	<u>(700)</u>	<u>1,026</u>	<u>14,791</u>	<u>139,972</u>	<u>188,712</u>

Note: The Group's other reserves mainly represent the difference between the nominal values of the ordinary shares issued by the Company and the share capital of subsidiaries acquired through an exchange of shares pursuant to the reorganisation of the Group during the year ended 31 March 2018.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2022

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
NET CASH FROM OPERATING ACTIVITIES	11,780	4,356
CASH FLOWS FROM INVESTING ACTIVITIES		
Bank interest received	405	140
Purchase of property, plant and equipment	(1,255)	(785)
Addition of financial assets at fair value through profit or loss	(1,127)	(106)
Withdrawn of time deposits with original maturity date over three months	11,603	–
Placement of time deposits with original maturity date over three months	(15,083)	(7,952)
Placement of pledged deposits	(11)	(7)
	<u>(5,468)</u>	<u>(8,710)</u>
Net cash flows used in investing activities		
	(5,468)	(8,710)
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of shares for the share award scheme	(44)	–
Principal portion of lease payments	(3,134)	(2,981)
Dividend paid	(8,012)	(10,909)
	<u>(11,190)</u>	<u>(13,890)</u>
Net cash flows used in financing activities		
	(11,190)	(13,890)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4,878)	(18,244)
Cash and cash equivalents at beginning of the period	75,397	108,801
	<u>70,519</u>	<u>90,557</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
	<u>70,519</u>	<u>90,557</u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 September 2022

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 mechanical and electrical ("**M&E**") 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 for the Group (the "**Interim Financial Statements**") have 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 2022.

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

The condensed consolidated interim financial information has been prepared under the historical cost convention, except for financial assets at fair value through profit or loss which have been measured at fair value.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("**HKFRSs**"), the accounting policies and methods of computation in the Interim Financial Statements are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 March 2022.

The condensed consolidated 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 2022, except for the adoption of the revised HKFRSs (which include all HKFRSs, HKASs and Interpretations) as below:

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i>
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i>
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41

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 condensed consolidated financial information. 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	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Revenue from contracts with customers:		
Transportation Mission Critical System Solutions	16,585	16,847
Mobile Ticketing and Digital Payment Solutions and Services	7,615	16,380
Digital Fabrication and Maintenance Services	11,619	20,030
M&E Technology Solutions and Engineering Services	34,986	39,856
Sales of Products, Parts and Components	3,887	2,093
	74,692	95,206

Segment information

The Group's operating income during both periods was derived from:

(i) *Transportation Mission Critical System Solutions:*

Provide our customers with a complete and convenient one-stop solution, which reduces their operations and management costs and mitigates the incompatibility risks of different transportation systems.

(ii) *Mobile Ticketing and Digital Payment Solutions and Services:*

Provision of mobile ticketing and digital payment solution in adoption of multiple ePayment including quick response code (“QR Code”), credit cards, octopus and account-based ticketing and fare collection enabled by credit cards or mobile Apps conforming to the EMV specifications.

(iii) *Digital Fabrication and Maintenance Services:*

Provision of computerised and advanced maintenance support services for various systems, terminals and equipment, including the replacement of parts/components, equipment upgrading and/or improvement modification.

(iv) *M&E Technology Solutions and Engineering Services:*

Provision of M&E engineering systems such as railway station M&E engineering services and architectural works, train-borne systems provisions, trackside and depot M&E works and different kinds of renovation works.

(v) *Sales of Products, Parts and Components:*

Provision of parts and components and customises certain products according to customers' requirements.

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 AND GAINS AND LOSSES, NET

Other income

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Bank Interest Income	405	140
Sundry income	180	148
Government subsidies – Employment Support Scheme	4,780	–
	<u>5,365</u>	<u>288</u>

Other gains and losses, net

	Six months ended	
	30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Gain on disposal of property, plant and equipment	–	40
Net foreign exchange (loss)/gain	(1,694)	171
	<u>(1,694)</u>	<u>211</u>

6. FINANCE COSTS

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on lease liabilities	<u>116</u>	<u>40</u>

7. INCOME TAX EXPENSE

	Six months ended 30 September	
	2022	2021
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Current – Hong Kong:		
Charge for the period	257	1,317
Deferred	<u>(207)</u>	<u>129</u>
Total tax expense for the period	<u>50</u>	<u>1,446</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 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. The first HK\$2,000,000 (2021: HK\$2,000,000) of assessable profits of this subsidiary are taxed at 8.25% (2021: 8.25%) and the remaining assessable profits are taxed at 16.5% (2021: 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 5 August 2022, the Board declared a final dividend of year ended 31 March 2022 of HK2.0 cents per ordinary share (2021: HK2.73 cents). The total amount of final dividend distributed was HK\$8,050,000 and was paid on 26 August 2022 including dividend of HK\$38,300 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 2022.

9. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic loss per share amount for the six months ended 30 September 2022 is based on the loss for the period attributable to owners of the Company of HK\$767,000 (2021: profit of HK\$7,516,000), and the weighted average number of ordinary shares in issue less treasury shares held under share award scheme during the six months ended of 399,625,000 (2021: 395,837,000).

The calculation of the diluted loss per share amounts for the six months ended 30 September 2022 is based on the loss for the period attributable to owners of the Company and the weighted average number of ordinary shares in issue less treasury shares held under share award scheme as used in the basic loss per share calculation, and the weighted average number of 492,000 ordinary shares assumed to have been issued at no consideration on the deemed exercise of the shares held under share award scheme into ordinary shares.

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPEMENT

For the six months ended 30 September 2022, the Group acquired property, plant and equipment with aggregate cost of HK\$1,230,000 (30 September 2021: HK\$785,000).

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS

As at 30 September 2022, the unlisted investments of approximately HK\$6,092,000 (unaudited) (31 March 2022: HK\$5,913,000 (audited)) were the deposits paid for life insurance products issued by financial institutions 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 entire balance of the life insurance products is denominated in United States dollars.

12. 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 products. The following is an ageing analysis of the trade receivables is presented based on the invoice date.

	As at	
	30 September 2022 HK\$'000 (Unaudited)	31 March 2022 HK\$'000 (Audited)
Within 30 days	15,267	20,195
31 to 60 days	6,924	14,691
61 to 90 days	8,919	11,485
Over 90 days	7,987	5,160
	<u>39,097</u>	<u>51,531</u>
Less: Accumulated loss allowance	(548)	(557)
Total	<u>38,549</u>	<u>50,974</u>

13. TRADE AND RETENTION PAYABLES

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

	As at	
	30 September 2022 <i>HK\$'000</i> (Unaudited)	31 March 2022 <i>HK\$'000</i> (Audited)
Trade payables:		
Within 30 days	3,543	3,685
31 to 60 days	194	210
61 to 90 days	88	455
91 to 365 days	315	99
Over 365 days	925	782
	<hr/>	<hr/>
	5,065	5,231
Retention payables	3,458	3,412
	<hr/>	<hr/>
Total	8,523	8,643

14. RELATED PARTY TRANSACTIONS

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

	Six months ended	
	30 September 2022 <i>HK\$'000</i> (Unaudited)	2021 <i>HK\$'000</i> (Unaudited)
Purchase of materials from Logistic Industrial Supply Company Limited ("Logistic Industrial") (Note a)	8	6
Rental payments		
K M L Limited (Note b)	2,868	2,779
	<hr/>	<hr/>

Notes:

- Logistic Industrial is a company over which Mr. Luk Kam Ming ("Mr. KM Luk") and Ms. Leung Kwok Yee have significant influence. The purchase prices of goods were mutually agreed between the parties.
- K M L Limited is controlled by Mr. KM Luk. Rental payments were on a mutually-agreed basis.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Overview

The Group has been providing mechanical and electrical (“**M&E**”) engineering solutions and services in Hong Kong for over 40 years. We are diversifying our businesses and comprise mainly the provision of (i) transportation mission critical system solutions; (ii) mobile ticketing and digital payment solutions and services; (iii) digital fabrication and maintenance services; (iv) M&E technology solutions and engineering services; and (v) sales of products, 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 7 x 24 maintenance support.

The impact of the coronavirus disease (“**COVID-19**”) had been severe for the construction industry globally, especially in terms of operational efficiencies and material delivery progress between Hong Kong and Mainland China, especially in the first half of 2022. According to the Government’s half-yearly economic report, despite general improvement in the local pandemic situation, weakened global demand and cross-boundary disruptions had been hindering the pace of local economic recovery. During this slow economic recovery phase, the Group has changed its operation strategy by streamlining its internal resources and focus on clearing its outstanding contracts on hand. This will give the Group spare capacity and well prepared for rapid reaction as the economy picks up. As at 30 September 2022, the Group had outstanding contracts in hand value at approximately HK\$503.9 million (2021: approximately HK\$493.0 million).

Transportation Mission Critical System Solutions

The Group possesses technologies and know-how in the Hong Kong Transportation Mission Critical System Solutions 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 operations and management costs and mitigates the incompatibility risks of different transportation systems. The Group has extensive experience to the works in relation to the railway signaling, communication and control system and platform screen door (PSD) system.

For the six months ended 30 September 2022, revenue generated from this segment amounted to approximately HK\$16.6 million (2021: approximately HK\$16.8 million). As at 30 September 2022, the total value of outstanding contracts of this segment amounted to approximately HK\$26.8 million (2021: approximately HK\$36.7 million).

Mobile Ticketing and Digital Payment Solutions and Services

This segment offers mobile ticketing and digital payment solutions and services to different sectors in Hong Kong and overseas. The Group's capabilities in payment solution adoption of quick response code ("QR Code"), credit cards, octopus, multiple ePayment including QR Code and account-based ticketing and fare collection system enabled by credit cards or mobile Apps conforming to the EMV specifications have provided us with increasing numbers of business opportunities as digital payment and mobile ticketing have been penetrating to our everyday activities.

For the six months ended 30 September 2022, revenue generated from this segment amounted to approximately HK\$7.6 million (2021: approximately HK\$16.4 million). As at 30 September 2022, the total value of outstanding contracts of this segment amounted to approximately HK\$147.9 million (2021: approximately HK\$129.2 million).

Digital Fabrication and Maintenance Services

This segment mainly offers computerised and advanced maintenance support services for various systems, terminals and equipment, including the replacement of parts/components, equipment upgrading or improvement modification, provision of upgrade and/or replacement services for both hardware and/or software, testing, and provision of routine preventive, corrective and workshop maintenance services.

For the six months ended 30 September 2022, revenue generated from this segment amounted to approximately HK\$11.6 million (2021: approximately HK\$20.0 million). As at 30 September 2022, the total value of outstanding contracts of this segment amounted to approximately HK\$48.1 million (2021: approximately HK\$48.9 million).

M&E Technology Solutions and Engineering Services

M&E Technology Solutions and Engineering Services continued to be the largest business segment of the Group in the reporting period in terms of revenue. Its capabilities encompass design, installation, testing and commissioning and maintenance of miscellaneous M&E engineering systems such as railway station M&E engineering services and architectural works, train-borne systems provisions, trackside and depot M&E works and different kinds of renovation works.

The major projects in progress during the reporting period included (i) replacement and modification of smoke curtains at two railway lines; and (ii) refurbishment and replacement of air handling unit (AHU) and primary air unit (PAU) at various railway lines.

For the six months ended 30 September 2022, revenue generated from this segment amounted to approximately HK\$35.0 million (2021: approximately HK\$39.9 million). As at 30 September 2022, the total value of outstanding contracts of this segment amounted to approximately HK\$279.5 million (2021: approximately HK\$277.6 million).

Sales of Products, Parts and Components

The Group sources certain parts and components and sometime customizes certain products to our customers according to their requirements. We primarily supply railway signaling and automatic fare collection (“AFC”) related products, parts and components.

For the six months ended 30 September 2022, revenue generated from this segment amounted to approximately HK\$3.9 million (2021: approximately HK\$2.1 million). As at 30 September 2022, the total value of outstanding contracts of this segment amounted to approximately HK\$1.6 million (2021: approximately HK\$0.6 million).

OUTLOOK

The on-going COVID-19 pandemic and global economic instability continues to impact the recovery of local economy. Although there is an additional injection of HK\$1.5 billion to the electric vehicle (EV) charging under Home Subsidy Scheme (“EHSS”) to year 2028, the number of Government tenders provided during 2022 are still very limited. Since the first half of the financial year, there are only around 40 Government tenders issued, covering around 11,000 chargers. More tenders are expected to release in the second half of the financial year and the Group will pursue more EHSS projects, contributing to the long-term sustainability of Hong Kong.

The Group has lined up with various business partners including bank and digital payment providers with a plan to take up broader roles in the ePayment business arena. Apart from the AFC market which the Group has been focusing, it is expected that the Group to further diversify the customer base by expanding the technology-led business in the retailing market in the second half of 2022.

The Group has been making significant progress in the application of robotic technology to transport coins and banknote vault through the all-times crowded railway station concourse securely, safely and no disturbance to the pedestrian public, and to perform repetitive and tedious human interfacing tests which were usually very manpower consuming. The project is now at its testing phase and the robotic technology has been applied in 5 stations. It is expected to enter into production stage in 2023.

Although the supply chain issue may not be resolved within a short period due to COVID-19 pandemic and economic downturn, the Group will continue to concise its internal resources and monitor closely its development in order to grasp future opportunities upon economic recovery.

FINANCIAL REVIEW

Revenue

Revenue of the Group for the six months ended 30 September 2022 amounted to approximately HK\$74.7 million, representing a decrease of approximately HK\$20.5 million or approximately 21.5% as compared with approximately HK\$95.2 million for the six months ended 30 September 2021. The supply chain disruptions cause operational efficiencies and certain projects work progress slow down.

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 decreased by approximately 14.2% from approximately HK\$66.2 million for the six months ended 30 September 2021 to approximately HK\$56.8 million for the six months ended 30 September 2022. The gross profit of the Group decreased by approximately 38.3% from approximately HK\$29.0 million for the six months ended 30 September 2021 to approximately HK\$17.9 million for the six months ended 30 September 2022. The decrease in gross profit was mainly due to (i) the decrease in revenue contribution; (ii) the decrease of overall gross profit margin of projects awarded; and (iii) the increase in subcontracting cost.

Administrative Expenses

The Group's administrative expenses increased from approximately HK\$20.5 million for the six months ended 30 September 2021 to approximately HK\$21.7 million for the six months ended 30 September 2022. The increase was mainly due to (i) an increase of professional fee; and (ii) an increase of costs in relation to the staff welfare improvement and rent.

Loss attributable to the owners of the Company

The Group recorded net loss attributable to the owners of the Company of approximately HK\$0.8 million for the six months ended 30 September 2022 (2021: net profit of approximately HK\$7.5 million). The difference is mainly due to (i) the impact of the fifth wave of COVID-19, especially in terms of operational efficiencies and project delivery progress in the first half of the year; (ii) major work progress of significant projects were completed during the Last Period; and (iii) major projects in hand at the Current Period are at their early stage that revenue recognised is not substantial.

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 2022, the Group had approximately HK\$90.6 million in (i) bank balances and cash; and (ii) time deposits with original maturity over three months (as at 30 September 2021: approximately HK\$103.6 million), representing a decrease of approximately HK\$13.0 million as compared to that as at 30 September 2021.

There are 2,460,000 shares (“**Share(s)**”) allotted and issued on 7 September 2022 pursuant to the share award scheme adopted on 5 November 2018, details of which are disclosed in the announcement of the Company dated 29 August 2022. The reasons of the issue are to recognise the contributions made by the employees and to attract and retain talent for the continuous operations and development of the Group. Save as disclosed above, there has been no change on the capital structure of the Group for the six months ended 30 September 2022 and up to the date of this announcement (i.e. 4 November 2022) (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\$1.2 million for the six months ended 30 September 2022 which comprised acquisition of furniture, fixtures and office equipment (2021: approximately HK\$0.8 million).

Employees and Remuneration Policies

As at 30 September 2022, the Group had a total of 197 employees (2021: 205). The total staff cost of the Group for the six months ended 30 September 2022 was approximately HK\$35.2 million (2021: approximately HK\$37.3 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 recognizes 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.

Gearing Ratio

The ratio was not applicable for the six months ended 30 September 2022 as no borrowing was incurred. (2021: not applicable).

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 arises 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 2022. 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. The Group would invest surplus funds via this private bank account aiming to earn a better yield than that generally offered by the commercial banks.

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 2022. Except for those included in the section headed “Future Plans and Use of Proceeds” for inclusion in the prospectus of the Company dated 29 September 2017, the Group had no definite future plans for material investments and capital assets.

Material Acquisitions and Disposals of Subsidiaries, Associates or Joint Ventures

There were no other significant investments held, material acquisitions or disposals of subsidiaries, associates or joint ventures during the six months ended 30 September 2022.

Pledge of Assets

As at 30 September 2022, the Group has pledged (i) approximately HK\$13.8 million bank deposits; and (ii) approximately HK\$5.7 million investments in life insurance policies to secure general banking facilities granted to the Group.

Capital Commitments

The Group did not have any capital commitment as at 30 September 2022 (2021: Nil).

Contingent Liabilities

As at 30 September 2022, the Group did not have any significant contingent liabilities (2021: Nil).

Financial Risk Management

Financial 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 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 2022 (2021: 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 2022, 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 2022.

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 2022 and the interim report. The Audit Committee is of the opinion that the unaudited condensed consolidated results of the Group for the six months ended 30 September 2022 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 Rules 17.50(2) and 17.50A(1) of the GEM Listing Rules during the six months ended 30 September 2022.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the six months ended 30 September 2022, 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**”). The principal terms of the Share Option Scheme are summarised below:

- (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 the adoption of the Share Option Scheme and approximately 9.9% of the total number of Shares in issued as at the Date of this Announcement;
- (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; and
- (vii) The Share Option Scheme will remain in force for a period of 10 years commencing on 16 October 2017 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, 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.

The estimated fair value of the above 9,800,000 Options granted was approximately HK\$1,057,000, which was calculated by using the binomial option pricing model based on following inputs. The value of the Options is 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, exercise period and exercise price of the Options granted on 2 January 2020 are set out below:

Name of participants	Date 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 ("Mr. CL Chan") (Director and chief executive officer)	2 January 2020	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 ^(Note) (Former director of KML Engineering Limited ("KML Engineering"))	2 January 2020	700,000	2 January 2020 to 30 June 2021	1 July 2021 to 1 January 2025	0.259	0.25
Madam Woo (Company Secretary)	2 January 2020	300,000	2 January 2020 to 30 June 2021	1 July 2021 to 1 January 2025	0.259	0.25
Employees	2 January 2020	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>				

Note: Ms. Wai Hang Ying Helen resigned as the director of KML Engineering on 29 November 2021.

For the six months ended 30 September 2022, no options were granted, cancelled, exercised or lapsed/forfeited. Details of the outstanding Options as at 30 September 2022 are as follows:

Name of participants	Outstanding as at 1 April 2022	Number of Options granted	Number of Options exercised	Number of Options cancelled	Number of Options lapsed/forfeited	Outstanding as at 30 September 2022
Mr. CL Chan (Director and Chief executive officer)	2,000,000	-	-	-	-	2,000,000
Madam Woo (Company Secretary)	300,000	-	-	-	-	300,000
Employees	<u>3,700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,700,000</u>
Total	<u>6,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,000,000</u>

As at the Date of this Announcement, taking into account 19,000,000 share options had been granted, the maximum number of Shares in respect of which options may be granted is 21,000,000, representing approximately 5.2% of the total number of Shares in issue as at the Date of this Announcement.

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 26 August 2022, the Board has resolved to grant and issue 2,460,000 new awarded Shares to the selected employees pursuant to the general mandate granted by the Shareholders at the annual general meeting of the Company held on 5 August 2022. Please refer to the announcement dated 29 August 2022 for details. The awarded Shares granted represent approximately 0.6% of the total number of Shares in issue as at the Date of this Announcement. As at 30 September 2022, 1,275,000 awarded Shares were vested to employee.

DIRECTORS’ RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six months ended 30 September 2022 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

For the six months ended 30 September 2022, 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.

SUBSEQUENT EVENT AFTER THE REPORTING PERIOD

The Board has appointed Mr. Yu Wing Lok Garry as an independent non-executive Director, and a member of each of the nomination committee and the risk management committee of the Company with effect from 1 November 2022. Please refer to the announcement dated 28 October 2022 for details.

Saved as disclosed above, there were no subsequent events after this reporting period as at the Date of this Announcement.

PUBLICATION OF THE INTERIM RESULTS AND 2022 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 2022 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, 4 November 2022

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, Dr. TSE Chi Kong and Mr. Yu Wing Lok Garry.

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 Listed Company Information" page of the Stock Exchange's website at www.hkexnews.hk for a minimum period of 7 days from the date of publication and on the Company's website at www.kml.com.hk.