

# 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

### SHARE OFFER

Sole Sponsor

**SUNWAH KINGSWAY**  
**新華滙富**

Kingsway Capital Limited

Joint Bookrunners

**SUNWAH KINGSWAY**  
**新華滙富**

Kingsway Financial Services Group Limited

**Opus** Capital Limited  
創富融資有限公司

Opus Capital Limited

Joint Lead Managers

**SUNWAH KINGSWAY**  
**新華滙富**

Kingsway Financial Services  
Group Limited

**Opus** Capital Limited  
創富融資有限公司

Opus Capital Limited

**新富集團**  
**SANFULL GROUP**

Sanfull Securities Limited

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## IMPORTANT

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**IMPORTANT:** If you are in any doubt about any of the contents of this prospectus, you should seek independent professional advice.

# KML Technology Group Limited

## 高萌科技集團有限公司

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

### LISTING ON THE GROWTH ENTERPRISE MARKET OF THE STOCK EXCHANGE OF HONG KONG LIMITED BY WAY OF SHARE OFFER

Number of Offer Shares	: 100,000,000 Shares (subject to the Offer Size Adjustment Option)
Number of Public Offer Shares	: 10,000,000 Shares (subject to reallocation)
Number of Placing Shares	: 90,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option)
Offer Price	: Not more than HK\$0.72 per Offer Share and expected to be not less than HK\$0.48 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005% (payable in full on application in Hong Kong dollars and subject to refund)
Nominal value	: HK\$0.01 per Share
Stock code	: 8065

*Sole Sponsor*

**SUNWAH KINGSWAY**  
**新華滙富**

Kingsway Capital Limited

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**Opus Capital Limited**

**新富集團**  
SANFULL GROUP

**Sanfull Securities Limited**

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

A copy of this prospectus, having attached thereto the documents specified in the paragraph headed "Documents Delivered to the Registrar of Companies in Hong Kong" in Appendix V to this prospectus, has been registered by the Registrar of Companies in Hong Kong as required by section 342C of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong). The Securities and Futures Commission and the Registrar of Companies in Hong Kong take no responsibility for the contents of this prospectus or any other document referred to above.

The Offer Price is expected to be determined by agreement between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or around Monday, 9 October 2017 and, in any event, not later than Thursday, 12 October 2017. The Offer Price will be not more than HK\$0.72 per Offer Share and is currently expected to be not less than HK\$0.48 per Offer Share, unless otherwise announced. Applicants under the Public Offer are required to pay, upon application, the maximum Offer Price of HK\$0.72 per Offer Share, plus brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, subject to refund if the Offer Price as finally determined is less than HK\$0.72 per Offer Share.

If, for any reason, the Offer Price is not agreed by Thursday, 12 October 2017 between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and us, the Share Offer will not proceed and will lapse.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where considered appropriate and with the consent of our Company, reduce the number of Offer Shares and/or the indicative Offer Price range below that stated in this prospectus (which is HK\$0.48 to HK\$0.72 per Offer Share) at any time prior to the morning of the last day for lodging applications under the Public Offer. In such a case, notices of the reduction in the number of Offer Shares and/or the indicative Offer Price range will be published on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and on the website of our Company at [www.kml.com.hk](http://www.kml.com.hk) as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the day which is the last day for lodging applications under the Public Offer. Further details are set forth in the sections headed "Structure of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus.

**Prior to making an investment decision, prospective investors should consider carefully all of the information set out in this prospectus, including the risk factors set out in the section headed "Risk Factors" in this prospectus.**

Prospective investors of the Public Offer Shares should note that the obligations of the Public Offer Underwriters under the Public Offer Underwriting Agreement to subscribe, and to procure subscribers for, the Public Offer Shares, are subject to termination by the Joint Bookrunners (for themselves and on behalf of the Underwriters) if certain grounds arise prior to 8:00 a.m. on the Listing Date. Such grounds are set out in the subsection headed "Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination" in this prospectus. It is important that you refer to that section for further details.

The Offer Shares have not been, and will not be, registered under the U.S. Securities Act or any state securities law in the United States and may not be offered, sold, pledged or transferred within the United States. There will be no public offer of the securities of our Company in the United States.

29 September 2017

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## CHARACTERISTICS OF GEM

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*GEM has been positioned as a market designated to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.*

*Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to higher market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.*

*The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. Listed companies are not generally required to issue paid announcements in gazette newspaper. Accordingly, prospective investors should note that they need to have access to the Stock Exchange's website at [www.hkexnews.hk](http://www.hkexnews.hk) in order to obtain up-to-date information on companies listed on GEM.*

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## EXPECTED TIMETABLE<sup>(1)</sup>

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*If there is any change in the following expected timetable of the Share Offer, we will issue an announcement in Hong Kong on the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk) and our Company's website at [www.kml.com.hk](http://www.kml.com.hk).*

Latest time for completing electronic applications under the <b>HK eIPO White Form</b> service through the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a> <sup>(2)</sup> .....	11:30 a.m. on Friday, 6 October 2017
Application lists of Public Offer open <sup>(3)</sup> .....	11:45 a.m. on Friday, 6 October 2017
Latest time to lodge <b>WHITE</b> and <b>YELLOW</b> Application Forms and giving <b>electronic application instructions</b> to HKSCC <sup>(4)</sup> .....	12:00 noon on Friday, 6 October 2017
Latest time to complete payment of <b>HK eIPO White Form</b> applications by effecting internet banking transfer(s) or PPS payment transfer(s) .....	12:00 noon on Friday, 6 October 2017
Application lists of Public Offer close <sup>(3)</sup> .....	12:00 noon on Friday, 6 October 2017
Expected Price Determination Date <sup>(5)</sup> .....	Monday, 9 October 2017
Announcement of the final Offer Price, the indication of level of interest in the Placing and the basis of allocation of the Public Offer Shares to be published on our Company's website at <a href="http://www.kml.com.hk">www.kml.com.hk</a> <sup>(6)</sup> and the website of the Stock Exchange at <a href="http://www.hkexnews.hk">www.hkexnews.hk</a> on .....	Friday, 13 October 2017
Results of allocations in the Public Offer (with successful applicants' identification document numbers or business registration numbers, where appropriate) to be available through a variety of channels as described in the section headed "How to Apply for Public Offer Shares" in this prospectus from .....	Friday, 13 October 2017
Results of allocations in the Public Offer will be available at <a href="http://www.tricor.com.hk/ipo/result">www.tricor.com.hk/ipo/result</a> with a "search by ID" function from .....	Friday, 13 October 2017

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## EXPECTED TIMETABLE<sup>(1)</sup>

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Dispatch/collection of Share certificates or deposit of the Share certificates into CCASS in respect of wholly or partially successful applications pursuant to the Public Offer on or before<sup>(7) & (11)</sup> . . . . . Friday, 13 October 2017

Dispatch/collection of refund cheques and **HK eIPO White Form** e-Auto Refund payment instructions in respect of wholly or partially successful applications (if applicable) or wholly or partially unsuccessful applications pursuant to the Public Offer on or before<sup>(8), (9), (10), (11)</sup> . . . . . Friday, 13 October 2017

Dealings in Shares on the Stock Exchange expected to commence at 9:00 a.m. on . . . . . Monday, 16 October 2017

*Notes:*

1. All dates and times refer to Hong Kong dates and times. Details of the structure of the Share Offer, including its conditions, are set out in the section headed “Structure of the Share Offer” in this prospectus.
2. You will not be permitted to submit your application under the **HK eIPO White Form** service through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) after 11:30 a.m. on the last day for submitting applications. If you have already submitted your application and obtained a payment reference number from the designated website prior to 11:30 a.m., you will be permitted to continue the application process (by completing payment of the application monies) until 12:00 noon on the last day for submitting applications, when the application lists close.
3. If there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 October 2017, the application lists will not open or close on that day. Please refer to the subsection headed “How to Apply for Public Offer Shares – 10. Effect of bad weather on the opening of the application lists” in this prospectus.
4. Applicants who apply for Public Offer Shares by giving **electronic application instructions** to HKSCC via CCASS should refer to the subsection headed “How to Apply for Public Offer Shares – 6. Applying by giving electronic application instructions to HKSCC via CCASS” in this prospectus.
5. The Price Determination Date is expected to be on Monday, 9 October 2017 or before Thursday, 12 October 2017. If, for any reason, our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to reach agreement on the Offer Price on or before Thursday, 12 October 2017, the Share Offer will not proceed and will lapse.
6. None of the website or any information contained on the website forms part of this prospectus.
7. Share certificates will only become valid at 8:00 a.m. on Monday, 16 October 2017, provided that the Share Offer has become unconditional and the right of termination described in the subsection headed “Underwriting – Underwriting arrangements and expenses – Public Offer – Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.
8. Refund cheques or e-Auto Refund payment instructions will be issued in respect of all applications, if the conditions of the Share Offer are not fulfilled in accordance with the subsection headed “Structure of the Share Offer – Conditions of the Share Offer” in this prospectus, or if all such conditions of the Share Offer are fulfilled, in respect of wholly or partially unsuccessful applications, and in respect of wholly or partially successful applications if the Offer Price as finally determined is less than the price per Offer Share payable on application.

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## EXPECTED TIMETABLE<sup>(1)</sup>

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9. Refund by cheque(s) will be made out to you, or if you are joint applicants, to the first-named applicant on your Application Form. Part of your Hong Kong identity card number/passport number, or, if you are joint applicants, part of the Hong Kong identity card number/passport number of the first-named applicant provided by you may be printed on your refund cheque, if any. Such data may also be transferred to a third party for refund purposes. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque, if any. Inaccurate completion of your Hong Kong identity card number/passport number may lead to a delay in encashment of, or may invalidate, your refund cheque.
10. If you apply through the **HK eIPO White Form** services by paying the application monies through a single bank account, you may have e-Auto Refund payment instructions (if any) despatched to your application payment bank account. If you apply through the **HK eIPO White Form** services by paying the application monies through multiple bank accounts, you may have refund cheque(s) sent to the address specified in your application instructions to the designated website ([www.hkeipo.hk](http://www.hkeipo.hk)) by ordinary post and at your own risk.
11. Applicants who apply on **WHITE** Application Forms or through **HK eIPO White Form** service for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques and share certificates (as applicable) in person from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong from 9:00 a.m. to 1:00 p.m. on Friday, 13 October 2017. Applicants being individuals who opt for personal collection must not authorise any other person to make collection on their behalf. Applicants being corporations who opt for personal collection must attend by their authorised representatives bearing a letter of authorization from their corporation stamped with the corporation's chop. Both individuals and authorised representatives of corporations must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

Applicants who apply on **YELLOW** Application Forms for 1,000,000 or more Public Offer Shares under the Public Offer may collect their refund cheques in person but may not collect their share certificates, which will be deposited into CCASS for credit to their designated CCASS Participants' stock accounts or CCASS Investor Participant stock accounts, as appropriate. The procedures for collection of refund cheques for **YELLOW** Application Form applicants are the same as those for **WHITE** Application Form applicants.

Uncollected share certificates (if applicable) and refund cheques (if applicable) will be despatched by ordinary post at the own risk of the applicants shortly after the expiry of the time for collection on the date of despatch of refund cheque as described in the subsection headed "How to Apply for Public Offer Shares – 14. Dispatch/Collection of share certificates and refund monies" in this prospectus.

The above expected timetable is a summary only. You should refer to the sections headed "Structure of the Share Offer" and "How to Apply for Public Offer Shares" in this prospectus for details of the structure of the Share Offer, including the conditions of the Share Offer, and the procedures for application for the Public Offer Shares.



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### IMPORTANT NOTICE TO INVESTORS

*This prospectus is issued by our Company solely in connection with the Share Offer and the Offer Shares and does not constitute an offer to sell or a solicitation of an offer to buy any security other than the Offer Shares offered by this prospectus pursuant to the Share Offer. This prospectus may not be used for the purpose of, and does not constitute, an offer or invitation in any other jurisdiction or in any other circumstances. No action has been taken to permit a public offering of the Offer Shares or the distribution of this prospectus in any jurisdiction other than Hong Kong. The distribution of this prospectus and the offering of the Offer Shares in other jurisdictions are subject to restrictions and may not be made except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with, or authorisation by, the relevant securities regulatory authorities or an exemption therefrom.*

*You should rely on the information contained in this prospectus to make your investment decision. We have not authorised anyone to provide you with information that is different from what is contained in this prospectus. Any information or representation not made in this prospectus must not be relied on by you as having been authorised by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers the Underwriters, any of our or their respective directors or any other person or party involved in the Share Offer.*

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## SUMMARY

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*This summary provides an overview of the information contained in this prospectus. As this is a summary, it does not contain all the information that may be important to you. You should read the prospectus in its entirety, including our financial statements and the accompanying notes, before you decide to invest in the Offer Shares. There are risks associated with any investment. Some of the particular risks in investing in the Offer Shares are set out in the section headed “Risk Factors” in this prospectus. You should read that section carefully before you decide to invest in the Offer Shares. Various expressions used in this section are defined in “Definitions” and “Glossary of Technical Terms” in this prospectus.*

### OVERVIEW

We have been providing E&M engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions, in Hong Kong for over 40 years. We also provide such services and solutions overseas, including Singapore, Taiwan and Canada. In particular, we are the second largest player in the market with a revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing, and road and tunnel toll collection system solutions, accounting for 8.9% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report. In addition, our Group also recorded a revenue of approximately HK\$69.0 million for the provision of Transport Mission Critical System Solutions\*, accounting for 3.6% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report.

With technical knowledge in the areas of electrical, mechanical and electronic engineering, and a strong focus on product design and research and development, and through our vertically-integrated business model that combines design and fabrication, equipment assembly and system implementation, we are an E&M engineering solutions and services provider in Hong Kong who is capable of independently providing a full suite of custom-built products and services. We are able to provide services and technical support to our customers on system solutions, equipment assembly and installation, network optimisation, inspection and testing. We possess technologies and know-how in the Hong Kong Transportation Mission Critical System 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 operation and management costs and mitigates the incompatibility risks of different E&M engineering systems. In turn, our vertically-integrated business model enhances our ability to customise our products and services to address customers’ needs and become more competitive in bidding for new projects. In addition, our business model also promotes the synergies among our individual products and services, reduces our marketing costs and lays a solid foundation for us to develop our maintenance services after our systems and equipment are put into operation.

We mainly undertake Transportation Mission Critical System Solutions projects that are related to the design, supply, installation, fabrication and/or maintenance of, among others, the following, depending on our customers’ needs and engagement:

- (i) railway signaling communication and control system, which is a system used to control railway traffic, to prevent trains from colliding into one another, and to adjust distance and the speed for proper braking time and management of tracks. We act as subcontractors for the design, supply and installation of railway signaling and control systems in relation to MTR lines. We also offer the following railway signaling system products: (a) turnouts and switches; (b) crossings; and (c) turnout monitoring system, which is a remote controlled turnouts and switches surveillance system. Furthermore, we are engaged in the provision of various SCADA systems, such as station management systems, depot regulatory signaling control panels and environmental control systems;

\* Revenue of the Group refers to the total revenue generated from the relevant segment by the Group from 1 April 2016 to 31 March 2017.

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## SUMMARY

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- (ii) automatic fare collection system at railway stations, which covers the supply, installation and implementation of AFC systems, including the supply of passenger gates, namely the MetroStile, at MTR stations. We have accumulated experience over the years in the design and implementation of railway AFC systems by undertaking various AFC system projects for the railway industry in Hong Kong and overseas;
- (iii) road and tunnel toll collection system. Our Group offers a full spectrum of toll collection system services including design (for both software and hardware), development, supply, installation, testing and commissioning;
- (iv) electronic payment and ticketing system, the range of products and/or solutions which include (a) turnstiles that are cash-operated or contactless smart card-operated or operated with mixed media, (b) POS solutions (with available payment options including cash and contactless smart cards), and (c) multi-media money changers (which change notes/coins to coins); and
- (v) traffic control and surveillance system, where we act as installation contractors of traffic control and surveillance systems for our customers for tunnels and other areas.

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

- (i) trackside E&M engineering works (which refers to all E&M engineering works conducted along the railway track (for example, in tunnels and viaducts) including platform screen doors, platform gap fillers, radio network and trackside cabling work) and depot E&M engineering works (which refers to all the E&M engineering works conducted within the railway depot area). For example, we acted as installation contractors for MTRC for the installation of (a) platform screen doors at LOHAS Park Station in 2007 and (b) additional platform gap fillers at certain light rail stops in 2016;
- (ii) railway station E&M engineering services and architectural works, including services in relation to (a) air-conditioning and mechanical ventilation system, (b) fire service system, (c) plumbing and drainage system and (d) electrical system. For example, during the Track Record Period, we had provided building services in relation to the construction of shops, undertook the replacement of trackside advertisement panels, and also the upgrade of platform supervisor booths (including the majority of ancillary E&M engineering systems within the booth) in certain railway stations;
- (iii) rolling stock refurbishment and renovation works, with a principal focus on refurbishment, modification, replacement and installation of passenger trains, work trains and/or ancillary components; and
- (iv) security and access control systems, where we have been involved in the provision of certain security and access control systems for pedestrians and vehicles at various venues across Hong Kong.

At our customers' request, we will source certain parts and/or components with particular specifications provided by our customers. We primarily source railway signalling parts and/or components for our customers, who are situated in Hong Kong.

## BUSINESS MODEL

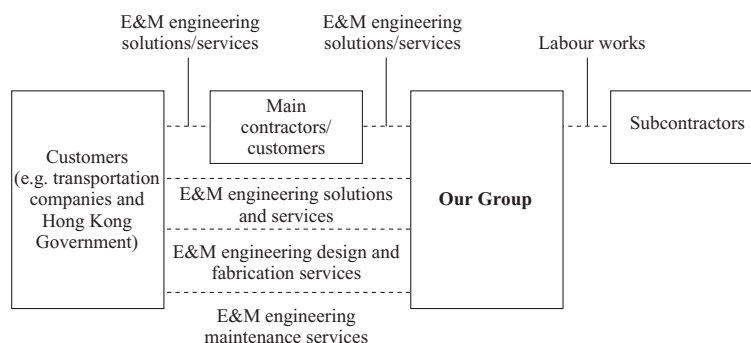
Our customers, who range from transportation companies and governmental authorities to main contractors of engineering projects, generally contract the E&M engineering works to us on project basis. As an E&M engineering solutions and services provider, we receive progress payments from our customers as set out in the relevant contracts, pursuant to the tender documents and contracts for the relevant projects. We are generally responsible for procuring and purchasing the equipment, materials and parts we use, and we also subcontract certain labour works to subcontractors.

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## SUMMARY

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The diagram below illustrates the business model of our principal operations:



### PRICING MODEL AND TENDERING STRATEGY

In relation to our E&M engineering projects, our tender team will obtain preliminary quotation for equipment and materials from potential subcontractors and suppliers in respect of the engineering design in order to ascertain the costs expected to be incurred in purchasing such materials when we prepare the tender documents. In pricing a tender, we also make references to major material and equipment costs, manpower costs, and subcontractor labour rates and costs, historical quotations, and availability of internal resources. As for the sale of parts and components, these are on-sold to our customers on a cost-plus basis.

With respect to the Group's tendering strategy, we take into account the manageability and profitability of projects with reference to our resources, capacity and capability. We also strive to maintain a balance between making a competitive bidding price against our competitors and maintaining a reasonable profit margin for each project. As such, in order to avoid exceeding our Group's capacity and having adverse impact to our financial performance resulting from excessive tendering, we may decline tender invitations.

During each of the two years ended 31 March 2017, approximately 39.4% and 58.2% of our revenue respectively was generated from tendering, whereas approximately 60.6% and 41.8% of our revenue respectively was generated from quotations. In particular, the majority of revenue generated from tendering was attributable to tendering by invitation during the Track Record Period.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have distinguished us from our competitors, contributed to our success and are critical to our future prospects: (i) established E&M engineering solutions and services provider and system integrator in Hong Kong holding various qualifications and licences with proven track record; (ii) comprehensive and full-spectrum engineering services and solutions; (iii) long-term well-established relationships with customers, suppliers and subcontractors; (iv) commitment to deliver quality works and services with quality, safety and environmental assurance; and (v) experienced and dedicated management team with expertise and proven track record.

For further details, please refer to the subsection headed "Business – Our competitive strengths" in this prospectus.

### OUR CUSTOMERS, SUPPLIERS AND SUBCONTRACTORS

Our customers comprise mainly transportation companies and other engineering companies in Hong Kong, and also various departments of the Hong Kong Government. For each of the two years ended 31 March 2017, our five largest customers accounted for approximately 79.5% and 87.5% of our revenue, respectively, and our single largest customer, namely MTRC, accounted for approximately 40.3% and 61.0% of our revenue for the corresponding periods. All of our five largest customers for each of the two years ended 31 March 2017 are independent third parties.

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## SUMMARY

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We source equipment, parts and components from our suppliers. As at the Latest Practicable Date, we had over 400 suppliers on our list of approved suppliers with 19 vendor types. For each of the two years ended 31 March 2017, our five largest suppliers accounted for approximately 42.9% and 39.2% of our total purchases, respectively, and our single largest supplier accounted for approximately 18.2% and 15.1% of our total purchases during the same periods respectively. Our five largest suppliers for each of the two years ended 31 March 2017 supply parts or components for our business, each of which is an independent third party.

For complementing different needs of our projects and flexibility in our resources deployment, we procure certain services from third-party service providers for some of our works, such as certain works which require technical expertise and/or licences possessed by the subcontractors, or works which require more manpower than that available in our Group on a project-by-project basis. During the Track Record Period, we have maintained business relationships with over 20 subcontractors who have undertaken engineering works with us. For each of the two years ended 31 March 2017, our five largest subcontractors, each an independent third party and subcontractor for labour works for E&M engineering services in Hong Kong, accounted for approximately 69.8% and 73.0% of our total subcontracting cost, respectively, and our single largest subcontractor accounted for approximately 24.8% and 26.4% of our total subcontracting cost during the same periods, respectively.

### OUR BUSINESS STRATEGIES

Our business strategies are to (i) 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, (ii) expand and enhance our E&M engineering technical capability, as well as to (iii) strengthen our Group's financial capabilities to undertake larger-scale E&M engineering projects in the future.

For further details, please refer to the subsection headed "Business – Our business strategies" in this prospectus.

### MARKET AND COMPETITION

The estimated market size of the Transportation Mission Critical System Solutions market in Hong Kong increased from HK\$1,507.2 million in 2011 to HK\$1,942.0 million in 2016, representing a CAGR of 5.2%, driven by the development of new railways, modernisation and upgrading of the transport systems, and integration of information system and transport facilities. Given the rise of smartphone applications for transportation, Transportation Mission Critical System Solutions are expected to grow accordingly. It is expected that the market size of the Transportation Mission Critical System Solutions market in Hong Kong will reach HK\$2,635.8 million in 2021, growing at a CAGR of 6.3% from 2016 to 2021.

The automatic fare collection and electronic payment and ticketing system market in Hong Kong is concentrated with the top five players contributing to 42.6% of the entire market in terms of revenue. Our Group is the second largest player in the market with revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing system, and road and tunnel toll collection system solutions, accounting for 8.9% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report.

For further information, please refer to the section headed "Industry Overview" in this prospectus.

### SUMMARY OF COMBINED FINANCIAL INFORMATION AND OPERATIONAL DATA OF OUR GROUP

You should read the summary of historical combined financial statements set forth below in conjunction with our combined financial information included in the Accountants' Report set out in Appendix I to this prospectus, together with the accompanying notes,

## SUMMARY

which have been prepared in accordance with HKFRS. The summary of the combined financial information for the period or as of the dates indicated set forth below is derived from our combined financial information, including the notes thereto, which are set out in Appendix I to this prospectus.

### Summary of selected items of the combined statements of profit or loss and other comprehensive income

	Year ended 31 March	
	2016 HK\$'000	2017 HK\$'000
Revenue	163,821	171,116
Gross profit	63,960	55,486
Profit and total comprehensive income for the year attributable to owners of the Company	22,153	13,327

### Revenue Analysis

The following table sets forth a breakdown of our revenue by our four service types during the Track Record Period:

Service type	Year ended 31 March			
	2016 HK\$'000	%	2017 HK\$'000	%
<b>E&amp;M engineering solutions and services</b>	<b>113,629</b>	<b>69.4</b>	<b>131,288</b>	<b>76.7</b>
(a) Transportation Mission Critical System Solutions	68,091	41.6	70,574	41.2
(i) Automatic fare collection system at railway stations	16,033	9.8	12,163	7.1
(ii) Electronic payment and ticketing system	752	0.5	1,593	0.9
(iii) Road and tunnel toll collection system	1,681	1.0	1,924	1.1
(iv) Railway signaling communication and control system	49,624	30.1	54,894	32.1
(b) Other E&M Engineering Solutions and Services	45,538	27.8	60,714	35.5
(i) Security and access control systems	9,224	5.6	3,725	2.2
(ii) Railway station E&M engineering services and architectural works	13,068	8.0	29,364	17.2
(iii) Rolling stock refurbishment and renovation works	9,410	5.7	6,810	4.0
(iv) Trackside and depot E&M engineering works	13,836	8.4	20,815	12.2
<b>E&amp;M engineering design and fabrication services</b>	<b>29,464</b>	<b>18.0</b>	<b>13,388</b>	<b>7.8</b>
<b>E&amp;M engineering maintenance services</b>	<b>15,024</b>	<b>9.2</b>	<b>22,345</b>	<b>13.1</b>
<b>Sale of parts and components</b>	<b>5,704</b>	<b>3.5</b>	<b>4,095</b>	<b>2.4</b>
<b>Total</b>	<b>163,821</b>	<b>100.0</b>	<b>171,116</b>	<b>100.0</b>

## SUMMARY

### Gross Profit and Gross Profit Margin Analysis

Gross profit is calculated based on our revenue for the year minus cost of sales for the year. Gross profit margin is calculated based on the gross profit margin for the year divided by our revenue for the year and multiplied by 100%. Our gross profit for each of the two years ended 31 March 2017 amounted to HK\$64.0 million and HK\$55.5 million respectively, representing gross profit margin of 39.0% and 32.4% respectively.

The following table sets forth a breakdown of the gross profit and gross profit margin during the Track Record Period by service types:

Service type	Year ended 31 March 2016		Year ended 31 March 2017	
	HK\$'000	%	HK\$'000	%
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
<b>E&amp;M engineering solutions and services</b>	<b>42,835</b>	<b>37.9</b>	<b>40,082</b>	<b>30.7</b>
(a) Transportation Mission Critical System Solutions	21,451	31.5	20,239	28.7
(i) Automatic fare collection system at railway stations	6,365	39.7	4,676	38.4
(ii) Electronic payment and ticketing system	207	27.5	428	26.9
(iii) Road and tunnel toll collection system	535	31.8	651	33.8
(iv) Railway signaling communication and control system	14,343	28.9	14,483	26.4
(b) Other E&M Engineering Solutions and Services	21,384	47.0	19,843	32.7
(i) Security and access control systems	3,587	38.9	1,359	36.5
(ii) Railway station E&M engineering services and architectural works	5,886	45.0	9,605	32.7
(iii) Rolling stock refurbishment and renovation works	3,904	41.5	2,385	35.0
(iv) Trackside and depot E&M engineering works	8,007	57.9	6,494	31.2
<b>E&amp;M engineering design and fabrication services</b>	<b>14,054</b>	<b>47.7</b>	<b>5,074</b>	<b>37.9</b>
<b>E&amp;M engineering maintenance services</b>	<b>4,649</b>	<b>30.9</b>	<b>8,008</b>	<b>35.8</b>
<b>Sale of parts and components</b>	<b>2,422</b>	<b>42.5</b>	<b>2,322</b>	<b>56.7</b>
<b>Total</b>	<b>63,960</b>	<b>39.0</b>	<b>55,486</b>	<b>32.4</b>

Gross profit margin for our E&M engineering solutions and services decreased from approximately 37.9% for the year ended 31 March 2016 to approximately 30.7% for the year ended 31 March 2017. The decrease in gross profit margin for E&M engineering solutions and services was mainly due to (i) high gross profit margin with four projects with MTRC incurred for the year ended 31 March 2016 and (ii) additional cost incurred on two projects for the year ended 31 March 2017.

Gross profit margin for our E&M engineering design and fabrication services decreased from approximately 47.7% for the year ended 31 March 2016 to approximately 37.9% for the year ended 31 March 2017. The decrease in gross profit margin was mainly due to the completion of projects related to supply of relay racks with Customer A during the year ended 31 March 2016.

### Summary Combined Statements of Financial Position

The following table sets out selected data from our Group's combined statements of financial position as at the dates indicated:

	As at March	
	2016	2017
	HK\$'000	HK\$'000
<b>Net current assets</b>		
Current assets	130,920	132,208
Current liabilities	41,782	41,884
Net current assets	89,138	90,324



## SUMMARY

### Summary Combined Statements of Cash Flows

	For the year ended 31 March	
	2016 HK\$'000	2017 HK\$'000
Operating cash flows before movements in working capital	27,798	17,212
Cash and cash equivalents at beginning of year	55,521	54,558
Net cash generated from operating activities	6,662	9,358
Net cash (used in)/generated from investing activities	(2,625)	4,703
Net cash used in financing activities	(5,000)	(10,000)
Cash and cash equivalents at the end of year	54,558	58,619

The operating cash flows before changes in working capital decreased from approximately HK\$27.8 million for the year ended 31 March 2016 to approximately HK\$17.2 million for the year ended 31 March 2017, and the net cash generated from operating activities increased from approximately HK\$6.7 million for the year ended 31 March 2016 to approximately HK\$9.4 million for the year ended 31 March 2017. Please refer to the subsection headed “Financial Information – Liquidity and capital resources – Operating activities” in this prospectus for detailed discussion.

### Key Financial Ratios

	Notes	As at/For the year ended 31 March	
		2016	2017
Gross profit margin	1	39.0%	32.4%
Net profit margin	2	13.5%	7.8%
Current ratio (times)	3	3.13	3.16
Quick ratio (times)	4	3.12	3.14
Gearing ratio	5	N/A	N/A
Net debt to equity	6	N/A	N/A
Return on equity	7	23.1%	13.4%
Return on total assets	8	16.1%	9.4%
Interest coverage ratio (times)	9	N/A	N/A

#### Notes:

1. Gross profit margin equals gross profit for the year divided by revenue for the year.
2. Net profit margin equals net profit for the year divided by revenue for the year.
3. Current ratio is calculated by current assets over current liabilities as at the end of the respective year.
4. Quick ratio is calculated by current assets (excluding inventory) over current liabilities as at the end of the respective year.
5. Gearing ratio is calculated by total debt over total equity as at the end of the respective year. Total debt includes all interest-bearing loans and amount due to a shareholder.
6. Net debt to equity is calculated by net debt over total equity as at the end of the respective year. Net debt includes all interest-bearing loans and amount due to a shareholder, net of cash and cash equivalent.
7. Return on equity is calculated by profit for the year over total equity as at the end of the respective year.
8. Return on total assets is calculated by profit for the year/period over total assets at the end of the respective year.
9. Interest coverage ratio is calculated by profit for the year/period before interest and tax over interest expense for the year.

Our net profit margins were approximately 13.5% and 7.8% for the year ended 31 March 2016 and 2017, respectively. The decrease was primarily attributable to decrease in gross profit margin and increase in administrative expenses of approximately HK\$1.4 million.



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## SUMMARY

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For details, please refer to the subsection headed “Financial Information – Summary of key financial ratios” in this prospectus.

### Project Movement and Backlog during the Track Record Period

The following table sets out the movement of the number of our projects during the Track Record Period:

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
<b>Opening number of projects</b>		
– E&M Engineering Solutions and Services	95	111
– E&M Engineering Maintenance Services	23	26
– E&M Engineering Design and Fabrication Services	5	10
<b>Number of new projects</b>		
– E&M Engineering Solutions and Services	64	81
– E&M Engineering Maintenance Services	14	14
– E&M Engineering Design and Fabrication Services	6	24
<b>Number of completed projects</b>		
– E&M Engineering Solutions and Services	48	61
– E&M Engineering Maintenance Services	11	12
– E&M Engineering Design and Fabrication Services	1	15
<b>Closing number of projects</b>		
– E&M Engineering Solutions and Services	111	131
– E&M Engineering Maintenance Services	26	28
– E&M Engineering Design and Fabrication Services	10	19

The following table sets out the movement of backlog of our projects during the Track Record Period:

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Opening value of backlog</b>		
– E&M Engineering Solutions and Services	183,859	156,902
– E&M Engineering Maintenance Services	11,223	40,826
– E&M Engineering Design and Fabrication Services	24,477	18,277
<b>Contract sum of new projects</b>		
– E&M Engineering Solutions and Services	86,672	173,618
– E&M Engineering Maintenance Services	44,627	5,858
– E&M Engineering Design and Fabrication Services	23,264	1,884
<b>Revenue recognised</b>		
– E&M Engineering Solutions and Services	(113,629)	(131,288)
– E&M Engineering Maintenance Services	(15,024)	(22,345)
– E&M Engineering Design and Fabrication Services	(29,464)	(13,388)
<b>Ending value of backlog</b>		
– E&M Engineering Solutions and Services	156,902	199,232
– E&M Engineering Maintenance Services	40,826	24,339
– E&M Engineering Design and Fabrication Services	18,277	6,773

Please refer to the notes to the above tables set out in the subsection headed “Business – Our projects – Project movement and backlog during the Track Record Period” in this prospectus.

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## SUMMARY

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### SHAREHOLDERS' INFORMATION

As at the Latest Practicable Date, our Company was owned as to 46% by KML Holdings (which is in turn held as to 50% by Mr. KL Luk and 50% by Mr. YC Luk, respectively), 35% by Mr. KM Luk and 19% by Madam Leung, respectively. Immediately following completion of the Capitalisation Issue and the Share Offer (assuming the Offer Size Adjustment Option is not exercised), our Company will be held as to 34.5% by KML Holdings (which is in turn held as to 50% by Mr. KL Luk and 50% by Mr. YC Luk, respectively), 26.25% by Mr. KM Luk and 14.25% by Madam Leung, respectively. Thus, each of KML Holdings, Mr. KL Luk, Mr. YC Luk, Mr. KM Luk and Madam Leung, who were acting in concert in respect of all corporate matters of our Group pursuant to the Acting-In-Concert Confirmation, will continue to be our Controlling Shareholders upon Listing. Madam Leung is the spouse of Mr. KM Luk, our chairman and an Executive Director. Mr. KL Luk and Mr. YC Luk, both being Executive Directors, are respectively the elder son and the younger son of Mr. KM Luk and Madam Leung.

### DIVIDENDS

During each of the two years ended 31 March 2017, KML Engineering, our principal subsidiary, declared and paid interim dividends of HK\$5.0 million and HK\$10.0 million respectively to its shareholders. Further, on 20 September 2017, our Company declared dividends of HK\$25.0 million to our Shareholders which will be paid on 30 September 2017, which would be settled in cash through internal resources generated from distribution of dividends by our subsidiaries from their respective accumulated profits as of 31 March 2017. Shareholders after the Share Offer will not be entitled to such dividends declared, and the foregoing should not be viewed as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Dividend payment will have no adverse impact on financial position and result of operations.

Our Group does not currently have a fixed dividend policy and does not have a pre-determined dividend payout ratio. Dividends may be paid out by way of cash or by other means that we consider appropriate. Declaration and payment of any dividends would require the recommendation of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us; and other factors our Board may deem relevant. There will be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

### LISTING EXPENSES

Our Group expects that the total listing expenses (including underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer), which are non-recurring in nature, will amount to approximately HK\$24.0 million (assuming (i) an Offer Price of HK\$0.60 per Offer Share (which is the midpoint of the Offer Price range); and (ii) the Offer Size Adjustment Option is not exercised at all), of which approximately: (x) HK\$8.1 million is directly attributable to the issue of Offer Shares in the Listing and will be accounted for as a deduction from equity upon the Listing; and (y) HK\$0.6 million is chargeable as operating expenses to combined statements of profit and loss for the year ended 31 March 2016 and 31 March 2017. Out of this amount, approximately HK\$15.3 million is expected to be charged to combined statements of profit and loss for the year ending 31 March 2018.

### RISK FACTORS

There are certain risks involved in our business and operations and in connection with the Share Offer. These risks can be categorised as: (i) risks relating to our business and industry; (ii) risks relating to Hong Kong; (iii) risks relating to other jurisdictions in which

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## SUMMARY

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we conduct business; and (iv) risks relating to the Share Offer. These risks include but are not limited to the following: (i) we depend on a limited number of customers for a significant part of our businesses, and the loss of our major customers could adversely affect our businesses and financial position; (ii) our gross profit margin depends on the tender price of each project, which in turn is based on the estimated costs and time to be involved. If the actual costs deviate significantly due to our miscalculation or other unexpected circumstances, or if we fail to agree on the pricing of work done pursuant to variation orders, our operations and financial results will be adversely impacted; and (iii) as the majority of our Group's revenue is derived from E&M engineering solutions and services, which are non-recurrent in nature, it is difficult to accurately forecast our future performance. As such, our historical financial conditions and results of operations may not be indicative of our future growth and performance.

A detailed discussion of all the risk factors involved is set forth in the section headed "Risk Factors" in this prospectus and you should read the whole section carefully before you decide to invest in the Offer Shares.

### SHARE OFFER STATISTICS

The following is an illustrative unaudited pro forma statement of adjusted net tangible assets of our Group prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Share Offer on the net tangible assets of our Group attributable to owners of our Company, and the details of which are set out in "Unaudited Pro Forma Financial Information" in Appendix II to this prospectus.

	Based on the minimum indicative Offer Price of HK\$0.48 per Share	Based on the maximum indicative Offer Price of HK\$0.72 per Share
Market capitalisation <sup>(1)</sup>	HK\$192,000,000	HK\$288,000,000
Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017 <sup>(2)</sup>	HK\$0.311	HK\$0.368

*Notes:*

1. The calculation of market capitalisation is based on 100,000,000 Shares expected to be issued under the Share Offer, and assuming that 400,000,000 Shares are issued and outstanding immediately following the completion of the Share Offer.
2. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017 has been arrived at on the bases set out in Appendix II to this prospectus.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$0.60 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$0.48 and HK\$0.72 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$36.0 million from the Share Offer after deducting the underwriting commissions and other estimated expenses in connection with the Share Offer payable by our Company. We intend to use the net proceeds from the Share Offer for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- approximately 49.9%, or HK\$18.0 million, will be used for expanding and enhancing our E&M engineering technical capabilities, by:
  - (i) increasing our productivity through the purchase of new machineries and equipment, such as laser cutting machine, laser welding machine, folding machine, and automatic soldering machine;

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## SUMMARY

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- (ii) improving our material handling and field service capacity through (a) renting additional space and storage facilities; and (b) the acquisition of, for example, an overhead crane, aerial platforms and silent generators, vehicles, and fibre cable testing equipment;
  - (iii) purchasing and implementing information technology solutions, including setting up of a hybrid cloud computing environment, which we believe will enhance our operational efficiency; and
  - (iv) retaining our talents and also enhancing the risk mitigation measures of our Group through the enhancement of our insurance coverage and employee remuneration packages, including the (a) upgrading of employees' medical insurance plans, the coverage of which will be more enhanced than the existing employees' medical insurance plans, (b) purchasing of the Group's professional indemnity insurance plan, (c) purchasing of the Group's product liability insurance plan, (d) providing funds for an employees' performance bonus scheme.
- approximately 25.7%, or HK\$9.3 million, will be used for deepening our penetration of the Hong Kong E&M engineering industry by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts, through (i) expanding our office space and work area in Hong Kong (including the setting up of a marketing office (which includes a virtual demonstration area) and a research and development work area), (ii) increasing our marketing efforts and business exposure (including recruiting three additional marketing staff, and participating in exhibitions, conferences and symposiums in Hong Kong and Southeast Asia), (iii) enhancement of our research and development capabilities (including the recruitment of three additional research and development staff, and investment in relevant software and technical solutions, such as a virtual reality system, license plate recognition software and software development solutions, human face recognition software, three-dimensional design software, and three-dimensional rendering and animation software);
  - approximately 16.7%, or HK\$6.0 million, will be used for strengthening our Group's financial capabilities to undertake larger-scale E&M engineering projects in the future through the provision or replacement of performance guarantees for our E&M engineering projects; and
  - the remaining amount of approximately HK\$2.8 million, representing not more than 10% of the net proceeds, will be used to provide funding for our working capital and other general corporate purposes.

For further details, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus.

### REASONS FOR THE LISTING

As at 30 June 2017, the Group had cash and cash equivalent of approximately HK\$54 million. As discussed in the subsection headed "Financial Information – Dividends" in this prospectus, on 20 September 2017, the Company declared dividends of HK\$25 million to our Shareholders which will be paid on 30 September 2017, which would be settled in cash through internal resources. After paying out the said special dividend, the Group would have cash and cash equivalent of approximately HK\$29 million.

As disclosed in the paragraphs headed "Regulatory Overview – Undertaking public work contracts – Requirements for admission and retention on the Specialist List" in this prospectus, in order for our Group to be retained on the Specialist List for the award of public work contracts, our Group is required to meet certain financial criteria, including, among other things, maintaining a minimal level of working capital at the higher of (i) HK\$570,000 and (ii) 10% of the combined annual value of uncompleted works on outstanding contracts. The value of uncompleted works on outstanding contracts submitted to

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## SUMMARY

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the WBDB in September 2015 and September 2016 amounted to approximately HK\$239 million and HK\$253 million respectively. Taking into account of the above-mentioned financial criteria, it is our policy to keep our level of working capital not less than 10% of the annual value of uncompleted works.

In addition, our Group's administrative expenses (comprising mostly staff costs and rental), being fixed costs in general, amounted to approximately HK\$38 million for each of the years ended 31 March 2017. Accordingly, it is also our policy to maintain a minimum cash balance equivalent to six months' administrative expenses (approximately HK\$20.0 million for the year ended 31 March 2017).

Furthermore, as disclosed in the subsection headed "Future Plans and Use of Proceeds – Use of proceeds" in this prospectus, we intend to (i) expand and enhance our E&M engineering technical capabilities, and (ii) deepen our penetration of the Hong Kong E&M engineering industry by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts, and hence the Directors believe that the Listing would assist us in achieving these business investment/expansion strategies.

### RECENT DEVELOPMENT AND MATERIAL ADVERSE CHANGE

Subsequent to 31 March 2017 and up to the Latest Practicable Date, we have been awarded 66 new contracts with aggregate awarded contract sum of approximately HK\$110.8 million and have submitted tenders in respect of 38 contracts with total tender value of approximately HK\$213.3 million. For each of the two years ended 31 March 2017, the total revenue arising from the Group's contracts secured through tendering amounted to approximately HK\$104.6 million and HK\$125.6 million, respectively, representing a 25.5% and 23.2% success rate by contract value, respectively.

As at the Latest Practicable Date, we had 77 Major Projects on hand and a total outstanding contract sum of approximately HK\$325 million for our projects on hand. We estimate that the revenue expected to be recognised for our projects on hand would be (i) approximately HK\$194.8 million and HK\$98.2 million for each of the two years ending 31 March 2018 and 2019 respectively; and (ii) approximately HK\$31.9 million after 31 March 2019. We expect that the Group's gross profit margin for the year ending 31 March 2018 may decrease on the basis that certain of the Group's projects on hand, which are expected to complete during or progress beyond the year ending 31 March 2018 have relatively low gross profit margins as compared to the Group's gross profit margins for each of the two years ended 31 March 2017. Subsequent to the Track Record Period, our unaudited revenue is approximately HK\$68.8 million for the four months ended 31 July 2017, which is higher than the unaudited revenue of approximately HK\$49.6 million for the four months ended 31 July 2016. Our Company declared dividends of HK\$25.0 million to our Shareholders which will be paid before Listing and settled in cash through internal resources.

To the best information and knowledge of our Directors, (i) there were several incidents of service interruption of the railway system in Hong Kong which were widely reported in the media during July to August 2017; (ii) we confirm that we were not involved in offering the relevant installation or maintenance services of the relevant systems, and (iii) the relevant incidents do not have any material adverse impact on our business operation or financial position. We consider that from 31 March 2017 and up to the Latest Practicable Date, there has been no material interruption to our business and there has been no material adverse change in the E&M engineering industry in Hong Kong.

Our Group's financial performance for the year ending 31 March 2018 will be significantly affected by, among other things, the incurrence of Listing expenses of approximately HK\$24.0 million and additional depreciation of approximately HK\$0.3 million arising from investment of the proceeds from the Share Offer in fixed assets. Saved as disclosed above, our Directors confirm that, since 31 March 2017 and up to the date of this prospectus, there has been no material change in our business, results, operations and financial or trading position, and no event has occurred that materially affect the information shown in the Accountants' Report set out in Appendix I to this prospectus.

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## DEFINITIONS

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*In this prospectus, unless the context otherwise requires, the following expressions shall have the following meanings.*

“Accountants’ Report”	the report of our reporting accountants, the text of which is set out in Appendix I to this prospectus
“Acting-In-Concert Confirmation”	the deed of acting in concert confirmation and undertaking dated 14 June 2017 entered into among Mr. KM Luk, Madam Leung, Mr. KL Luk, Mr YC Luk and KML Holdings confirming the existence of their previous acting-in-concert arrangements in respect of all corporate matters of KML Engineering and KML Technology and their intention to continue to maintain such arrangements for the purposes of consolidating their control over our Group
“Application Form(s)”	<b>WHITE</b> application form(s), <b>YELLOW</b> application form(s) and <b>GREEN</b> applications form(s) or, where the context so requires, any of them
“Articles” or “Articles of Association”	the articles of association of our Company conditionally adopted on 20 September 2017, which will become effective upon the Listing Date and as amended from time to time
“associate(s)”	has the meaning ascribed thereto in the GEM Listing Rules
“Audit Committee”	the audit committee of the Board
“Board Lot”	the board lot in which the Shares are traded on the Stock Exchange from time to time
“Board” or “Board of Directors”	our board of Directors
“Buildings Ordinance”	Buildings Ordinance (Chapter 123 of the Laws of Hong Kong), as amended and supplemented from time to time
“Business Day” or “business day”	a day on which banks in Hong Kong are generally open for normal banking business to the public and which is not a Saturday, Sunday or public holiday in Hong Kong
“BVI”	the British Virgin Islands
“CAGR”	compound annual growth rate



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## DEFINITIONS

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“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“CCASS Clearing Participant”	a person admitted to participate in CCASS as a direct clearing participant or general clearing participant
“CCASS Custodian Participant”	a person admitted to participate in CCASS as a custodian participant
“CCASS Investor Participant”	a person admitted to participate in CCASS as an investor participant who may be an individual, joint individuals or a corporation
“CCASS Operational Procedures”	the operational procedures of the HKSCC in relation to CCASS, containing the practices, procedures and administrative requirement relating to the operations and functions of CCASS, as from time to time in force
“CCASS Participant”	a CCASS Clearing Participant, a CCASS Custodian Participant or a CCASS Investor Participant
“Capitalisation Issue”	the issue of 299,990,000 new Shares to be made upon the capitalisation of certain sums standing to the credit of the share premium account of our Company as detailed in the subsection headed “A. Further information about our Company and our subsidiaries – 5. Written resolutions of our Shareholders passed on 20 September 2017” in Appendix IV to this prospectus
“Cayman Companies Law” or “Companies Law”	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands
“China” or “PRC”	the People’s Republic of China, but for the purpose of this prospectus and for geographical reference only and except where the context requires, references in this prospectus to “China” and the “PRC” do not include Hong Kong, the Macau Special Administrative Region and Taiwan
“Companies Ordinance” or “Hong Kong Companies Ordinance”	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time
“Companies (Winding Up and Miscellaneous Provisions) Ordinance”	the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Chapter 32 of the Laws of Hong Kong), as amended and supplemented from time to time



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## DEFINITIONS

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“Company”, “our Company”, “we” or “us”	KML Technology Group Limited 高萌科技集團有限公司, an exempted company incorporated in the Cayman Islands on 5 May 2017 with limited liability
“connected person”	has the meaning ascribed thereto in the GEM Listing Rules
“Controlling Shareholder(s)”	has the meaning ascribed thereto in the GEM Listing Rules and, unless the context otherwise requires, means each of KML Holdings, Mr. KM Luk, Madam Leung, Mr. KL Luk and Mr. YC Luk
“Deed of Non-Competition”	the deed of non-competition dated 20 September 2017 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), the particulars of which are set out in the subsection headed “Relationship with our Controlling Shareholders – Deed of Non-Competition” in this prospectus
“Deed of Indemnity”	the deed of indemnity dated 20 September 2017 executed by our Controlling Shareholders in favour of our Company (for itself and as trustee for its subsidiaries), the particulars of which are set out in the subsection headed “E. Other information – 1. Tax and other indemnities” in Appendix IV to this prospectus
“Director(s)”	the director(s) of our Company
“EUR”	Euros, the lawful currency for the time being of the Eurozone
“Executive Director(s)”	executive Director(s) of our Company
“Existing Tenancy Agreement”	the tenancy agreement dated 1 April 2015 entered into by KML Engineering and KML Limited in respect of the leasing of the Premises
“Frost & Sullivan”	Frost & Sullivan International Limited, a market research consultant engaged by us and an independent third party
“Frost & Sullivan Report”	the market research report on the E&M engineering industry and Transportation Mission Critical System Solutions market prepared by Frost & Sullivan and commissioned by us
“GDP”	gross domestic product

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## DEFINITIONS

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“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on the GEM, as amended, supplemented or otherwise modified from time to time
“Golden Sail”	Golden Sail International Limited, a company incorporated in the BVI which is wholly owned by a trustee for a family trust where the beneficiaries include Mr. KM Luk and Madam Leung
“ <b>GREEN</b> Application Form(s)”	the application form(s) to be completed by the <b>HK eIPO White Form</b> Service Provider
“Group”, “our Group” or “the Group”	our Company and its subsidiaries and the businesses operated by such subsidiaries
“HK\$” or “Hong Kong dollars” or “HK dollars” or “cents”	Hong Kong dollars and cents respectively, the lawful currency of Hong Kong
“ <b>HK eIPO White Form</b> ”	the application for Offer Shares to be issued in the applicant’s own name by submitting applications online through the designated website of <b>HK eIPO White Form</b> at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“ <b>HK eIPO White Form</b> Service Provider”	the <b>HK eIPO White Form</b> service provider as designated by our Company, as specified on the designated website at <a href="http://www.hkeipo.hk">www.hkeipo.hk</a>
“HKFRS”	Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants
“HKSCC”	Hong Kong Securities Clearing Company Limited, a wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited
“HKSCC Nominees”	HKSCC Nominees Limited, a wholly-owned subsidiary of HKSCC
“Hong Kong” or “HK”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong Government”	the government of Hong Kong
“Hong Kong Share Registrar”	Tricor Investor Services Limited

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## DEFINITIONS

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“Hong Kong Stock Exchange” or “Stock Exchange”	The Stock Exchange of Hong Kong Limited
“IRO”	the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong), as amended and supplemented from time to time
“Independent Non-executive Director(s)”	independent non-executive Director(s) of our Company
“independent third party(ies)”	person(s) or company(ies) and their respective ultimate beneficial owner(s), who/which, to the best of our Directors’ knowledge, information and belief, having made all reasonable enquiries, is/are not connected with our Company or our connected persons as defined in the GEM Listing Rules
“Joint Bookrunners”	Kingsway Financial Services Group Limited and Opus Capital Limited
“Joint Lead Managers”	Kingsway Financial Services Group Limited, Opus Capital Limited and Sanfull Securities Limited
“KML BVI”	KML Group (BVI) Limited, a company incorporated in the BVI on 16 May 2017 and a direct wholly-owned subsidiary of our Company
“KML Engineering”	KML Engineering Limited, a company incorporated in Hong Kong on 12 August 1977 and a direct wholly-owned subsidiary of KML BVI
“KML Holdings”	KML Holdings Limited, a company incorporated in the Bahamas on 22 February 1991, whose issued share capital carrying voting rights is held by Mr. KL Luk and Mr. YC Luk in equal shares
“KML Limited”	K M L Limited, a company incorporated in Hong Kong on 13 May 1996, which is held as to approximately 78.2% by Golden Sail, 20% by an independent third party, 1.6% by Mr. KM Luk and 0.2% by Madam Leung, and is a connected person of our Company
“KML Technology”	KML Technology Limited, a company incorporated in Hong Kong on 21 October 1988 and a direct wholly-owned subsidiary of KML BVI

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## DEFINITIONS

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“Latest Practicable Date”	20 September 2017, being the latest practicable date prior to the printing of this prospectus for the purpose of ascertaining certain information contained in this prospectus
“Listing”	the listing of our Shares on the GEM
“Listing Date”	the date, expected to be on or about Monday, 16 October 2017 on which the Shares are listed on the Stock Exchange and from which dealings in the Shares are permitted to commence on the GEM
“Logistic Industrial”	Logistic Industrial Supply Company Limited, a company incorporated in Hong Kong on 15 November 1977, which is held as to 48.5% by Golden Sail, 49% by two independent third parties and 2.5% by Madam Leung, and is a connected person of our Company
“MPF”	mandatory provident fund
“MTR”	the mass transit railway of Hong Kong
“MTRC”	MTR Corporation Limited, a company incorporated in Hong Kong on 26 April 2000, which is listed on the Main Board of the Stock Exchange (stock code: 0066), and an independent third party of the Company. For the purpose of this prospectus only, references in this prospectus to “MTRC” shall include TraxComm Limited, a wholly-owned subsidiary of the MTR Corporation Limited
“Madam Leung”	Ms. Leung Kwok Yee, our Controlling Shareholder
“Master Purchase Agreement”	the master purchase agreement dated 20 September 2017 entered into by our Company and Logistic Industrial in respect of the sale and purchase of electrical parts
“Memorandum” or “Memorandum of Association”	the memorandum of association of our Company conditionally adopted on 20 September 2017, and as amended from time to time
“Mr. KL Luk”	Mr. Luk Kwai Lung, our Controlling Shareholder and an Executive Director
“Mr. KM Luk”	Mr. Luk Kam Ming, our Controlling Shareholder and an Executive Director

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## DEFINITIONS

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“Mr. YC Luk”	Mr. Luk Yin Cheung, our Controlling Shareholder and an Executive Director
“NTD”	New Taiwan dollars, the lawful currency for the time being of Taiwan
“Nomination Committee”	the nomination committee of the Board
“Offer Price”	the final offer price per Offer Share in Hong Kong dollars (exclusive of brokerage of 1%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%) of not more than HK\$0.72 and expected to be not less than HK\$0.48, at which Public Offer Shares are to be subscribed for and to be determined in the manner further described in the subsection headed “Structure of the Share Offer – Pricing and allocation” in this prospectus
“Offer Share(s)”	the Public Offer Shares and Placing Shares together with, where relevant, any additional Shares to be offered pursuant to the exercise of the Offer Size Adjustment Option
“Offer Size Adjustment Option”	the option to be granted by our Company under the Placing Underwriting Agreement to the Placing Underwriters, exercisable by the Joint Bookrunners (on behalf of the Placing Underwriters), pursuant to which our Company may be required to allot and issue up to an aggregate of 15,000,000 additional Shares, representing 15% of the Offer Shares initially being offered under the Share Offer, at the Offer Price to, among other things, cover over-allocation (if any) in the Placing, as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing”	the conditional placing of the Placing Shares by the Placing Underwriters on behalf of our Company for cash at the Offer Price with selected professional, institutional and/or other investors in Hong Kong as described in the section headed “Structure of the Share Offer” in this prospectus
“Placing Shares”	the 90,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option) initially being offered by our Company at the Offer Price for subscription under the Placing subject to the terms and conditions as described in the section headed “Structure of the Share Offer” in this prospectus

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## DEFINITIONS

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“Placing Underwriters”	the underwriters of the Placing Shares who are expected to enter into the Placing Underwriting Agreement to underwrite the Placing Shares
“Placing Underwriting Agreement”	the conditional underwriting agreement relating to the Placing to be entered into between, amongst others, our Company, our Controlling Shareholders, our Executive Directors, the Joint Bookrunners and the Placing Underwriters, particulars of which are summarised in the subsection headed “Underwriting – Underwriting arrangements and expenses – Placing” in this prospectus
“Predecessor Companies Ordinance”	the Companies Ordinance (Chapter 32 of the Laws of Hong Kong) prior to its repeal and replacement on 3 March 2014 by the Companies Ordinance
“Premises”	workshop 12 on G/F of Block B, workshops 7, 9, 10 and 11 on 1/F of Block B, and workshop 7 on 3/F with flat roof of Block B of Shatin Industrial Centre, No.s 5-7 Yuen Shun Circuit, Shatin, New Territories, Hong Kong
“Price Determination Date”	the date, expected to be on or around Monday, 9 October 2017 (Hong Kong time), on which the Offer Price is determined, or such later date as the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company may agree, but in any event no later than Thursday, 12 October 2017
“Public Offer”	the offer of the Public Offer Shares for subscription by the public in Hong Kong at the Offer Price on the terms and conditions described in this prospectus and the Application Forms
“Public Offer Shares”	the 10,000,000 Shares initially offered by our Company for subscription pursuant to the Public Offer (subject to adjustments as described in the section headed “Structure of the Share Offer” in this prospectus)
“Public Offer Underwriters”	the underwriters of the Public Offer listed in the subsection headed “Underwriting – Public Offer Underwriters” in this prospectus

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## DEFINITIONS

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“Public Offer Underwriting Agreement”	the underwriting agreement dated Thursday, 28 September 2017 relating to the Public Offer and entered into among our Company, the Controlling Shareholders, the Executive Directors, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers and the Public Offer Underwriters as further described in the subsection headed “Underwriting – Underwriting arrangements and expenses – Public Offer” in this prospectus
“RMB” or “Renminbi”	the lawful currency of the PRC
“Regulation S”	Regulation S under the U.S. Securities Act
“Remuneration Committee”	the remuneration committee of the Board
“Reorganisation”	the reorganisation implemented to form the Group in preparation for the Listing as described in the section headed “History, Reorganisation and Corporate Structure – Reorganisation” of this prospectus
“Risk Management Committee”	the risk management committee of the Board
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO” or “Securities and Futures Ordinance”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemented from time to time
“SGD”	Singapore dollars, the lawful currency for the time being of Singapore
“S.H.E.Q.”	safety, health, environmental and quality assurance
“Sale and Purchase Agreement”	the sale and purchase agreement dated 9 June 2017 entered into between KML Engineering, Madam Leung and Ms. Chan Patricia in respect of the transfers of shares in KML Transtech Limited to Ms. Chan Patricia as part of the Reorganisation
“Share(s)”	share(s) of HK\$0.01 each in the share capital of our Company
“Share Option Scheme”	the share option scheme conditionally adopted by our Company, a summary of the principal terms are set out in the subsection headed “D. Share Option Scheme” in Appendix IV to this prospectus



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## DEFINITIONS

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“Shareholder(s)”	holder(s) of our Shares
“Share Offer”	the Public Offer and the Placing
“Share Swap Agreement”	the share swap agreement dated 6 September 2017 entered into between the Company, KML Holdings, Mr. KM Luk, Madam Leung, Mr. KL Luk and Mr. YC Luk in respect of the transfers of shares in KML Engineering and KML Technology to KML BVI as part of the Reorganisation
“Sole Sponsor” or “Kingsway Capital”	Kingsway Capital Limited, being the sole sponsor to the Listing and a corporation licensed to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
“sqf”	square feet
“subsidiary” or “subsidiaries”	has the meaning ascribed thereto in the Companies Ordinance
“substantial shareholder”	has the meaning ascribed thereto in the GEM Listing Rules
“Taiwan”	Republic of China
“Takeovers Code”	The Codes on Takeovers and Mergers and Share Buy-backs
“Tenancy Agreement”	the tenancy agreement dated 12 September 2017 entered into by KML Engineering and KML Limited in respect of the Premises
“Track Record Period”	the period comprising the two years ended 31 March 2017
“US\$” or “U.S. dollar(s)”	United States dollar(s), the lawful currency for the time being of the United States
“U.S. Securities Act”	the U.S. Securities Act of 1933, as amended and supplemented or otherwise modified from time to time, and the rules and regulations promulgated thereunder
“U.S.” or “United States”	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
“Underwriters”	the Public Offer Underwriters and the Placing Underwriters

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## DEFINITIONS

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“Underwriting Agreements”	the Public Offer Underwriting Agreement and the Placing Underwriting Agreement
“ <b>WHITE</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the applicant’s or applicants’ own name(s)
“ <b>YELLOW</b> Application Form(s)”	the application form(s) for use by the public who require(s) such Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS
“%”	per cent

Unless otherwise expressly stated or the context otherwise requires, all data in this prospectus is as at the Latest Practicable Date.

The English translation of the Taiwan entities, enterprises, nationals, facilities, regulations in Chinese or another language included in this prospectus is for identification purposes only. To the extent there is any inconsistency between the Chinese names of the Taiwan entities, enterprises, nationals, facilities, regulations and their English translations, the Chinese names shall prevail.

Certain amounts and percentage figures included in this prospectus have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures preceding them.

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## GLOSSARY OF TECHNICAL TERMS

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*This glossary contains explanations of certain terms used in this prospectus. These terms and their meanings may or may not correspond to standard industry meaning or usage of these terms.*

“AFC system”	automatic fare collection system, encompassing ticket machines, gates, add-value machines, station accounting systems and multi-purpose readers
“Buildings Department”	Buildings Department of the Hong Kong Government
“CAD” or “CAM”	computer-aided design or computer-aided manufacturing
“CCTV”	closed-circuit television
“CIC”	Construction Industry Council of Hong Kong
“crossing”	an intersection where a railway line crosses a road or path at the same level, as opposed to the railway line crossing over or under using a bridge or tunnel
“E&M engineering”	electrical and mechanical engineering
“EMSD”	Electrical and Mechanical Services Department of the Hong Kong Government
“HKQAA”	Hong Kong Quality and Assurance Agency
“ISO”	International Organization for Standardization, a non-government organisation based in Geneva, Switzerland, for assessing the quality systems of business organisations
“ISO 9001”	requirements set by the ISO for quality management system where an organisation needs to demonstrate its ability to provide products that fulfil customer and applicable regulatory requirements and aim to enhance customer satisfaction
“Labour Department”	Labour Department of the Hong Kong Government
“LED”	light-emitting diode, a two-lead semiconductor light source

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## GLOSSARY OF TECHNICAL TERMS

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“main contractor”	a contractor directly employed by the customer, usually a general contractor experienced in a wide range of engineering work, who employs subcontractors who may be domestic or named by the customer, responsible for planning, managing and co-ordinating work on site during the project implementation phase
“Major Projects”	projects with a contract sum of HK\$1 million or more
“mechatronics engineering”	a multidisciplinary segment of engineering, which typically combines electrical engineering, computer engineering, mechanical engineering, and control engineering
“MetroStile”	an intelligent pedestrian control gate the trademark of which is registered by KML Engineering
“POS”	point-of-sale terminal, which is a computerised replacement for a cash register
“QR Code”	quick response code is a type of two-dimensional bar code, which is often used to provide access to information through electronic device such as smartphone
“Registered Electrical Contractor”	registered electrical contractor with the EMSD
“rolling stock”	any vehicles which move on a railway, including passenger trains, maintenance trains and engineering trains
“SCADA”	supervisory control & data acquisition system, which is a main control system used for centralised monitoring and control of the performance of systems
“SCL” or “Security Company Licence”	the license issued or renewed by SGSIA under the SGSO
“SGSO”	the Security and Guarding Services Ordinance (Chapter 460 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
“Security and Guarding Services Industry Authority” or “SGSIA”	the Security and Guarding Services Industry Authority established under the SGSO

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## GLOSSARY OF TECHNICAL TERMS

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“security personnel permit”	the permit issued or renewed by the Commissioner of Police (or any police officer acting under and in accordance with an authorisation conferred on him by such Commissioner of Police) under the SGSO
“Specialist List”	List of Approved Suppliers of Materials and Specialist Contractors for Public Works
“subcontractor”	a contractor employed by the main contractor to carry out part of the contract work on behalf of the main contractor
“Transportation Mission Critical System Solutions”	the five types of system solutions, namely: (i) AFC system at railway stations; (ii) electronic payment and ticketing system; (iii) road and tunnel toll collection system; (iv) traffic control and surveillance system; and (v) railway signaling communication and control system
“turnouts” or “switches”	mechanical installation enabling railway trains to be guided from one track to another
“variation order”	such additional works, omissions or changes requested by the customer for specifications not included in the original contract
“WBDB”	Works Branch of the Development Bureau of the Hong Kong Government, which maintains the Contractor List and the Specialist List to monitor the eligibility of a contractor to tender for Hong Kong Government contracts

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## FORWARD-LOOKING STATEMENTS

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This prospectus contains certain forward-looking statements. All statements other than statements of historical fact contained in this prospectus, including, without limitation, those regarding our future financial position, strategies, plans, objectives, goals, targets, and future developments in the markets where we participate or are seeking to participate and any statements preceded by, followed by or that include the words “aim”, “anticipate”, “believe”, “consider”, “continue”, “could”, “estimate”, “expect”, “foresee”, “going forward”, “intend”, “may”, “ought to”, “predict”, “plan”, “project”, “seek”, “should”, “will”, “would” and similar expressions or the negative thereof, are forward-looking statements. These forward-looking statements are based on numerous assumptions regarding our present and future business strategies and the environment in which we will operate in the future. These forward-looking statements reflecting our current views with respect to future events are not a guarantee of future performance and involve known and unknown risks, uncertainties, assumptions and other factors, some of which are beyond our control, which may cause our actual results, performance or achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Important factors that could cause our actual results, performance or achievements to differ materially from those in the forward-looking statements include, without limitation, the risk factors set forth under the section headed “Risk Factors” in this prospectus and the following:—

- our business strategies, initiatives, plans and prospects;
- our business development, results of operations and financial condition;
- the amount and nature of, and potential for, future development of our business;
- our expectations with respect to increased revenue growth and our ability to sustain profitability;
- future developments, trends, competition and general economic, political and operating conditions in the industry and markets in which we operate;
- changes to the regulatory environment and general outlook in the industry and markets in which we operate;
- our products and services under development or planning;
- our ability to attract users and further enhance our brand recognition;
- expected changes in our revenues and certain cost or expense items and our ability to reduce costs;
- our dividend policy and distribution plans;
- capital market developments;
- the actions and developments of our competitors and effect of competition on the demand for and prices of the products we offer and our ability to compete; and

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## FORWARD-LOOKING STATEMENTS

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- certain statements in the sections headed “Risk Factors”, “Industry Overview,” “Regulatory Overview”, “Business”, “Financial Information”, “Relationship with our Controlling Shareholders” and “Future Plans and Use of Proceeds” with respect to change or volatility in interest rates, foreign exchange rates, prices, volumes, operations, margins, risk management and overall market trends.

Subject to the requirements of applicable laws, rules and regulations, we do not have any and undertake no obligation to update or otherwise revise the forward-looking statements in this prospectus, whether as a result of new information, future events or otherwise. As a result of these and other risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus might not occur in the way we expect, or at all. Moreover, the inclusion of forward-looking statements should not be regarded as representations by us that our plans and objectives will be achieved or realised.

In this prospectus, statements of or references to the intentions of our Company or any of our Directors are made as at the date of this prospectus. Any such intentions may potentially change in light of future developments.

All forward-looking statements contained in this prospectus are qualified by reference to the cautionary statements set out in this section. We caution you not to place undue reliance on any forward-looking statements or information.



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## RISK FACTORS

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*In addition to other information in this prospectus, prospective investors should carefully consider the following risk factors, which may not be typically associated with investing in our Shares, before making any investment decisions in relation to the Offer Shares. If any of the possible risks described below materialise, our business, financial condition and results of operations could be materially and adversely affected and the market price of our Shares could decrease significantly.*

There are certain risks involved in our business and operations and in connection with the Share Offer. These risks can be categorised as: (i) risks relating to our business and industry; (ii) risks relating to Hong Kong; (iii) risks relating to other jurisdictions in which we conduct business; and (iv) risks relating to the Share Offer.

### **RISKS RELATING TO OUR BUSINESS AND INDUSTRY**

**We depend on a limited number of customers for a significant part of our businesses, and the loss of our major customers could adversely affect our businesses and financial position.**

We have been dependent on a limited number of customers for a portion of our revenues. Our top five customers, in aggregate, accounted for approximately 79.5% and 87.5% of our total revenue for each of the two years ended 31 March 2017 respectively. Over the same periods, our largest customer, MTRC, accounted for approximately 40.3% and 61.0% of our revenue respectively.

There may be risks associated with having a small number of major customers. We cannot assure you that we will be able to maintain or improve our relationship with our major customers, that we will be able to continue to provide services or supply products to them at current levels in similar terms, or at all. We do not enter into any long term contracts with our major customers, and there can be no assurance that they will continue to engage our services or purchase from us in the future. In addition, our business is affected by the overall business of our major customers and their affiliates. Any deterioration in the businesses of our major customers could lead to a decline in the number of projects we are invited to tender for, or an otherwise change in our major customers' business relationships. Our use of resources and management attention to continue our relationship with our major customers and provide services to them may also reduce resources devoted to our other customers and business activities. In the event that our major customers cease to engage us to provide services and/or products and we fail to replace such customers, our business and financial position may be materially and adversely affected.

**Our gross profit margin depends on the tender price of each project, which in turn is based on the estimated costs and time to be involved. If the actual costs deviate significantly due to our miscalculation or other unexpected circumstances, or if we fail to agree on the pricing of work done pursuant to variation orders, our operations and financial results will be adversely impacted.**

Our gross profit margin is dependent on, among other things, our ability to control costs and subject to other risk factors as set out in this section. We enter into all our projects on a lump sum fixed-price basis. In general, we will perform an estimation of costs

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## RISK FACTORS

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before submitting tender or quotations to our customers. We are typically responsible for all of our costs, and our ability to achieve our target profitability on any project is largely dependent on our ability to accurately estimate and control these costs. The typical duration of our contracts was one to three years for the E&M engineering solutions or services during the Track Record Period, and once the tender price is fixed, we are obliged to complete the contract at such price. Cost overruns, whether due to inefficiency, inaccurate estimates or other factors such as delay in work progress due to disputes or incoordination among the parties involved, which are not uncommon for such projects, may result in a lower profit or even a loss on a project. The amount of total costs we incur on a project is affected by a variety of factors, including, among other things, fluctuations in the price of raw materials, variations in labour and equipment costs over the term of a contract, changes in project scope or conditions, disagreements on contract terms or works between the clients and the main contractors, costs incurred during the defects liability period for rectification of defects and other unforeseen circumstances such as fine and suspension of electricity supply. Such change in cost may cause the revenue and gross profit realised from a contract to be lower than our originally estimated amounts, despite any buffer we may have built into our bids for any increase in labour, materials and project management costs. As such, we may achieve lower-than-expected profits or even incur losses on that project when we meet any delays, cost overruns or mismatch of actual costs and time with our estimates which may have an adverse impact on our operations and financial results.

From time to time, we are also required to vary our work or products as directed by customers, which are not in the original design specifications. We will usually evaluate the amount of variation work required and propose adjustments to the subcontract sum. This process may result in disputes about whether the work performed is beyond the scope of the work, or whether customer is willing to pay the price for the variation work. Even when the customer agrees to pay for the variation work, we may be required to fund the cost of such work for a lengthy period of time until the variation order is approved and paid for by the customer. In addition, any delay caused by the variation work may adversely impact the timely scheduling of other project work and our ability to meet specified contract milestone dates.

**As the majority of our Group's revenue is derived from E&M engineering solutions and services, which are non-recurrent in nature, it is difficult to accurately forecast our future performance. As such, our historical financial conditions and results of operations may not be indicative of our future growth and performance.**

For each of the two years ended 31 March 2017, our Group's revenue amounted to approximately HK\$163.8 million and HK\$171.1 million respectively. For the same period, our profit and total comprehensive income for each of the two years ended 31 March 2017 was approximately HK\$22.2 million and HK\$13.3 million respectively. For each of the two years ended 31 March 2017, our gross profit was approximately HK\$64.0 million and HK\$55.5 million, respectively, whereas our gross profit margin for the same periods was approximately 39.0% and 32.4%, respectively. For a discussion regarding our results of operations, please refer to the section headed "Financial Information" in this prospectus.

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## RISK FACTORS

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For each of the two years ended 31 March 2017, we derived approximately 69.4% and 76.7% of our revenue from the provision of E&M engineering solutions and services, respectively; approximately 18.0% and 7.8% of our revenue from the provision of E&M engineering design and fabrication services respectively; approximately 9.2% and 13.1% of our revenue from the provision of E&M engineering maintenance services respectively, which are non-recurrent in nature. Our Group submitted tenders for a mixture of projects covering different project sizes and project types during the Track Record Period. Upon our submission of tender documents, it would be subject to customers' decision as to whether we can be awarded with the projects. In general, our customers engage us on a project-by-project basis. We still need to undergo tender process for every new project. We have not entered into any long term agreement or master service agreement with our customers as at the Latest Practicable Date. Our customers have no obligation to engage us again in their subsequent projects, if any. As such, the number and scale of E&M engineering projects and the amount of revenue driven from such projects may vary significantly from period to period. If our projects in the future decrease significantly, our revenue will decrease accordingly. In that event, our operations and financial results would be adversely affected.

We cannot assure you that we will continue to secure new projects in the future and therefore it may be difficult to forecast the volume of future business. As such, there is inherent risk in using our historical growth rate, revenue and gross profit margin to project or estimate our future financial performance as they only reflect our past performance under particular conditions. Our growth rate, revenue and profit margin are subject to many factors, including but not limited to the overall market condition, competition intensity among our competitors, labour costs, and other unforeseen factors. There is no assurance that the number of E&M engineering projects in Hong Kong will not decrease in the future. For instance, an economic downturn in Hong Kong where our Group operates may hold up our work plans, as a result of which our Group's business, financial condition and results of operations could be materially and adversely affected.

We cannot assure you that we can achieve our performance during the Track Record Period in the future and there is no guarantee that we can maintain our historical growth rate and gross profit margin in the future.

### **Our business strategies include capital investment which would lead to increased depreciation charges that could affect our financial performance**

Our business strategies include expanding and enhancing our E&M engineering technical capability by investing in new machineries and equipment to increase our production capacity as well as material handling and field service capacity. For details as to the type of machinery and equipment to be purchased, please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus. The total investment costs are estimated to be approximately HK\$11.2 million and as these investments are capital expenditures, there would be a resultant increase in our depreciation charges. Based on the aforementioned investments, the additional depreciation charges are expected to be approximately HK\$0.3 million and HK\$1.3 million for the two years ending 31 March 2019 respectively, which may adversely affect the Group's financial performance in the relevant period.

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## RISK FACTORS

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**If we fail to meet the requirements of our contracts or quality standards of our services, we may face litigation, be required to pay damages and additional costs, which may adversely affect our business and reputation.**

We are typically required to complete each project according to a fixed schedule by an agreed date as stated in the relevant contract. If we fail to complete a project in a timely manner resulting in a breach of our contractual obligations, we may be liable to compensate our customers for losses or damages caused by the delay. For the projects undertaken by us, it is common for a clause for payment of damages for non-completion of works to be included in the contract made between us and the customer involved. Such a clause usually provides that in case of delay in the completion of works, a sum of liquidated damages calculated on the basis of a fixed sum of money per day (as stated in the contracts) will have to be paid by us to the customer for the period during which the works so remain incomplete due to our default. Alternatively, the contract may provide that the customer may recover from us any costs reasonably incurred for the procurement of work or services in replacement of incomplete works due to any delay or non-completion on our part. Any delay in the completion of a project, whether or not caused by us, could also lead to additional costs being incurred, including costs to hire additional manpower. During the Track Record Period, we have not been liable for losses or required to pay any damages for any delay in the completion or non-completion of any projects.

Any claims for liquidated damages if so occurred will affect our profitability if no extension of time is granted, as the customer is entitled to deduct such liquidated damages from the contract sum under the relevant contract. The effect to us depends on the length of the delay in completion due to our default. Furthermore, any failure on our part to complete a project in a timely manner could harm our reputation in the industry and hinder our ability to win future contracts and, as a result, our business, financial condition and results of operations could be materially and adversely affected.

In addition, we may be liable to compensate our customers for any losses sustained by them if any of our employees, contract workers or installation service providers do not complete projects in accordance with the terms specified in the relevant contracts. These litigation costs, together with the payment of damages, could adversely affect our profitability and financial performance.

**Our business could be affected by the Hong Kong Government's level of spending on public works.**

During the Track Record Period, approximately 94.6% and 97.4% of our revenue was generated from public sector projects. Some public works projects are non-recurring in nature. Any change or significant delay in the level of spending on public works by the Hong Kong Government may affect our business and operation results. In the event that the Hong Kong Government reduces its level of spending on public works and we fail to secure business from other sectors, our business and profitability could be adversely affected.

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## RISK FACTORS

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**We may be exposed to delays and/or defaults on payments from our customers, while remaining subject to satisfying payment obligations to our suppliers, which would materially and adversely affect our cash flows or financial results.**

Our financial position and profitability are dependent on the credit worthiness of our customers. We grant credit periods to our customers based on their payment history, business performance and/or market position. We typically grant our customers an average credit period of 30 to 60 days from the issuance of our invoice. For each of the two years ended 31 March 2017 respectively, our Group had trade receivables turnover days of approximately 69 and 71 days respectively. Moreover, the average credit period of trade payables granted by our suppliers is from 30 to 60 days upon the issue of invoices. For each of the two years ended 31 March 2017, our trade payables turnover days were approximately 44 and 30 days respectively.

Should we experience any delays or difficulties in collecting payments from our customers and/or trade receivables from our debtors, while remaining obligated to satisfy our ongoing payment obligations to our suppliers, we may be required to consider alternative sources of financing and/or delay on our own payment obligations, and our cash flows, financial condition and results of operations may be materially and adversely affected.

**We outsource certain parts of our projects to subcontractors. Any delay or defects on the part of the subcontractors would adversely affect our operations and financial results.**

During the Track Record Period, we have outsourced certain parts of our projects to subcontractors engaged by us. For each of the two years ended 31 March 2017, the aggregate contract sums of our subcontractor contracts were approximately HK\$25.5 million and HK\$38.0 million respectively, representing approximately 25.6% and 32.9% of our costs respectively.

We cannot assure that work completed by our subcontractors are up to our standard. We are not able to monitor the performance of our subcontractors or their respective staff as directly and efficiently as with our own staff. If a subcontractor fails to provide services and/or products as required under a contract, we may be required to procure other companies to perform these services or provide these products on a delayed basis or at a higher price than anticipated, which could impact our profitability. If a subcontractor's performance does not meet our standards, the quality of the project may be affected, which could harm our reputation and potentially expose us to litigation and damage claims. We may also face claims arising from latent defects caused by our subcontractors which we did not discover in the past. In the event that we are unable to locate these subcontractors to rectify the defect, if it is rectifiable, or if we fail to hold them liable or obtain compensation from them, we may have to incur significant time and costs to carry out remedial actions. We may even face litigations against us.

In addition, we may not be able to engage suitable subcontractors for our new projects. As at the Latest Practicable Date, we had not entered into any long term service agreement with our subcontractors. As such, our existing subcontractors have no obligation to be

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## RISK FACTORS

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engaged by us in future projects. If we fail to find suitable alternative subcontractors to meet our new project needs and requirements, our operations and financial results may be adversely affected.

**Increase of our equipment and raw material costs may adversely affect our Group's operations and financial performance.**

For each of the two years ended 31 March 2017, our equipment and raw material costs amounted to approximately HK\$29.3 million and HK\$30.0 million respectively, representing approximately 29.3% and 26.0% of our costs respectively. Please refer to the subsection headed "Financial Information – Cost of sales – Sensitivity analysis" in this prospectus for the sensitivity analysis illustrating the impact of hypothetical fluctuations in equipment and raw material costs on our profit during the Track Record Period. The change in equipment and raw material costs may or may not be able to shift to our Group's customers. In the event that the increase in equipment and raw material costs is more than our Group's expectation, our Group's operations and profitability may be adversely affected.

**Our success and business operations rely on certain key personnel and our ability to attract and retain talented staff.**

Our success has always relied on, and will continue to rely on certain key personnel. In particular, we rely on the expertise and experience of our chairman, Mr. KM Luk, who has over 50 years of experience in the E&M engineering industry in Hong Kong. In addition, most of our senior management have over 20 years of experience in the engineering industry. Please refer to the section headed "Directors and Senior Management" in this prospectus for further details.

If one or more of the members of our senior management or other key personnel are unable or unwilling to continue in their present positions, we may not be able to find suitable replacements in a timely manner, or at all. There is no guarantee that we will be able to attract and retain our current personnel or that they will not leave the Group's employment in the future. If we are unable to retain our staff in the future, our business may be severely disrupted and our operations, financial results and future prospects will hence be adversely affected.

**We require various registrations, licences, permits and certifications to operate our businesses. The loss of, expiry, withdrawal, revocation, downgrading or failure to obtain or renew any of such registrations, licences, permits and certifications could materially and adversely affect our operations and financial results.**

Our E&M engineering qualifications on the Hong Kong Government's approved lists of contractors in Hong Kong are important to us as they dictate the range and size of public works in which we are eligible to participate as a contractor. In accordance with the laws and regulations of Hong Kong, we are required to maintain various registrations, licences, permits and certifications in order to operate our business. Please see the section "Regulatory Overview" for a summary of requirements relating to such registrations, licences, permits or certifications.



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## RISK FACTORS

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These registrations, licenses, permits and certifications may only be valid for a limited period of time and may be subject to periodic reviews and renewal by the relevant authorities. Failure to comply with these laws and regulations, or the loss of or failure to renew our licences and permits or any change in the government policies, could lead to temporary or permanent suspension of some of our business operations or the imposition of penalties on us, which could adversely affect our results of operations and financial condition.

**Labour shortages or increases in labour costs could harm our business, reduce our profitability and slow our growth.**

Experienced professional staff and other labour are important for the operation of our businesses, and therefore, our success depends in part on our ability to attract, retain and motivate a sufficient number of qualified engineers and the engagement of subcontractors for certain labour intensive works. Qualified individuals in the relevant industries are in short supply and competition for workers is intense.

In particular, the Transportation Mission Critical Systems Solutions industry requires personnel with high level of experience including project managers and engineers. As there is limited fresh blood entering the said market, there is a fault in experience inheritance. As disclosed in the section headed “Industry Overview” in this prospectus, there is a mismatch between the demand and supply for skilled labour in the construction industry in Hong Kong. Combined with the growing demand for construction works and shortage of skilled labour, the problem of insufficient talents is highlighted.

During the Track Record Period, we have, from time to time, experienced short-term shortages primarily in engineers and skilled workers, which we have addressed by (i) paying higher wages or (ii) engaging subcontractors to provide relevant labour.

In view of the above, we may experience labour shortages or increase in labour costs in the future. Any future inability to recruit and retain qualified individuals may delay the completion of our works and could result in deduction from the contract sum payable to our Group as a form of penalty. Any such delays could have a material adverse effect on our business and results of operations. In addition, competition for qualified engineers or employees could also require us to pay higher wages, which could result in higher labour costs. Moreover, the minimum wage requirement in Hong Kong has increased and can continue to increase our labour costs in the future.

The majority of our revenue is generated from agreements with terms over one year. Most of such agreements do not contain labour cost adjustment mechanism, and we may fail to anticipate or may be unable to transfer the full impact of the increase in labour cost to our customers in the relevant agreements with such mechanism. In such or other cases, we may not be able to increase our prices in order to pass these increased labour costs on to our customers for contracts without price adjustments, in which case our business and results of operations would be negatively affected.



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## RISK FACTORS

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**We have limited insurance cover, and any uninsured losses incurred could be substantial and therefore adversely affect our operations and financial condition.**

Under Hong Kong law, we are not required to maintain product liability and business interruption insurance policies. Accordingly, we have not maintained these insurance policies. During the Track Record Period and up to the Latest Practicable Date, we had not received any material product liability claims from third parties. Should our products be found defective and/or should they cause property damage or personal injury, we may have to devote significant resources to defend any such claims and/ or to provide compensation. In addition, we and/or our officers (as the case may be) may be exposed to claims in respect of matters that are not covered by any insurance policies we maintain. Further, although we maintain insurance coverage we believe to be adequate based on the industry we operate in, including contractors' all risks insurance, public liability insurance, motor vehicles insurance, employee's compensation insurance and marine cargo insurance, there may be circumstances (such as earthquakes, war, floods, transportation disruption, power shortages and disruption of or damage to our facilities, equipment or products) in which we would not be covered adequately, or at all. Uninsured losses incurred, or payments we may be required to make, may have a material adverse effect on our financial condition and operating results.

With respect to losses which are covered by our insurance policies, it may be a difficult and lengthy process to recover such losses from insurers. In addition, we may not be able to recover the full amount from the insurer. There can be no assurance that our policies would be sufficient to cover all potential losses, regardless of the cause, or whether we can recover such losses.

**Personal injuries, property damages or fatal accidents may occur at work sites.**

In the course of operations, we require our employees to comply with and implement all the safety measures and procedures as stipulated in our internal policies. Nevertheless, there is no assurance that our safety measures or other related rules and regulations by our employees or the subcontractors are strictly followed. Any violation may lead to higher probability of occurrences, and/or increased seriousness, of personal injuries, property damages and/or fatal accidents at work sites, which may materially and adversely affect business operations as well as financial position to the extent not covered by insurance policies.

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## RISK FACTORS

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### We face risks associated with foreign exchange fluctuations.

We conduct business with customers, suppliers and subcontractors located in Hong Kong, the PRC and overseas. The Group's exposure to currency risk mainly arise from the fluctuation of RMB, EUR, SGD, NTD or US\$. The carrying amounts of the foreign currency denominated monetary assets and liabilities other than the functional currencies of the companies now comprising our Group as at 31 March 2016 and 31 March 2017 were:

	<b>Liabilities</b>		<b>Assets</b>	
	<b>As at 31 March</b>		<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	79	–	2,518	2,461
SGD	–	–	5,711	–
EUR	262	–	373	146
NTD	38	38	789	478
US\$	1,205	480	2,169	1,928

We are therefore subject to risks associated with exchange rate fluctuations and changes in exchange rates could affect our results of operations. During the Track Record Period, we have recorded a net exchange gain of approximately HK\$58,000 for the year ended 31 March 2016 and incurred a net exchange loss of approximately HK\$82,000 for the year ended 31 March 2017 due to foreign exchange fluctuations.

Changes in exchange rates could increase our costs, or affect the Hong Kong dollar equivalent of prices of our exported products and prices of our imported equipment and materials, any of which could adversely affect our results of operations. The value of the RMB is subject to changes in government policies of the PRC and to factors including international economic developments, political conditions and supply and demand for currencies. The value of the RMB in international markets is determined by reference to a basket of currencies as part of a floating exchange rate policy. We cannot predict the future fluctuations of the RMB. The PRC Government may adopt a more flexible currency policy, which could lead to the RMB experiencing more substantial revaluation against the U.S. dollar or other currencies.

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## RISK FACTORS

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### RISKS RELATING TO HONG KONG

**The state of economy in Hong Kong may adversely affect our performance and financial condition.**

For each of the two years ended 31 March 2017, approximately 83.8% and 94.7% of our total revenue respectively, was derived in Hong Kong. If Hong Kong experiences any adverse economic conditions due to events beyond our control, such as a local economic downturn, natural disasters, contagious disease outbreaks or terrorist attacks, or if the local authorities adopt regulations that place additional restrictions or burdens on us or on our industry in general, our overall business and results of operations may be materially and adversely affected.

**The state of political environment in Hong Kong may adversely affect our performance and financial condition.**

Hong Kong is a special administrative region of the PRC and enjoys a high level of autonomy under the principle of “one country, two systems” according to the Basic Law of Hong Kong. However, we are not in any position to guarantee the implementation of the “one country, two systems” principle and the level of autonomy as currently in place at the moment. Since a significant portion of our total revenue was derived from (i) provision of our solutions and services and (ii) sale of parts and components in Hong Kong, any change of such political arrangements may pose immediate threat to the stability of the Hong Kong economy, thereby directly and adversely affecting our results of operations and financial positions. In 2014, thousands of residents of Hong Kong engaged in civil disobedience protests. Activists protested outside key government buildings and occupied several major intersections, causing major disruption to traffic and trade in affected areas. Any political and social instability in Hong Kong, if significant and prolonged, could have a material effect on our business, financial condition, results of operations and prospects.

### RISKS RELATING TO OTHER JURISDICTIONS IN WHICH WE CONDUCT BUSINESS

Some of our projects, products and services are based or provided overseas. For each of the two years ended 31 March 2017, our overseas sales accounted for approximately 16.2% and 5.3% of our total revenue, respectively. We intend to continue to develop our overseas customer base, including in Taiwan and other Southeast Asian countries.

We face risks associated with our business in other jurisdictions. Our business, financial condition and financial results are subject to risks and uncertainties relating to the relevant countries in which (i) we conduct business or (ii) our customers are based, including:

- exposure to international, regional and local economic and political conditions and regulatory policies;
- changes in legal developments and enforcement risks;
- control of foreign exchange and fluctuations in foreign exchange rate;

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## RISK FACTORS

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- inflation;
- developments in labour law and increase in labour cost; and
- restrictions or requirements relating to foreign investment.

### **RISKS RELATING TO THE SHARE OFFER**

**There has been no prior public market for our Shares, thus an active or liquid trading market for the Shares may not develop and the trading price of our Shares may be volatile.**

Our Shares have not been listed or quoted on any stock exchange or open market prior to the Share Offer. There is no assurance that there will be an active trading market for our Shares on the Stock Exchange upon the Listing. In addition, the market price of our Shares to be traded on the Stock Exchange may differ from the Offer Price and prospective investors should not treat the Offer Price as an indicator of the market price of our Shares to be traded on the Stock Exchange.

Upon the Listing, the trading volume and the market price of our Shares may be affected or influenced by a number of factors from time to time, including but not limited to, our revenue, profit and cash flow, acquisitions, strategic partnerships, joint ventures or capital commitments, changes in our management and general market conditions or other developments affecting us or our industry. There is no assurance that such factors will not occur and it is difficult to quantify their impact on the trading volume and the market price of our Shares. As a result, investors in our Shares may experience volatility in the market price of the Shares and a decrease in the value of the Shares, regardless of our operating performance or prospects.

**Prospective investors of our Shares may experience dilution upon issue of new Shares under the Share Option Scheme and further dilution if our Company issues additional Shares in the future.**

Prospective investors may experience dilution to the extent that the Shares are issued upon exercise of options pursuant to the Share Option Scheme. In addition, we may need to raise additional funds in the future to finance expansions of our operations or new acquisitions. If additional funds are raised through issuance of new Shares or other securities that may be converted into the Shares other than on a pro rata basis to our existing Shareholders, the percentage ownership of the existing Shareholders may be reduced and Shareholders may experience subsequent dilutions. In addition, any such new securities may have preferred rights, options or pre-emptive rights that make them more valuable than or that take priority over those conferred by the Shares. Prospective investors of our Shares may also experience further dilution in the net tangible assets book value per Share if our Company offers or issues new Shares at a price lower than the then net tangible assets book value per Share.

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## RISK FACTORS

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**Future sales or a major divestment of Shares by our Controlling Shareholders after the Listing could adversely affect the prevailing market price of the Shares.**

The Shares beneficially owned by our Controlling Shareholders are subject to certain lock-up periods, details of which are set out in the subsections headed “Underwriting – Underwriting arrangements and expenses – Undertakings to the Stock Exchange pursuant to the GEM Listing Rules – Undertakings by the Controlling Shareholders” and “Underwriting – Underwriting arrangements and expenses – Undertakings pursuant to the Public Offer Underwriting Agreement – Undertakings by the Controlling Shareholders” in this prospectus. We cannot guarantee you that our Controlling Shareholders will not dispose of our Shares following the expiration of their respective lock-up periods after the Listing Date. Our Group cannot predict the effect, if any, of any future disposal of Shares by any of our Controlling Shareholders, or that the Shares held by our Controlling Shareholders are available for purchase in the market may have on the market price of our Shares. Future sales, disposals, or other transfers of a substantial number of our Shares by our Controlling Shareholders in public markets, or any prospects or possibilities of such sales, disposals or other transfers, as to or against which the holders of our Shares may or may not have a right to vote or veto, could adversely impact the market price of our Shares and our ability to raise equity capital in the future at a time and price that we deem appropriate.

**We may not be able to pay any dividends on the Shares.**

Following completion of the Share Offer, our Shareholders will be entitled to receive dividends only when declared by our Board. The payment and the amount of any future dividend will be at the discretion of our Board and will depend on, among others, our earnings, financial condition, cash requirement and availability, and other factors as our Directors may deem relevant. As such, factors and the payment of dividends are at the discretion of our Board which reserves the right to change its plan on the payment of dividends, there can be no assurance that any particular dividend amount, or any dividend at all, will be declared and paid in the future. Prospective investors should note that historical dividend payments should not be regarded as an indication of our future dividend policy.

**Our Shareholders may experience difficulties in enforcing their shareholder rights because we are incorporated under Cayman Islands laws, which may provide different protection to minority shareholders when compared with the laws of Hong Kong and other jurisdictions.**

Our corporate affairs are governed by, among other things, our Memorandum and Articles of Association, Cayman Companies Law and common law of the Cayman Islands. The laws of the Cayman Islands relating to the protection of the interests of minority shareholders differ in some respects from those in Hong Kong and other jurisdictions. Such differences may mean that the remedies available to our minority Shareholders may be different from those they would have under the laws of Hong Kong or other jurisdictions. For details, please refer to Appendix III to this prospectus.

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## RISK FACTORS

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**We cannot guarantee the accuracy of the facts and statistics in this prospectus relating to the industry in which we operate.**

Facts, forecasts and other statistics in this prospectus, relating to the E&M engineering market and Transportation Mission Critical System Solutions market, are derived, in part, from official government sources. Our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of its or their respective affiliates, or advisers, have not independently verified these materials and, therefore, make no representations as to the accuracy of such facts, forecasts and statistics. Due to possibly flawed or ineffective collection methods, discrepancies between published information and market practice, or other problems, the statistics in this prospectus, including without limitation those in the section headed “Industry Overview” in this prospectus, may be inaccurate or may not be similar to statistics produced by other sources. Prospective investors should not place undue reliance on any of such information and statistics contained in this prospectus.

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## **WAIVER FROM STRICT COMPLIANCE WITH THE GEM LISTING RULES**

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### **CONTINUING CONNECTED TRANSACTIONS**

Our Group has entered into the Tenancy Agreement with a connected person of our Company which will constitute a non-exempt continuing connected transaction of our Company under Chapter 20 of the GEM Listing Rules upon Listing. Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 20 of the GEM Listing Rules in respect of the Tenancy Agreement. For details, please refer to the section headed “Connected Transactions” in this prospectus.



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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **DIRECTORS' RESPONSIBILITY FOR THE CONTENTS OF THIS PROSPECTUS**

This prospectus includes particulars given in compliance with the Companies (Winding Up and Miscellaneous Provisions) Ordinance, the Securities and Futures (Stock Market Listing) Rules (Chapter 571V of the Laws of Hong Kong) (as amended), and the GEM Listing Rules for the purposes of giving information to the public with regard to our Group. Our Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus and confirm, having made all reasonable enquiries, that, to the best of their knowledge and belief, the information in this prospectus is accurate and complete in all material respects and not misleading or deceptive, and that there are no other matters, the omission of which would make any statement in this prospectus materially misleading.

### **INFORMATION ABOUT THE SHARE OFFER**

The Offer Shares are offered solely on the basis of the information contained and representations made in this prospectus. No person is authorised in connection with the Share Offer to give any information, or to make any representation not contained in this prospectus, and any information or representation not contained herein must not be relied upon as having been authorised by our Company, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, and any of their respective directors, supervisors, agents or advisers or any other person involved in the Share Offer.

The Offer Price is expected to be fixed by agreement by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on the Price Determination Date. The Price Determination Date is expected to be on or around Monday, 9 October 2017.

If, for whatever reason, our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters) are unable to agree on the Offer Price by Thursday, 12 October 2017, or such other time as may be agreed between our Company and the Joint Bookrunners, the Share Offer will not proceed.

### **RESTRICTIONS ON OFFER AND SALE OF THE OFFER SHARES**

Each person acquiring the Offer Shares under the Public Offer will be required to, or be deemed by his acquisition of Offer Shares to, confirm that he is aware of the restrictions on offers of the Offer Shares described in this prospectus and the relevant Application Forms.

No action has been taken to permit a public offering of the Offer Shares in any jurisdiction other than Hong Kong or the distribution of this prospectus and/or Application Forms in any jurisdiction other than Hong Kong. Accordingly, this prospectus and/or the Application Forms may not be used for the purpose of, and does not constitute, an offer or invitation in any jurisdiction or in any circumstances in which such an offer or invitation is not authorised or to any person to whom it is unlawful to make such an offer or invitation. The distribution of this prospectus and/or the Application Forms and the offering and sales of the Offer Shares in other jurisdictions are subject to restrictions and may not be made

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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except as permitted under the applicable securities laws of such jurisdictions pursuant to registration with or authorisation by the relevant securities regulatory authorities or an exemption therefrom.

### **UNDERWRITING**

This prospectus is published solely in connection with the Share Offer, which is sponsored by the Sole Sponsor, subject to the terms of the Underwriting Agreements including the determination of the final Offer Price by agreement between our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), on the Price Determination Date or such later time as may be agreed by our Company and the Joint Bookrunners (for themselves and on behalf of the Underwriters), the Offer Shares are fully underwritten by the Underwriters under the Underwriting Agreements. For particulars of the Underwriters and the underwriting arrangements, please refer to the section headed “Underwriting” in this prospectus.

### **APPLICATION FOR LISTING ON THE STOCK EXCHANGE**

We have applied to the Stock Exchange for the granting of listing of, and permission to deal in, our Shares in issue and to be issued by us pursuant to the Share Offer (including any additional Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option). Save as disclosed in this prospectus, no part of our Company’s shares or loan capital is listed on or dealt in on any other stock exchange and no such listing or permission to list is being or is proposed to be sought on any other stock exchange in the near future.

Under section 44B(1) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance, any allotment made in respect of any application will be invalid if the listing of, and permission to deal in, the Offer Shares on the Stock Exchange is refused before the expiration of three weeks from the date of the closing of the application lists, or such longer period (not exceeding six weeks) as may, within the said three weeks, be notified to our Company by the Stock Exchange.

### **SHARE REGISTER AND STAMP DUTY**

All Offer Shares will be registered on our Company’s branch register of members to be maintained in Hong Kong by our Hong Kong Share Registrar. Our Company’s principal register of members will be maintained by our principal share registrar and transfer office, Conyers Trust Company (Cayman) Limited.

Dealings in Shares registered in the branch register of members of our Company in Hong Kong will be subject to Hong Kong stamp duty.

Unless determined otherwise by our Company, dividends payable in Hong Kong dollars in respect of the Shares will be paid to the Shareholders listed on our Company’s branch register of members to be maintained in Hong Kong, by ordinary post, at the Shareholders’ risk, to the registered address of each Shareholder or if joint Shareholders, to the first-named Shareholder therein in accordance with the Articles of Association.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **SHARES WILL BE ELIGIBLE FOR ADMISSION INTO CCASS**

Subject to the granting of the approval for the listing of, and permission to deal in, the Shares on the Stock Exchange and compliance with the stock admission requirements of HKSCC, our Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the Listing Date or any other date as determined by HKSCC.

Settlement of transactions between participants of the Stock Exchange is required to take place in CCASS on the second Business Day after any trading day. Investors should seek the advice of their stockbrokers or other professional advisers for details of CCASS settlement arrangements and how such arrangements will affect their rights and interests.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time. All necessary arrangements have been made for the Shares to be admitted into CCASS.

### **PROFESSIONAL TAX ADVICE RECOMMENDED**

Applicants for the Offer Shares are recommended to consult their professional advisors if they are in any doubt as to the tax implications of holding and dealing in our Shares. It is emphasized that none of us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, any of their respective directors, agents, advisors or any other person involved in the Share Offer accepts responsibility for the tax effects or liabilities of holders of the Shares resulting from the subscription, purchase, holding, disposal or dealing of the Offer Shares.

### **PROCEDURE FOR APPLICATION FOR PUBLIC OFFER SHARES**

The procedure for application for Public Offer Shares is set out in the section headed “How to Apply for Public Offer Shares” in this prospectus and on the relevant Application Forms.

### **COMMENCEMENT OF DEALING IN THE SHARES**

Dealings in the Shares on the Stock Exchange are expected to commence at 9:00 a.m. on Monday, 16 October 2017. Shares will be traded in board lots of 5,000 Shares each.

The stock code of the Shares is 8065.

### **STRUCTURE AND CONDITIONS OF THE SHARE OFFER**

Details of the structure and conditions of the Share Offer are set out in the section headed “Structure of the Share Offer” in this prospectus.

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## **INFORMATION ABOUT THIS PROSPECTUS AND THE SHARE OFFER**

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### **EXCHANGE RATE CONVERSION**

Solely for your convenience, this prospectus contains translations among certain amounts denominated in U.S. dollars, RMB, SGD, NTD, EUR and Hong Kong dollars. No representation is made and none should be construed as being made that the amounts denominated in one currency could actually be converted into the amounts denominated in another currency at the rates indicated or at all on such date or any other date.

No representation is made that any amounts in U.S. dollars, RMB, SGD, NTD, EUR or Hong Kong dollars can be or could have been at the relevant dates converted at the above rates or any other rates at all.

### **LANGUAGE**

If there is any inconsistency between this prospectus and the Chinese translation of this prospectus, the English version shall prevail.

### **ROUNDING**

Any discrepancies in any table in this prospectus between totals and sums of individual amounts listed in any table are due to rounding.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### DIRECTORS

Name	Address	Nationality
<i>Executive Directors</i>		
Mr. Luk Kam Ming (陸鑑明)	17C, Sky Scraper Building 136-139 Tin Hau Temple Road North Point, Hong Kong	Chinese
Mr. Chan Chak Lun Philip (陳澤麟)	Flat B, 33rd Floor, Block 5 Jubilee Garden Fo Tan, Hong Kong	British
Mr. Luk Kwai Lung (陸季農)	13A, Broadview Terrace 40 Cloud View Road North Point, Hong Kong	Chinese
Mr. Luk Yin Cheung (陸彥彰)	Flat B2, 18th Floor, Block B 50 Cloud View Road North Point, Hong Kong	Chinese
<i>Independent Non-executive Directors</i>		
Mr. Lau On Kwok (劉安國)	Flat 2609, 26/F, Block B Galaxia, 3 Lung Poon Street Diamond Hill, Kowloon Hong Kong	Chinese
Dr. Tse Chi Kong (謝智剛)	Flat 1305, 13/F, Block B Villa Lotto 18 Broadwood Road Happy Valley, Hong Kong	Chinese
Mr. Law Wing Chi Stephen (羅永志)	Flat D, 5th Floor Block 1, Parc Regal 19 Ho Man Tin Hill Road Ho Man Tin, Kowloon Hong Kong	Chinese

For further details of the Directors, please refer to the section headed “Directors and Senior Management” in this prospectus.

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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### PARTIES INVOLVED IN THE SHARE OFFER

#### **Sole Sponsor**

Kingsway Capital Limited

*A corporation licensed under the SFO to carry on type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities*

7th Floor

Tower One, Lippo Centre

89 Queensway

Hong Kong

#### **Joint Bookrunners**

Kingsway Financial Services Group Limited

*A corporation licensed under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities*

7th Floor

Tower One, Lippo Centre

89 Queensway

Hong Kong

Opus Capital Limited

*A corporation licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities*

18th Floor, Fung House

19-20 Connaught Road Central

Central

Hong Kong

#### **Joint Lead Managers**

Kingsway Financial Services Group Limited

*A corporation licensed under the SFO to engage in type 1 (dealing in securities), type 2 (dealing in future contracts), type 4 (advising on securities) and type 9 (asset management) regulated activities*

7th Floor

Tower One, Lippo Centre

89 Queensway

Hong Kong

Opus Capital Limited

*A corporation licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities*

18th Floor, Fung House

19-20 Connaught Road Central

Central

Hong Kong

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## DIRECTORS AND PARTIES INVOLVED IN THE SHARE OFFER

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Sanfull Securities Limited  
*A corporation licensed under the SFO to engage in  
type 1 (dealing in securities) regulated activity*  
Room 2001-6, 20th Floor  
Cosco Tower  
183 Queen's Road Central  
Hong Kong

**Legal Advisers to Our Company** *As to Hong Kong law:*  
Deacons  
5th floor, Alexandra House  
18 Chater Road, Central  
Hong Kong

*As to Cayman Islands law:*  
Conyers Dill & Pearman  
Cricket Square  
Hutchins Drive  
P.O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

**Legal Advisers to the Sole  
Sponsor and the Underwriters** *As to Hong Kong law:*  
Dechert  
27th Floor, Henley Building  
5 Queen's Road Central  
Hong Kong

**Reporting Accountants and  
Auditors** Deloitte Touche Tohmatsu  
*Certified Public Accountants*  
35th Floor, One Pacific Place  
88 Queensway  
Hong Kong

**Independent Industry  
Consultant** Frost & Sullivan International Limited  
1706, One Exchange Square  
8 Connaught Place  
Central  
Hong Kong

**Receiving Bank** DBS Bank (Hong Kong) Limited  
11th Floor, The Center  
99 Queen's Road Central  
Hong Kong



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## CORPORATE INFORMATION

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<b>Registered office</b>	Cricket Square Hutchins Drive PO Box 2681, Grand Cayman KY1-1111 Cayman Islands
<b>Principal place of business in Hong Kong</b>	B12, G/F Shatin Industrial Centre Siu Lek Yuen Road Shatin, New Territories Hong Kong
<b>Company's website</b>	<b><u><a href="http://www.kml.com.hk">www.kml.com.hk</a></u></b> <i>(information contained in this website does not form part of this prospectus)</i>
<b>Company secretary</b>	<b>Ms. Woo Siu Wai</b> (HKICS, ICSA) Flat 2, 18th Floor Block B, Flora Garden 50 Cloudview Road North Point Hong Kong
<b>Authorised representatives</b> <i>(for the purpose of the GEM Listing Rules)</i>	<b>Mr. Luk Kwai Lung</b> 13A, Broadview Terrace 40 Cloud View Road North Point Hong Kong  <b>Ms. Woo Siu Wai</b> Flat 2, 18th Floor, Block B 50 Cloudview Road North Point Hong Kong
<b>Compliance officer</b>	<b>Mr. Luk Yin Cheung</b> Flat B2, 18th Floor, Block B 50 Cloud View Road North Point Hong Kong
<b>Audit Committee</b>	Mr. Lau On Kwok ( <i>Chairman</i> ) Dr. Tse Chi Kong Mr. Law Wing Chi Stephen
<b>Remuneration Committee</b>	Dr. Tse Chi Kong ( <i>Chairman</i> ) Mr. Luk Kam Ming Mr. Lau On Kwok

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## CORPORATE INFORMATION

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<b>Nomination Committee</b>	Mr. Luk Kam Ming ( <i>Chairman</i> ) Dr. Tse Chi Kong Mr. Law Wing Chi Stephen
<b>Risk Management Committee</b>	Mr. Law Wing Chi Stephen ( <i>Chairman</i> ) Mr. Chan Chak Lun Philip Mr. Luk Kwai Lung Mr. Luk Yin Cheung Mr. Lau On Kwok
<b>Compliance adviser</b>	<b>Kingsway Capital Limited</b> <i>(A corporation licensed under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities)</i> 7th Floor Tower One, Lippo Centre 89 Queensway Hong Kong
<b>Principal share registrar</b>	<b>Conyers Trust Company (Cayman) Limited</b> Cricket Square Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111 Cayman Islands
<b>Hong Kong Share Registrar</b>	<b>Tricor Investor Services Limited</b> Level 22, Hopewell Centre 183 Queen's Road East Hong Kong
<b>Principal banker</b>	<b>The Hongkong and Shanghai Banking Corporation Limited</b> HSBC Main Building 1 Queen's Road Central Hong Kong

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## INDUSTRY OVERVIEW

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The information presented in this section, unless otherwise indicated, is derived from various official government publications and other publications and from the market research report prepared by Frost & Sullivan, which was commissioned by us. We believe that the information has been derived from appropriate sources and we have taken reasonable care in extracting and reproducing the information. We have no reason to believe that the information is false or misleading in any material respect or that any fact has been omitted that would render the information false or misleading in any material respect. The information has not been independently verified by us, the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers, the Underwriters, or any of our or their respective directors, officers or representatives or any other person involved (except Frost & Sullivan) in the Share Offer, nor is any representation given as to its accuracy or completeness. Accordingly, undue reliance should not be placed on such information or statistics.

The information extracted from the Frost & Sullivan Report reflects estimates of market conditions based on sampling, and is prepared primarily as a market research tool. Reference to Frost & Sullivan should not be considered as the opinion of Frost & Sullivan as to the potential investment of our Shares or in our Group. Our Directors believe that the sources of information extracted from the Frost & Sullivan Report are appropriate sources for such information. We have no reason to believe that such information is false or misleading or that any material fact has been omitted that would render such information false or misleading. Our Directors confirm that after making reasonable enquiries, there has been no adverse change in market information since the date of the Frost & Sullivan Report which may qualify, contradict or have an impact on the information in this section.

### REPORT COMMISSIONED FROM FROST & SULLIVAN

We commissioned Frost & Sullivan, an independent market research and consulting company, to conduct an analysis of, and to prepare a report on the Hong Kong Transportation Mission Critical System Solutions industry for the period from 2011 to 2021. The report prepared by Frost & Sullivan for us is referred to in this prospectus as the Frost & Sullivan Report. We paid Frost & Sullivan a fee of HK\$450,000 which we believe reflects market rates for reports of this type.

Founded in 1961, Frost & Sullivan has 40 offices with more than 2,000 industry consultants, market research analysts, technology analysts and economists globally. Frost & Sullivan's services include technology research, independent market research, economic research, corporate best practices advising, training, client research, competitive intelligence and corporate strategy. Frost & Sullivan has been covering the Chinese market since the 1990s. Frost & Sullivan has four offices in China and direct access to the knowledgeable experts and market participants in the Transportation Mission Critical System Solutions and related industry and its industry consultants, on average, have more than three years of experience.

We have included certain information from the Frost & Sullivan Report in this prospectus because we believe this information facilitates an understanding of the Hong Kong Transportation Mission Critical System Solutions industry for the prospective investors. The Frost & Sullivan Report includes information on Hong Kong Transportation Mission Critical System Solutions industry as well as other economic data, which have been quoted in the prospectus.

Frost & Sullivan's independent research consists of both primary and secondary research obtained from various sources in respect of the Hong Kong Transportation Mission Critical System Solutions industry. Primary research involved in-depth interviews with leading industry participants and industry experts. Secondary research involved reviewing company reports, independent research reports and data based on Frost & Sullivan's own research database. Projected data were obtained from historical data analysis plotted against macroeconomic data with reference to specific industry-related factors. On this basis, our Directors are satisfied that the disclosure of future projections and industry data in this

## INDUSTRY OVERVIEW

section is not biased or misleading. We believe that the sources of this information are appropriate sources for the information and we have taken reasonable care in extracting and reproducing this information. We have no reason to believe that this information is false or misleading in any material respect of that any fact has been omitted that would render such information false or misleading in any material respect.

Except as otherwise noted, all of the data and forecasts contained in this section are derived from the Frost & Sullivan Report, various official government publications and other publications.

### ASSUMPTIONS USED IN THE FROST & SULLIVAN REPORT

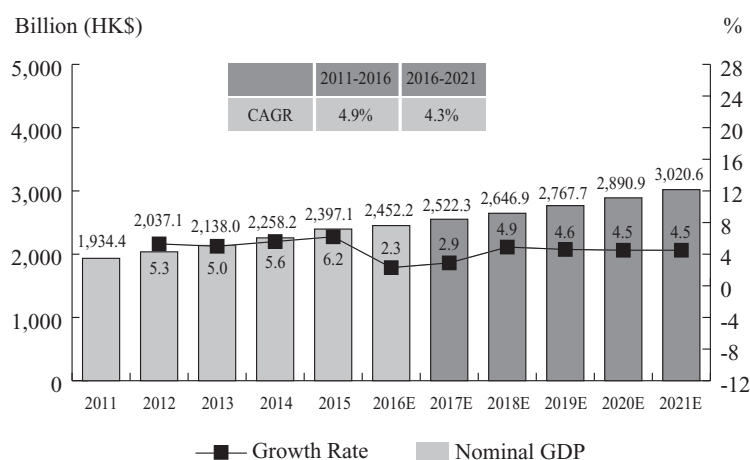
In compiling and preparing the Frost & Sullivan Report, Frost & Sullivan has adopted the following assumptions:

- the social, economic and political environments in the relevant markets are likely to remain stable in the forecast period, which ensures the stable and healthy development of the Hong Kong Transportation Mission Critical System Solutions industry;
- the Hong Kong economy is likely to maintain stable growth in the next decade and Hong Kong's social, economic and political environment is likely to remain stable in the forecast period;
- the Hong Kong Transportation Mission Critical System Solutions industry is expected to grow based on the macroeconomic assumptions of the economy; and
- additional key industry drivers include: development of the railway systems, modernisation and upgrading of the transportation systems.

### OVERVIEW OF MACROECONOMIC ENVIRONMENT

Hong Kong's nominal GDP has increased from HK\$1,934.4 billion in 2011 to HK\$2,452.2 billion in 2016, growing at a CAGR of 4.9%. With the recovery of the global economy, it is expected that the nominal GDP will increase from HK\$2,452.2 billion in 2016 to HK\$3,020.6 billion in 2021, representing a CAGR of 4.3% from 2016 to 2021.

#### Hong Kong Nominal GDP Value and GDP Growth Rate from 2011 to 2021

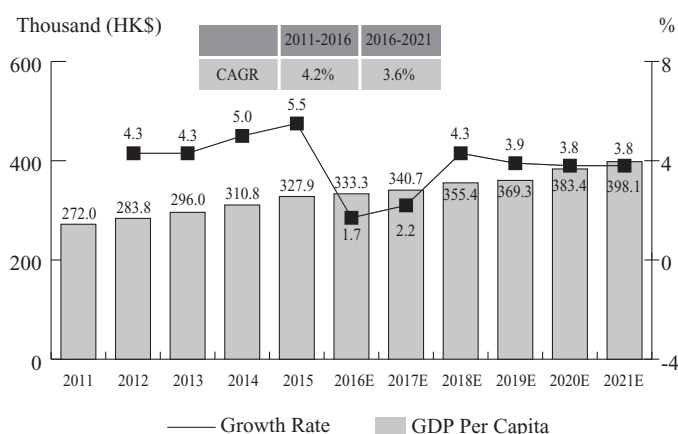


Source: International Monetary Fund ("IMF"), Frost & Sullivan Analysis

GDP per capita has increased solidly from HK\$272.0 thousand in 2011 to HK\$333.3 thousand in 2016, at a CAGR of 4.2%. It is estimated that GDP per capita will reach HK\$398.1 thousand in 2021, with a slowed down CAGR of 3.6%.

## INDUSTRY OVERVIEW

### Hong Kong GDP Per Capita from 2011 to 2021



Source: International Monetary Fund (“IMF”), Frost & Sullivan Analysis

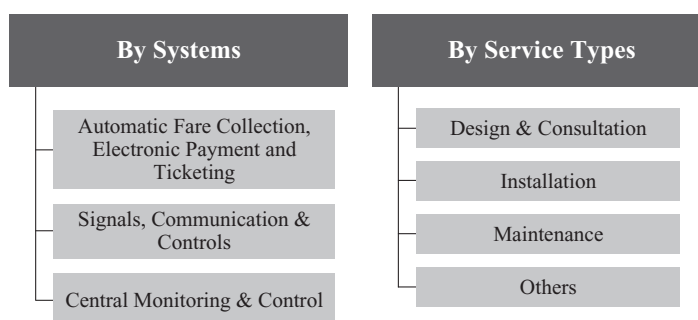
## OVERVIEW OF THE HONG KONG TRANSPORTATION MISSION CRITICAL SYSTEM SOLUTIONS MARKET

### Definition and Classification

Transportation Mission Critical System Solutions cover design, supply, installation, fabrication and/or maintenance of the systems and could be classified as follows:

- (i) automatic fare collection system at railway stations;
- (ii) electronic payment and ticketing system;
- (iii) road and tunnel toll collection system;
- (iv) traffic control and surveillance system;
- (v) railway signaling communication and control system; and

### Segmentation of Transportation Mission Critical System Solutions



Source: Frost & Sullivan research and analysis

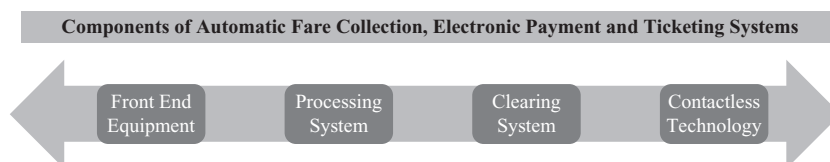
### Introduction to Automatic Fare Collection System

Automatic fare collection system, are composed of different parts, namely (i) front end equipment, (ii) processing systems, (iii) clearing systems, and (iv) contactless technology:

- Front end equipment act as the primary interface between passengers and transport operators, serving the function of sales, validation and control.

## INDUSTRY OVERVIEW

- Processing system is designed for various modes of transport and networks. It is able to handle many types of fare media, such as contactless cards, tickets and tokens, and is flexible for different fare structures. It can operate the ticketing system remotely from one central point or from workstations located in each metro station or bus depot.
- Connected with other systems, the integrated clearing system allows transport operators perform settlement of fares collected from the sensors in the ticketing systems
- Contactless technology enables the multi-standard reader to be connected with fare media in the fare collection system, with fast validation and security technology for an enhanced protection against fraud.



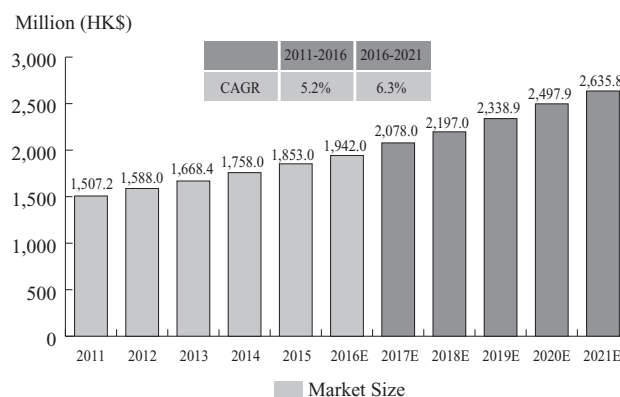
Source: Frost & Sullivan research and analysis

### Market Size of the Hong Kong Transportation Mission Critical System Solutions Market

The estimated market size of Transportation Mission Critical System Solutions Market in Hong Kong increased from HK\$1,507.2 million in 2011 to HK\$1,942.0 million in 2016, representing a CAGR of 5.2%, driven by the development of new railways, modernization and upgrading of the transport systems, and integration of information system and transport facilities.

Given the rise of smartphone applications for transportation, Transportation Mission Critical System Solutions are expected to grow accordingly. In the future, the data of passengers, namely the timing, frequency, transportation route, and spending, could be collected via the sensors installed in the transport facilities. The data would be further analysed for the planning of the transportation operators. On the other hand, the passengers are able to manage their trip by getting access to the real-time transportation information and booking the designated transportation facilities. It is expected that the market size of the Transportation Mission Critical System Solutions market in Hong Kong will reach HK\$2,635.8 million in 2021, growing at a CAGR of 6.3% from 2016 to 2021.

### Market Size of the Transportation Mission Critical System Solutions Market in Hong Kong from 2011 to 2021



Source: Frost & Sullivan research and analysis

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## INDUSTRY OVERVIEW

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### MARKET DRIVERS

#### Development of the Railway Systems

With the continued growth in population and tourism, the rising needs for public transport are highlighted. Comprehensive and long-term planning for public transport is needed to improve people's livelihood, support economic development and protection of the environment. In the future, passenger transportation systems with a focus on public transportation with railway as the backbone remain the trends. New railways, such as the transportation of Sha Tin to Central Link and the extension of Kwun Tong line, will reduce the reliance on road-based transport, alleviate road congestion and lessen vehicle-induced air pollution. The development potential of areas along the railway lines would also be unleashed to support the housing and economic developments. In the meantime, the railway system has been being advanced and automated, which would in turn boost the demand for transport automation system solutions in Hong Kong.

#### Modernisation and Upgrading of the Transportation Systems

To keep pace with the growing transport needs, modernisation and expansion projects are being launched. More and more transportation system are equipped with communication and controls systems and automatic fare collection systems. Automatic supervision and fare collection will be realised using the aforementioned systems, which enables the monitoring, performing and controlling of the fully automatic operational process. Continuous data communication takes place between the control center, the trackside equipment and the transport vehicles via the radio network. This makes it possible to pinpoint the exact location of each transport vehicle within a specific network. Depending on the degree of automation, energy consumption can be cut. At the same time, transport punctuality is improved. With increasing number of upgrading projects, it is expected that the transport automation system industry would be further stimulated and benefit from the related works.

#### Vision of Smart City

To foster the knowledge economy, enhance quality of life and create a vibrant eco-system by using information technology and promoting more effective resource management, the development of a smart city is the vision of the Hong Kong society. It would further promote a vast array of, particularly connecting information system and people, technologies, and applications. More importantly, there is huge potential to improve the interface between people and infrastructure, which is what a smart city is all about. Due to high travel demand, longer distances and increasing number of trips, the importance of building an organised transportation system in the "Smart City" is highlighted. Inadequate capacity of public transportation and overcrowded road network remain the key issues in Hong Kong. Transportation Mission Critical System Solutions help realise the integrated transportation plans, which narrow the demand-supply gap and improve the transportation network. For instances, the enhanced connection between people and the public transportation further increases the accuracy of traffic projections, number of routing options, and the flow of real-time data, which help complete the traffic management in Hong Kong. To further the connection between the transportation and people, the transportation automation system solutions, which enhance the data collection, artificial intelligence applications and systems integration, would be inevitable in the development of a smart city with respect to Hong Kong.

### COMPETITIVE LANDSCAPE OF THE HONG KONG TRANSPORTATION MISSION CRITICAL SYSTEM SOLUTIONS MARKET

#### Competition Overview

Overall, the Transportation Mission Critical System Solutions industry in Hong Kong is fragmented and competitive with a large number of small scale service providers serving particular segments, including signaling, ticketing, communication and surveillance, and railway systems being the largest sector in the industry. According to Frost & Sullivan, there are around 300 Transportation Mission Critical System Solutions service providers in Hong Kong, as of May 2017. The Transportation Mission Critical System Solutions industry is mainly shared by the small to mid-scale service providers based in Hong Kong and some



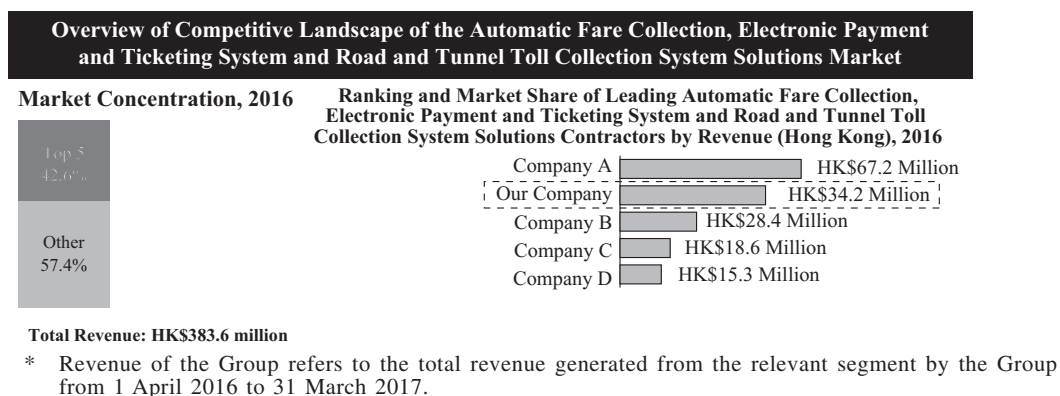
## INDUSTRY OVERVIEW

large scale international players with long-established track records and experience across the world. The construction of the Guangzhou-Shenzhen – Hong Kong high speed rail has been introducing the China based solution providers to the Hong Kong railways systems in recent years.

Railway systems are the integral part of the transportation system in Hong Kong and serve an average of about 4.69 million passengers per day, accounting for one third of the total passengers in Hong Kong. MTR has long been one of the key target customers of the Transportation Mission Critical System Solutions industry in Hong Kong. Having stable working relationship with the railway system operators and the international players is the core-competitiveness to Transportation Mission Critical System Solutions providers, especially to those local ones without sufficient capital and sound track record in the industry.

The Group recorded the revenue of HK\$69.0 million for the provision of Transportation Mission Critical System Solutions\*, accounting for 3.6% of the market share in Hong Kong in 2016. In particular, the Group recorded revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing system and road and tunnel toll collection system solutions, which the Group is the second largest player in the market as follows:

### Market Share of Top 5 Competitors by Sale Revenue in Automatic Fare Collection, Electronic Payment and Ticketing System Solution and Road and Tunnel Toll Collection System Solutions Market in Hong Kong in 2016



Rank	Name of Company (Headquarter)	Share of Total Industry Revenue (%)	Main Business
1	Company A (France)	17.5%	Offering signaling system, supervision and communications systems, revenue collection systems and maintenance services.
2	Our Company	8.9%	Provides E&M engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions in Hong Kong. We mainly undertake Transportation Mission Critical System Solutions projects that are related to the design, supply, installation, fabrication and/or maintenance depending on our customers' needs and engagement, namely (i) automatic fare collection system at railway stations; (ii) electronic payment and ticketing systems; (iii) road and tunnel toll collection system; (iv) traffic control and surveillance system; and (v) railway signaling communication and control system. In addition, we also provide other E&M engineering solutions and services, comprising (i) security and access control systems; (ii) railway station E&M engineering services and architectural works; (iii) rolling stock refurbishment and renovation works; and (iv) trackside and depot E&M engineering works.

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## INDUSTRY OVERVIEW

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Rank	Name of Company (Headquarter)	Share of Total Industry Revenue (%)	Main Business
3	Company B (Hong Kong)	7.4%	Focused on three business segments, namely (i) system integration related application solution service, including design, testing, installation, debugging, integration, upgrading and replacement of railway transportation application solution and associated systems; sales of self developed software products relating to railway transportation application solution; sales of hardware and spare parts relating to railway transportation application solution system; (ii) application solution maintenance service representing repair and maintenance of application solution systems developed by the Group as well as other software developers; and (iii) civil communication transmission system leasing service representing the provision of communication transmission system leasing service to mobile operators.
4	Company C (Hong Kong)	4.8%	Offering payment solution including bill validator, coin acceptor, coin changer, hooper, contactless card system and vending machine services.
5	Company D (Hong Kong)	4.0%	Offering electronic toll Collection service, telematics service platform, electric vehicle charging service and intelligent transport system.
	Others	<u>57.4%</u>	
Total		<u><u>100%</u></u>	

### Our Group's market share

The Automatic Fare Collection, Electronic Payment and Ticketing System and Road and Tunnel Toll Collection System Solutions market in Hong Kong is concentrated with the top five players contributing to 42.6% of the entire market in terms of revenue. The Group is the second largest player in the market with revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing system and road and tunnel toll collection system solutions, accounting for 8.9% of the market share in Hong Kong in 2016.

### Market Demand Analysis

As stated, railway systems are the integral parts of the transportation system in Hong Kong, serving an average of about 4.69 million passengers per day. With the maintenance, upgrade and construction of railways, as well as the development of existing infrastructure, the MTRC becomes the largest customer of the Transport Mission Critical Systems Solutions Industry in Hong Kong. In 2016, the MTRC accounted for 25.3% of the market share in the Transport Mission Critical Systems Solutions Industry, with a spending of HK\$490.8 million on Transport Mission Critical System Solutions. Other customers of Transportation Mission Critical System Solutions mainly consist of the service providers of various public transportation components, including buses, tunnels, trams, mini buses, as well as relevant governmental departments, representing approximately 74.7% of the market share in the Transport Mission Critical Systems Solutions Industry in aggregate.

Given the continuous upgrading of the signaling, controlling, ticketing and communication systems, MTRC has created a stable demand for the Transportation Mission Critical System Solutions industry. The construction of Express Rail Link (Hong Kong Section) and Shatin to Central link is expected to further drive the needs for such solutions with target completion date in the third quarter of 2018 and 2021 respectively and estimated project costs of approximately HK\$84.4 billion and HK\$64.9 billion respectively. It is forecasted that the MTRC would continue to be the major customer of Transportation Mission Critical System Solutions industry in the near future. As estimated, MTRC's

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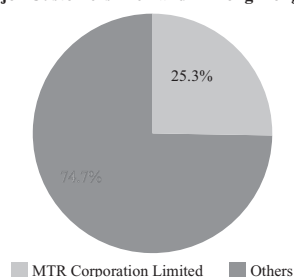
## INDUSTRY OVERVIEW

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spending on Transportation Mission Critical System Solutions in Hong Kong amounts to approximately HK\$529.9 million, HK\$571.2 million and HK\$617.5 million in 2017, 2018 and 2019 respectively.

Due to the systematic and planned city development in Hong Kong, the Transportation Mission Critical System Solutions market, mainly driven by the public transport, would remain its existing customers structure that no material change on the market share of customers are anticipated in the near future.

Transportation Mission Critical System Solutions Market Breakdown  
by Major Customers' Demand in Hong Kong (2016)



Remark: Others include EMSD and the operators of buses, trams, tunnels, ferries, and mini-buses.

### Entry Barriers of Transportation Mission Critical System Solutions Industry in Hong Kong

#### 1. Long-established Project Reference

Proven track record is a key competitive factor in the Transportation Mission Critical System Solutions industry. Credible track record for (i) quality of works, (ii) remarkable projects, (iii) design and build capability is the critical metrics for the companies. New entrants without sound reputation and experience in provision of Transportation Mission Critical System Solutions would compromise a company's overall competitiveness in the market.

#### 2. Extensive Industry Expertise and Sound Reputation

Extensive experience combined with deep industry knowledge and expertise is a strong indicator in evaluating companies providing Transportation Mission Critical System Solutions companies. Being recognized and having a good reputation allows the companies to win the trust of customers and other industry stakeholders, and more importantly increases the possibilities of landing projects. From other perspectives, this can also be a barrier for new entrants to enter the industry since they are new to the market and have limited experience and reputation

#### 3. Initial Capital Requirements

Moreover, sufficient initial capital is important for Transportation Mission Critical System Solutions providers to satisfy their operational and investment needs. Failure to make timely payments for production or construction costs may delay project schedule. In addition, a proportion of capital is required for the research and development works. Such substantial amount of capital requirements presents a barrier for the new entrants to the Transportation Mission Critical System Solutions industry in Hong Kong.

### Market Constraints

#### 1. Rising Labour and Material Costs

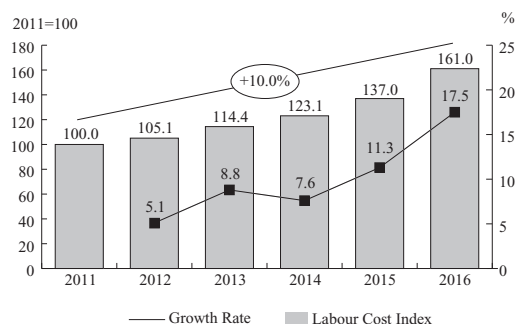
The main cost factors for Transportation Mission Critical System Solutions provider are labour and raw materials. The costs of both have been increasing heavily over the past five years at a CAGR of approximately 10%. With respect to labour, there are fewer and fewer new generation workers willing to get involved in the industry and therefore companies need

## INDUSTRY OVERVIEW

to raise wages in order to acquire the necessary workers. Regarding raw materials, companies often need to bear the risk of fluctuating import prices and difference in foreign exchange rates.

### Cost Analysis

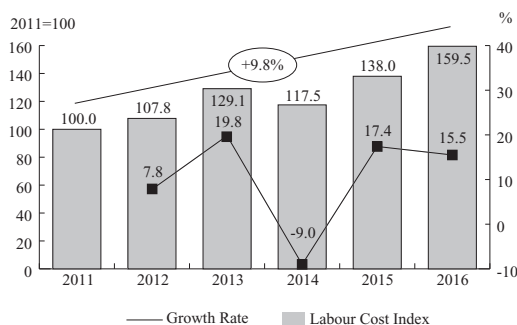
#### Index of Labour Wage Rates in the Transport Mission Critical System Solutions Market in Hong Kong from 2011 to 2016



Note: 2011 is the base year and the index is set to be 100

Source: Census and Statistic Department; Frost & Sullivan research and analysis

#### Index of Major Material Costs in the Transport Mission Critical System Solutions Market in Hong Kong from 2011-2016



Note: 2011 is the base year and the index is set to be 100

Source: Census and Statistic Department; Frost & Sullivan research and analysis

## 2. Lack of Professional Personnel

Transportation Mission Critical System Solutions industry requires personnel with high level of experience including project managers and engineers. There is limited fresh blood entering the market, thereby causing a fault in experience inheritance.

### Market Challenges

#### 1. Introduction of Data Usage for Smarter Transportation

Leveraging the data and the effective use of it to improve the existing operating environment remains to be the difficulties. In Hong Kong, immense flows of data are currently at the disposal of transport operators. The challenges of crowd management in transport facilities and the predictive maintenance of transport equipment slow down the development of the smart transportation systems, in the areas of providing real-time information for passengers. Developing a data platform connected with various sensors, such as fare collection equipment, that are used to collect the metrics of passengers would be the solution. The platform would be able to prototype the transportation application from diverse

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## INDUSTRY OVERVIEW

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data sources that are collected through the multi-sensor, which further simulates the innovation of smart transportation. However, there is still a long way to go before the data platform can be designed and implemented.

### **2. *High Requirements for Technology and Architecture Design***

A combination of surveillance and data technologies are employed to support the transport mission critical system, which also requires a new architecture design and the reengineering of the operational workflow. As such, cross-discipline cooperation and technologies set high requirements for the design, installation and maintenance of the systems. The complex working procedures would add time and cost to the system implementation and integration.

### **3. *Insufficient Talent***

Industry expertise and talent are the key success factors to the Transport Mission Critical System Solutions industry. To build a smart transportation system and further promote the automation, more capital and experienced talent are needed to support the growth. There is the mismatch between the demand and supply for skilled labour in the construction industry. Combined with the growing demand for construction works and the shortage of skilled labour, the problem of insufficient talents is highlighted.

## MARKET OPPORTUNITIES

### **1. *Enhancing Passenger Communication***

The transportation systems operators continue to enhance the communications with passengers through improving the delivery and content of messages, particularly during incidents. More information display systems are installed in the transportation systems, namely railway station concourses, platforms and bus station, to provide more timely and useful information to passengers. For example, the new liquid-crystal displays are being progressively installed on the Island, Kwun Tong and Tsuen Wan lines. The displays not only make announcement of information regarding the schedules and accidents, but also facilitate the interaction between the passengers and transportation systems.

### **2. *The Rise of Smartphone Applications for Transportation***

In Hong Kong, the rise of the smartphone applications makes the transportation in Hong Kong more convenient. By using smartphones, the passengers are able to better plan for their routes and have a deeper understanding of the schedules availability. These innovations would save the time and effort in transportation, and certainly raise the quality of life of people. With the rising popularity of the smartphone applications among the transportation systems, the vision of a smart city would be further promoted. It is expected that the more apps would be connected with the public transportation in the future.

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## REGULATORY OVERVIEW

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### OVERVIEW

Our operations are subject to various laws, rules, regulations and policies in Hong Kong where we conduct our business operations. This section sets out a summary of certain aspects of Hong Kong laws, rules, regulations and policies which are relevant to our Group's operations and business.

### ELECTRICAL WORKS

#### Registration under the Electricity Ordinance

Under section 2 of the Electricity Ordinance (Chapter 406 of the Laws of Hong Kong) (the "**Electricity Ordinance**"), "electrical work" means work in relation to the installation, commissioning, inspection, testing, maintenance, modification or repair of a low voltage or high voltage fixed electrical installation and includes the supervision and certification of that work and the certification of design of that installation. Examples of fixed electrical installations are distribution boards, wiring installations and lighting fittings that are fixed in premises. However, persons who are engaged in work on electrical installations other than fixed electrical installations need not be registered. Examples of electrical installations other than fixed electrical installations are portable electrical home appliances such as table lamps, television sets, refrigerators, etc.

Electrical works are further classified into 5 grades based on the voltage and capacity of electricity involved in an electrical installation and industry specialisation.

#### *Registered electrical contractors*

To qualify as a registered electrical contractor ("**Registered Electrical Contractor**") registered with the EMSD under the Electricity Ordinance, a corporate applicant must employ at least one registered electrical worker registered under the Electricity Ordinance ("**Registered Electrical Worker**"). No contractor shall do business as an electrical contractor or carry out electrical works unless it is a Registered Electrical Contractor.

As at the Latest Practicable Date, KML Engineering was a Registered Electrical Contractor.

#### *Registered electrical workers*

Only a Registered Electrical Worker shall do the electrical works specified in his certificate of registration. However, where a non-Registered Electrical Worker works under the oral or written instruction of a Registered Electrical Worker who is aware of and responsible for that non-Registered Electrical Worker's work, the non-Registered Electrical Worker may do electrical works of the kind specified in the supervising Registered Electrical Worker's certificate of registration, except the following:

- certifying that a fixed electrical installation complies with the Electricity Ordinance; or

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## REGULATORY OVERVIEW

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- works on energised parts of a fixed electrical installation when the non-Registered Electrical Worker is not immediately adjacent to the supervising Registered Electrical Worker.

As at the Latest Practicable Date, we had 40 Registered Electrical Workers.

To register as a Registered Electrical Worker to do electrical works in at least one grade, an individual shall satisfy the director of the EMSD that he has the qualification to do electrical work in the relevant grades as set out in Part III of the Electricity (Registration) Regulations (Chapter 406D of the Laws of Hong Kong), such as completion of the prescribed apprenticeship or training, possessing craftsmanship, academic qualification or practical experience in electrical engineering and electrical works, or passing the prescribed examination or trade test.

### *Validity period and renewal of registration*

A registration for Registered Electrical Contractor or Registered Electrical Worker is valid for the three year period shown on the certificate of registration. Under Regulation 13 of the Electricity (Registration) Regulations, a Registered Electrical Worker or Registered Electrical Contractor shall apply to the director of the EMSD for renewal of its/his registration within one to four months prior to the date of expiry of the registration.

### *Regulatory actions*

Where the director of the EMSD considers that there is evidence that a Registered Electrical Worker or a Registered Electrical Contractor has failed to comply with the Electricity Ordinance, he may: (i) reprimand the worker or contractor, and/or fine a worker up to HK\$1,000 and a contractor up to HK\$10,000; or (ii) refer the matter to the Secretary for Environment for hearing by a disciplinary tribunal, who may do one or more of the following:

- (i) reprimand the registrant;
- (ii) fine a worker up to HK\$10,000 and a contractor up to HK\$100,000;
- (iii) suspend or cancel the registration of the registrant; or
- (iv) suspend the registrant's right to apply for registration or renewal of registration for a prescribed period.

The director of the EMSD may cancel a registration if he considers that: (i) the registrant obtained registration by fraud or on the basis of misleading or inaccurate information; (ii) the registration was made in error; or (iii) the registrant is no longer qualified under the Electricity Ordinance to be registered.

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## REGULATORY OVERVIEW

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### Undertaking public work contracts

A contractor who wishes to tender for and carry out public works in Hong Kong must apply to be admitted to either of the following approved lists maintained by the WBDB:

- the List of Approved Suppliers of Materials and Specialist Contractors for Public Works (the “**Specialist List**”), which comprises suppliers and specialist contractors who are approved for carrying out public works in one or more of the 50 categories of specialist works, some of which are further divided into different classes according to the types of works within that particular specialist works category and different groups according to the value of contracts for which a contractor registered in that group is normally eligible to tender; or
- the List of Approved Contractors for Public Works, which comprises contractors who are approved for carrying out public works in one or more of the five work categories, namely buildings, port works, roads and drainage, site formation and waterworks.

As at the Latest Practicable Date, KML Engineering was registered on the Specialist List for the following works:

- electrical installation (Group II) – on probation;
- electronic timing and display installation;
- industrial type electrical installations; and
- mechanical plant and equipment installation (Group I).



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## REGULATORY OVERVIEW

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### *Requirements for admission and retention on the Specialist List*

For admission and retention on the Specialist List and for the award of public works contracts, a contractor is required to meet the financial, technical, management and personal criteria applicable to the appropriate category and group for admission and retention on the Specialist List. Set out below are the major requirements that are required to be met and maintained:

<b>Criteria</b>	<b>Major items</b>
<b>Financial:</b>	<ul style="list-style-type: none"><li>● should generally possess at least a positive capital value;</li><li>● maintain certain minimum levels of employed capital and working capital applicable to the appropriate category and group;</li><li>● ability to rectify shortfalls in capital requirements by approved sources of funding;</li><li>● average loss rate of not more than 30% (if a contractor's business is at a loss); and</li><li>● outstanding workload, as expressed in the approximate value of and approximate time required to complete the contractor's outstanding contracts in both public and private sectors.</li></ul>
<b>Technical and management:</b>	<b>Job experience:</b> <ul style="list-style-type: none"><li>● adequate experience in the type and size of work of the category, with satisfactory quality of work compatible with Hong Kong Government standard; and</li><li>● adequate experience in contract management of work of the category.</li></ul>

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## REGULATORY OVERVIEW

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### Personnel:

- qualification and minimum number of management and technical staff; and
- (where applicable) Registered Electrical Workers, licensed plumber registered under the Waterworks Ordinance (Chapter 102 of the Laws of Hong Kong), registered fire service installation contractor under the Fire Services Ordinance (Chapter 95 of the Laws of Hong Kong) whom can be the qualified engineer, technical support staff or craftsman.

### Registration with relevant authorities in Hong Kong:

- (where applicable) a registered contractor under the applicable ordinance, such as the Buildings Ordinance, the Electricity Ordinance, the Fire Services Ordinance; and
- accredited with the relevant quality management system certification.

An approved contractor in relation to capital works and maintenance works is also required to employ subcontractors registered in the respective trade available under the subcontractor registration scheme administered by the CIC.

Generally, upon satisfaction of the above requirements, an approved contractor will be admitted initially on probation in the appropriate work category and group, during which it will be limited in the number and value of contracts for which it is eligible to tender.

Upon reaching the required financial, technical and management criteria, a probationary contractor may apply to the WBDB for a “confirmed” status and subsequently for elevation to a higher group in the works category in order to tender for contracts of higher or unlimited values.

### *Renewal of Registration*

While admissions to the WBDB approved lists are not subject to expiry and renewal requirements, approved contractors intending to be retained on the approved lists shall submit audited accounts to the WBDB annually for ensuring their compliance with the minimum financial criteria. Any approved contractor failing to meet the designated financial requirements will not be recommended for tender awards for contracts in this prevailing group or category.

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### *Regulatory actions*

The WBDB may take regulatory actions against a contractor who is on the Specialist List where appropriate. These regulatory actions include: (i) removal from all categories or from a particular category in which the contractor is listed; (ii) suspension from tendering in all categories or from a particular category in which the contractor is listed – a time limit for review will be set in all cases but will not be longer than six months; and (iii) downgrading or demotion in a particular category in which the contractor is listed.

## **CONTRACTOR LICENSING AND REGISTRATION REGIME**

### **Subcontractor Registration Scheme (“SRS”)**

According to the Project Administration Handbook for Civil Engineering Works (2014 Edition), the contractors of all capital works and maintenance works contracts are required to only employ subcontractors registered under the respective trades available in the Primary Register of the SRS (formerly the Voluntary Sub-contractor Registration Scheme) managed by the CIC.

### *Requirements for registration*

Pursuant to the Rules and Procedures for the Primary Register of the Sub-contractor Registration Scheme (version 2), a company may apply for registration on the Primary Register by complying with either of the following requirements (i), (ii) or (iii):

- (i) Requirement R1
  - (a) completion of at least one job within the last five years as a main contractor/ sub-contractor in the trades and specialties for which registration is applied;  
or
  - (b) comparable experience acquired by the applicant or its proprietors, partners or directors within the last five years;

or

- (ii) Requirement R2

listings on one or more Hong Kong Government registration schemes relevant to the trades and specialties for which registration is sought;

or

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## REGULATORY OVERVIEW

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(iii) Requirement R3

- (a) the applicant or its proprietor, partner or director having been employed by a registered sub-contractor for at least five years with experience in the trade/specialty applying for and having completed all the modules of the Project Management Training Series for Sub-contractors (or equivalent) conducted by the CIC; or
- (b) the applicant or its proprietor, partner or director having registered as Registered Skilled Worker under the Construction Workers Registration Ordinance (Chapter 583 of the Laws of Hong Kong) for the relevant trade/specialty with at least five years' experience in the trade/specialty applying for and having completed the Senior Construction Workers Trade Management Course (or equivalent) conducted by the CIC.

*Validity period and renewal of registration*

An approved registration is valid for two years from the approval date and application for renewal may be made within three months before the expiry date of the registration. An approved renewal is valid for two years from the expiry of the current registration.

*Regulatory actions*

Registered subcontractors are to observe the Codes of Conduct for Registered Subcontractor set out in the SRS. Failing to comply with the Codes of Conduct may result in regulatory actions taken by the CIC management committee by directing that:

- (i) written strong direction and/or warning be given to a registered subcontractor;
- (ii) a registered subcontractor to submit an improvement plan with the contents as specified and within a specified period;
- (iii) a registered subcontractor be suspended from registration for a specified duration;  
or
- (iv) the registration of a registered subcontractor be revoked.

A registered subcontractor whose registration has been revoked shall not be eligible for re-registration for a period of two years from the date of revocation. A company with its sole director or proprietor being one of the directors, proprietors or partners of another registered sub-contractor which is being regulated, shall not be accepted for applying new registration within such period of suspension or within two years from such date of revocation.

A company with one or more of the director(s), proprietor(s) or partner(s) being director(s), proprietor(s) or partner(s) of another registered sub-contractor being regulated, the experience of such director(s), proprietor(s) or partner(s) shall not be taken into account

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in the application for new registration if such application is submitted within the period of suspension or within two years from such date of revocation of that registered sub-contractor.

As at the Latest Practicable Date, the following members of our Group were registered under the SRS managed by CIC as a registered subcontractor in the categories set out below:

Registrant	Trade code	Trade Speciality
KML Engineering	03.02 Burglar Alarm and Security	<ul style="list-style-type: none"> <li>● Burglar Alarm and Security</li> </ul>
	03.04 Electrical	<ul style="list-style-type: none"> <li>● Electrical wiring</li> <li>● General electrical installation</li> <li>● Electrical control and power panel assembly</li> </ul>
	03.06 Fire Services Installation	<ul style="list-style-type: none"> <li>● Fire Services Installation</li> </ul>
	03.09 Industrial Type Electrical Installation	<ul style="list-style-type: none"> <li>● Industrial Type Electrical Installation</li> </ul>
	03.12 Low Voltage Cubicle Switchboard	<ul style="list-style-type: none"> <li>● Low Voltage Cubicle Switchboard</li> </ul>
	03.14 Mechanical Plant and Equipment	<ul style="list-style-type: none"> <li>● Mechanical Plant and Equipment</li> </ul>
	03.20 Uninterruptible Power Supply	<ul style="list-style-type: none"> <li>● Uninterruptible Power Supply</li> </ul>
KML Technology	03.21 Other E&M Trades	<ul style="list-style-type: none"> <li>● Security and communication system</li> <li>● Signage</li> <li>● Others (Electronic Timing and Display Installation)</li> </ul>
	03.02 Burglar Alarm and Security	<ul style="list-style-type: none"> <li>● Burglar Alarm and Security</li> </ul>
	03.21 Other E&M Trades	<ul style="list-style-type: none"> <li>● Security and communication system</li> </ul>

The Directors confirm that during the Track Record Period and up to the Latest Practicable Date, the above registrations have not been suspended or revoked and the relevant registrants have met the applicable criteria and requirements on retention on the register.

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### SECURITY AND GUARDING SERVICES

#### Security and Guarding Services Ordinance (Chapter 460 of the Laws of Hong Kong)

Our Group provides installation and maintenance of security systems such as access control, CCTVs, burglar alarms and other security solutions, and is required to obtain relevant licences to operate in Hong Kong.

Established on 1 June 1995 under the SGSO, SGSIA administers a licensing scheme to regulate the security industry in Hong Kong. In particular, companies offering security services and individuals providing security work are regulated under a license regime (the license issued or renewed by SGSIA under the SGSO “**SCL**”, and such regime is referred to as the “**SCL Regime**”) and a permit regime (the permit issued or renewed by the Commissioner of Police (or any police officer acting under and in accordance with an authorisation conferred on him by such Commissioner of Police) under the SGSO (“**SPP**”, and such regime is referred to as the “**SPP Regime**”), respectively, under the SGSO.

#### *SCL Regime*

Under section 11 of the SGSO, no person other than a company acting under and in accordance with a SCL issued by SGSIA in accordance with the SGSO shall supply, agree to supply, or hold himself out as supplying any individual to do security work for another person for reward.

Pursuant to section 12 of the SGSO, no person shall authorise or require another person to do any type of security work for him unless the other person:

- (i) is a holder of a SPP that is valid for that type of work, a holder of SCL, or an individual supplied by a holder of SCL; or
- (ii) is authorised or required to do the work otherwise than for reward.

Application for a SCL shall be made to SGSIA. Under the SGSO, only body corporate incorporated under the Companies Ordinance, incorporated under the Predecessor Companies Ordinance, or incorporated by any other ordinance of the laws of Hong Kong may apply for a SCL.

Under the SCL Regime, the following are the three types of security work in which a company holding a SCL may perform:

Type I security work	Provision of security guarding services
Type II security work	Provision of armoured transportation services
Type III security work	Installation, maintenance and/or repairing of a security device and/or designing (for any particular premises or place) a security system incorporating a security device

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Our Group is involved in the provision of Type III security work. Both KML Engineering and KML Technology have obtained a Type III SCL. At the Latest Practicable Date, the SCLs are still valid.

### *Conditions for issuing a SCL*

The issuance of SCL will be subject to the following conditions (together with any such conditions SGSIA may impose):

The licensee must:

- (i) display its SCL in a prominent position inside its principal place of business;
- (ii) only supply individuals to perform the type of security work as specified in its SCL;
- (iii) enter its name and the period of employment on the SPP of security personnel under its employ;
- (iv) notify the Commissioner of Police (the “**Commissioner**”) in writing of:
  - (a) any criminal proceedings against the controller(s), directors and executives, and all SPP holders of the company within 14 days after the licensee has become aware of the institution of such proceedings;
  - (b) the name of the persons whom it employs to do security work and the date on which the employment commenced within 14 days after the commencement of the employment; and
  - (c) the name of the persons whom it ceases to employ to do security work and the date on which the employment ceased within 14 days after the cessation of the employment (items (ii) and (iii) are collectively referred to as the “**Notification Requirements**”); and
- (v) not act contrary to the requirements of its work as a security company.

A SCL is not assignable or transmissible, and is valid for five years (or such shorter period as SGSIA may specify, and subject to payment of prescribed fee). An application for renewal of a SCL shall be made to SGSIA not earlier than six months and not later than three months before the SCL is due to expire.

### *Penalties*

Under section 31(1) of the SGSO, any person who operates a company which supplies, agrees to supply, or holds himself out as supplying any individual to do security work for another person for reward without a valid SCL commits an offence and is liable on conviction to a fine of HK\$100,000 and to imprisonment for two years.

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Pursuant to section 31(2) of the SGSO, any person who fails to notify the Commissioner of the Notification Requirements (together with the relevant date of commencement/cessation giving rise to such Notification Requirements) commits an offence and is liable on conviction to a fine of HK\$10,000 and to imprisonment for three months.

### **SPP Regime**

Some of our employees are involved in the installation and maintenance of security devices and are required to obtain relevant permits under the SPP Regime. Under section 10 of the SGSO, no individual shall do, agree to do, or hold himself out as doing or as available to do, security work for another person unless he does so (i) under and in accordance with a SPP issued by the Commissioner in accordance with the SGSO; or (ii) otherwise than for reward.

As set out above, pursuant to section 12 of the SGSO, no person shall authorise or require another person to do any type of security work for him unless the other person, among others, is a holder of a SPP that is valid for that type of work, a holder of SCL, or an individual supplied by a holder of SCL.

Application for a SPP shall be made to the Commissioner. Under the SGSO, SPP shall not be issued to a body of persons, whether corporate or unincorporate.

Under the current SPP Regime, the following are the four categories of security work in which a person holding a SPP may perform:

Category A	Guarding work restricted to a “single private residential building”, the performance of which does not require the carrying of arms and ammunitions
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*Note:* A “single private residential building” means an independent structure (i) covered by a roof and enclosed by walls extending from the foundation to the roof; (ii) used substantially for private residential purpose; and (iii) with only one main access point.

Category B	Guarding work in respect of any persons, premises or properties, the performance of which does not require the carrying of arms and ammunition and which does not fall within Category A
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Category C	Guarding work, the performance of which requires the carrying of arms and ammunitions
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Category D	Installation, maintenance and/or repairing of a security device and/or designing (for any particular premises or place) a system incorporating a security device
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Our employees providing the installation and maintenance of security devices have obtained the relevant SPP for performing Category D works and as at the Latest Practicable Date, the relevant SPP are still valid.



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## REGULATORY OVERVIEW

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### *Conditions for issuing a SPP*

The issuance of a SPP is subject to the following conditions (together with any such conditions the Commissioner may impose).

The SPP holder must:

- (i) carry his SPP at all times when he is on duty;
- (ii) produce his SPP for inspection on demand by any police officer;
- (iii) notify the Commissioner in writing of:
  - (a) any change of employer, unless he is employed by a licensed security company; and
  - (b) any institution of criminal proceedings against him, within 14 days after the relevant event has occurred;
- (iv) only perform the type of security work as specified in his SPP;
- (v) not work over 372 hours per month and not normally work over 12 hours per day; and
- (vi) not act contrary to the requirements of his duties as a security personnel or remiss in the execution of his duties.

A SPP is not assignable or transmissible, and is valid for a period of five years (or such shorter period as the Commissioner may specify). Holder of a SPP should apply to the Commissioner for renewal not earlier than 6 months and not later than three months before his SPP is due to expire.

### *Penalties*

Under section 31(2) of the SGSO, any person who does, agrees to do, or holds himself out as doing or as available to do, security work for another person for reward without a valid SPP commits an offence and is liable on conviction to a fine of HK\$10,000 and to imprisonment for three months.

## **CONSTRUCTION, BUILDING AND MINOR WORKS**

### **Construction Industry Council Ordinance (Chapter 587 of the Laws of Hong Kong) (the “CICO”)**

In accordance with section 32 of the CICO, a construction industry levy at the rate of 0.5% is imposed in respect of all construction works or operations carried out in Hong Kong with a total value exceeding HK\$1 million. A contractor executing construction operations is

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responsible for paying the construction industry levy to the CIC. Construction operations include building works, construction, alteration, repair, maintenance, extension, demolition or dismantling of buildings or structures, power-lines, telecommunications apparatus or pipelines; supply and installation of fittings or equipment in any building or structures; external or internal cleaning of any buildings or structures, which is carried out in the course of construction or maintenance of such buildings or structures; painting or decorating any external or internal surfaces or parts of any buildings or structures; and operations which form an integral part of, or are preparatory to any of the above operations.

If a contractor fails to give a notice under section 35 or 36 of the CICO and fails to give, within a period allowed by the CIC, a reasonable excuse for that failure, the CIC may impose a surcharge which shall not exceed twice the amount of the levy payable by the contractor. A person who, without reasonable excuse, fails to give a notice to the CIC within 14 days after any construction operations have commenced as required by this section commits an offence and is liable on conviction to a fine at HK\$2,000. A person who, without reasonable excuse, fails to give notice of the payment to the CIC within 14 days after the payment is made commits an offence and is liable on conviction to a fine at HK\$10,000. A person who, without reasonable excuse, fails to give a notice to CIC of completion within 14 days after the completion of the construction operations or the stage of the construction operations commits an offence and is liable on conviction to a fine at HK\$10,000. If the amount of the levy or surcharge is not fully paid within the specified period, the contractor is liable to pay a penalty of 5% of the unpaid amount, and a further penalty of 5% of the unpaid amount if it is overdue for more than three months.

### **Buildings Ordinance (Chapter 123 of the Laws of Hong Kong)**

The Buildings Ordinance and associated regulations regulate the planning, design, and construction of buildings and associated works. The Buildings Ordinance and associated regulations contain a set of controls for undertaking any construction works, including the requirement to obtain prior approval and consent from the Building Authority before the commencement of works, and to appoint authorised persons (such as architects, engineers and surveyors registered under the Buildings Ordinance) and registered professionals to design and supervise the works, and registered contractors to carry out the works.

Under section 14(1) of the Buildings Ordinance, no person shall commence or carry out any building works, including alteration, addition and every kind of building operation, without having obtained approval and consent from the Building Authority. According to section 41(3) of the Buildings Ordinance, building works (other than drainage works, ground investigation in the scheduled areas, site formation works or minor works) in any building are exempt from the requirement for approval from the Building Authority if the works do not involve the structure of the building. Even if the building works satisfy the criteria under section 41(3) of the Buildings Ordinance and can be carried out without prior approval of the Buildings Authority, the works concerned would have to comply with the building standards stipulated in the regulations made under the Buildings Ordinance. It is a requirement under the Buildings Ordinance for an authorised person (who co-ordinates any building works and who prepares and submits plans for the approval of the Building Authority) to be appointed by either the ultimate beneficiary of the works, the employer of the works, or the contractor.

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### **Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong)**

The Building (Minor Works) Regulation is a subsidiary legislation under the Buildings Ordinance and provides for a simplified procedure and requirements to regulate building works which have been specified as “minor works”. Under the Building (Minor Works) Regulation, minor works are classified into three classes according to their nature, scale and complexity and the risk and safety they pose. The works are further classified into types and items that correspond to the specialisation of works in the industry.

Class I minor works are relatively more complicated and require higher technical experience and more stringent supervision and thus requires the appointment of a prescribed building professional (such as an authorised person and where necessary, may include a registered structural engineer and/or a registered geotechnical engineer) and a prescribed registered contractor.

The other two classes of minor works, Class II and Class III, can be carried out by a prescribed registered contractor (which can be a registered general building contractor, a registered specialist contractor registered under the category of demolition works/site formation works/foundation works/ground investigation field works or a registered minor works contractor) without the involvement of a prescribed building professional.

The Building Authority maintains a register of minor works contractors who are qualified to carry out minor works belonging to the class, type and item specified in the register in which they are registered. Under the Building (Minor Works) Regulation, a registered minor works contractor must appoint at least one person as its authorised signatory and at least one director as its technical director. The authorised signatory and technical director must have such academic qualification in the field of construction technology (or other relevant fields acceptable to the Building Authority) and working experience in the building industry as specified by the Building Authority from time to time.

The works under each class of minor works are further classified into seven types: alteration and addition works, repair works, works relating to signboards, drainage works, works relating to structures for amenities, finishes works and demolition works.

Under section 13 of the Buildings Ordinance, a registered contractor (including a registered specialist contractor or a registered minor contractor), or the director, officer or person appointed by the registered contractor to act on its behalf for the purposes of the Buildings Ordinance (collectively, the “persons subject to inquiry”) may be subject to inquiry by the disciplinary board appointed by the Building Authority under section 6 of the Building Ordinance where appropriate. The disciplinary board may, among others, order that: (i) the name of the person subject to inquiry be removed from the relevant register, either permanently or for such period as the disciplinary board thinks fit; (ii) the person subject to inquiry be fined, in the case of building works (other than minor works), a sum not exceeding HK\$250,000 or in the case of minor works, a sum not exceeding HK\$150,000; (iii) the person subject to inquiry be reprimanded; and (iv) the person subject to inquiry be prohibited from certifying or carrying out certain works, either permanently or for such period as the disciplinary board thinks fit.

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## **REGULATORY OVERVIEW**

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KML Engineering has obtained the Certificate of Registration of Registered Minor Works Contractor (Company) for (i) alteration and addition works and (ii) works relating to signboards, both under Class II and Class III. As at the Latest Practicable Date, the certificate is still valid.

### **LABOUR, HEALTH AND SAFETY LAWS AND REGULATIONS**

#### **Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong)**

As the employer of more than 200 employees, our Group is subject to the no-fault and non-contributory employee compensation system for work injuries established by the Employees' Compensation Ordinance. The Employees' Compensation Ordinance lays down the rights and obligations of employers and employees in respect of injuries or death caused by accidents arising out of and in the course of employment, or by prescribed occupational diseases.

Under the Employees' Compensation Ordinance, if an employee sustains an injury or dies as a result of an accident arising out of and in the course of his employment, his employer is in general liable to pay compensation even if the employee might have committed acts of faults or negligence when the accident occurred. Similarly, an employee who suffers incapacity arising from an occupational disease is entitled to receive the same compensation as that payable to employees injured in occupational accidents.

According to section 15 of the Employees' Compensation Ordinance, an employer must notify the Commissioner for Labour of any work accident by submitting Form 2 (within 14 days for general work accidents and within seven days for fatal accidents), irrespective of whether the accident gives rise to any liability to pay compensation. If the happening of such accident was not brought to the notice of the employer or did not otherwise come to his knowledge within such periods of seven or 14 days (as the case may be) then such notice shall be given not later than seven days or, as may be appropriate, 14 days after the happening of the accident was first brought to the notice of the employer or otherwise came to his knowledge.

Pursuant to section 40 of the Employees' Compensation Ordinance, all employers (including contractors and subcontractors) are required to take out insurance policies to cover their liabilities under both the Employees' Compensation Ordinance and at common law for injuries at work in respect of all their employees (including full-time and part-time employees). An employer who fails to comply with this ordinance to secure an insurance cover is liable on conviction upon indictment to a fine of HK\$100,000 and to imprisonment for two years, or on summary conviction, to a fine of HK\$100,000 and to imprisonment for one year.

#### **Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong)**

Our employees may be exposed to work injuries whilst providing installation, maintenance and other services to our customers. Our management team is responsible for providing safety and health protection to employees in workplaces, both industrial and non-industrial, in accordance with the Occupational Safety and Health Ordinance.

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Employers must as far as reasonably practicable ensure the safety and health in their workplaces by:

- providing and maintaining of plant and work systems that are safe and without risks to health;
- making arrangements for ensuring safety and absence of risks to health in connection with the use, handling, storage or transport of plant or substances;
- providing and maintaining means of access to and egress from the workplace that are safe and without any such risks;
- providing all necessary information, instructions, training and supervision for ensuring safety and health; and
- providing and maintaining a working environment for the employer's employees that is safe and without risks to health.

Failure to comply with any of the above provisions constitutes an offence and the employer is liable on conviction to a fine of HK\$200,000. An employer who fails to do so intentionally, knowingly or recklessly commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months.

Further, the Commission for Labour may, at his discretion, issue improvement notices against non-compliance of this ordinance and/or suspension notices against activity or condition of workplace which may create imminent risk of death or serious bodily injury. Failure to comply with such improvement notice or suspension notice without reasonable excuse constitutes an offence punishable by a fine of HK\$200,000 and HK\$500,000 respectively and imprisonment of up to 12 months. In case of contravention of suspension notice, a daily fine of HK\$50,000 may also be imposed.

### **Occupiers Liability Ordinance (Chapter 314 of the Laws of Hong Kong)**

The Occupiers Liability Ordinance provides for the liability of occupiers and others for injury or damage resulting to persons or goods lawfully on any land or other property from dangers due to the state of the property or to things done or omitted to be done there, and for purposes connected therewith.

Without altering the rules of the common law as to the persons on whom a duty is so imposed or to whom it is owed, the ordinance regulates the nature of the duty imposed by law in consequence of a person's occupation or control of premises and of any invitation or permission he gives (or is to be treated as giving) to another to enter or use the premises.

### **Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong)**

Our Group is subject to the Minimum Wage Ordinance, which provides for a prescribed minimum hourly wage rate (currently set at HK\$34.5 per hour) during the wage period for every employee engaged under a contract of employment under the Employment Ordinance.

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Any provision of the employment contract which purports to extinguish or reduce the right, benefit or protection conferred on the employee by this ordinance is void.

### **Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong)**

The Mandatory Provident Fund Schemes Ordinance provides for the establishment of non-governmental mandatory provident fund (“MPF”) schemes. Our Group, as an employer, is required to enroll our regular employees (except for certain exempt persons) aged between at least 18 but under 65 years of age and employed for 60 days or more in a MPF scheme within the first 60 days of employment.

For both employees and employers, it is mandatory to make regular contributions into a MPF scheme. For an employee, subject to the maximum and minimum levels of income (HK\$25,000 and HK\$7,100 per month, respectively before 1 June 2014 or HK\$30,000 and HK\$7,100 per month, respectively on or after 1 June 2014), an employer will deduct 5% of the relevant income on behalf of an employee as mandatory contributions to a registered MPF scheme with a ceiling of HK\$1,250 before 1 June 2014 or HK\$1,500 on or after 1 June 2014. Employer will also be required to contribute an amount equivalent to 5% of an employee’s relevant income to the MPF scheme, subject only to the maximum level of income (HK\$25,000 per month before 1 June 2014 or HK\$30,000 on or after 1 June 2014).

### **ENVIRONMENTAL PROTECTION LAWS AND REGULATIONS**

Our Group carries out E&M engineering solutions, service and maintenance related works, and are subject to various environmental related laws and regulations below.

#### **Air Pollution Control Ordinance (Chapter 311 of the Laws of Hong Kong)**

The Air Pollution Control Ordinance is the principal legislation in Hong Kong for controlling emission of air pollutants and noxious odour from construction, industrial and commercial activities and other polluting sources. Subsidiary regulations of the Air Pollution Control Ordinance impose control on air pollutant emissions from certain operations through the issue of licences and permits.

A contractor shall observe and comply with the Air Pollution Control Ordinance and its subsidiary regulations, including without limitation to the Air Pollution Control (Open Burning) Regulation (Chapter 311O of the Laws of Hong Kong), the Air Pollution Control (Construction Dust) Regulation (Chapter 311R of the Laws of Hong Kong) and the Air Pollution Control (Smoke) Regulations (Chapter 311C of the Laws of Hong Kong). The contractor responsible for a construction site shall use the best practicable means for preventing the emission of noxious or offensive emissions from such premises, and for preventing the discharge, whether directly or indirectly, of such emissions into the atmosphere, and for rendering such emissions where discharged harmless and inoffensive.

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## **REGULATORY OVERVIEW**

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### **Noise Control Ordinance (Chapter 400 of the Laws of Hong Kong)**

The Noise Control Ordinance controls the noise from construction, industrial and commercial activities. A contractor shall comply with the Noise Control Ordinance and its subsidiary regulations in carrying out general construction works. For construction activities that are to be carried out during the restricted hours and for percussive piling during the daytime on a day not being a general holiday, construction noise permits are required from the director of the Environmental Protection Department in advance. It is customary for construction contracts in Hong Kong to place the responsibility for observing these requirements on the contractor.

Under the Noise Control Ordinance, construction works that produce noises and the use of powered mechanical equipment in populated areas (other than percussive piling) are not allowed between 7:00 p.m. and 7:00 a.m. or at any time on general holidays, unless prior approval has been granted by the director of the Environmental Protection Department through the construction noise permit system. The use of certain equipment is also subject to restrictions. Hand-held percussive breakers and air compressors must comply with noise emissions standards and be issued with a noise emission label from the director of the Environmental Protection Department.

Any person who carries out any construction work except as permitted is liable on first conviction to a fine of HK\$100,000 and on subsequent convictions to a fine of HK\$200,000, and in any case to a fine of HK\$20,000 for each day during which the offence continues.

### **Waste Disposal Ordinance (Chapter 354 of the Laws of Hong Kong)**

Our Group is subject to the Waste Disposal Ordinance, which controls the production, storage, collection and disposal (including treatment, reprocessing and recycling) of wastes. At present, unlawful deposition of waste is prohibited. Import and export of waste is generally controlled through a permit system.

A contractor shall observe and comply with the Waste Disposal Ordinance and its subsidiary regulations, including but not limited to the Waste Disposal (Charges for Disposal of Construction Waste) Regulation (Chapter 354N of the Laws of Hong Kong) and the Waste Disposal (Chemical Waste) (General) Regulation (Chapter 354C of the Laws of Hong Kong).

Under the Waste Disposal Ordinance, a person shall not use, or permit to be used, any land or premises for the disposal of waste unless he has a licence from the Director of the Environmental Protection Department. A person who uses, or permits to be used, any land or premises for the disposal without such a licence commits an offence and is liable to (i) a fine of HK\$200,000 and to imprisonment for 6 months for the first offence; (ii) to a fine of HK\$500,000 and to imprisonment for six months for a second or subsequent offence; and (iii) in addition, if the offence is a continuing offence, to a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued.

Under the Waste Disposal (Charges for Disposal of Construction Waste) Regulation, a main contractor who undertakes construction work with a value of HK\$1 million or above will be required, within 21 days after being awarded the contract, to make an application to



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## **REGULATORY OVERVIEW**

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establish a billing account solely in respect of that contract with the director of Environmental Protection Department to pay any disposal charges payable in respect of the construction waste generated from construction work undertaken under that contract. As at the Latest Practicable Date, we have obtained a billing account from Environmental Protection Department.

Under the Waste Disposal (Chemical Waste) (General) Regulations, a person shall not produce or cause to be produced chemical waste unless he is registered as a chemical waste producer. Any person who contravenes this requirement commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for 6 months. A chemical waste producer shall ensure that chemical waste is properly packed and stored before disposal as required under the Waste Disposal (Chemical Waste) (General) Regulation. Any waste producer who fails to comply with any of these packing and storing requirements commits an offence and is liable to a fine of HK\$100,000 and to imprisonment for 6 months. Furthermore, a waste producer shall also ensure that chemical waste is properly labelled as required by the regulation, failing which will constitute committing an offence and is liable to a fine of HK\$50,000 and to imprisonment for 6 months. A chemical waste producer shall engage a licensed waste collector to remove or transport chemical waste. Any person who arranges or causes chemical waste to be removed or transported otherwise than by engaging the services of a licensed waste collector commits an offence and is liable to a fine of HK\$200,000 and to imprisonment for 6 months.

As at the Latest Practicable Date, KML Engineering was a registered as a chemical waste producer under the Waste Disposal (Chemical Waste) (General) Regulations.

### **Dumping at Sea Ordinance (Chapter 466 of the Laws of Hong Kong)**

Under the Dumping at Sea Ordinance, any waste producers involved in marine dumping and related loading operations are required to obtain permits from the director of Environmental Protection Department.

Under the Dumping at Sea Ordinance, a person who except under and in accordance with a permit, does anything or causes or allows another person to do anything for which a permit is needed commits an offence and is liable on conviction to a fine of HK\$200,000 and to imprisonment for six months on a first conviction; and HK\$500,000 and to imprisonment for two years on a second or subsequent conviction; and in addition, to a further fine of HK\$10,000 for each day if the court is satisfied that the operation has continued.

### **Water Pollution Control Ordinance (Chapter 358 of the Laws of Hong Kong)**

The Water Pollution Control Ordinance controls the effluent discharged from all types of industrial, commercial, institutional and construction activities into public sewers, rainwater drains, river courses or water bodies. For any industry/trade generating wastewater discharge (except domestic sewage that is discharged into communal foul sewers or unpolluted water to storm drains), they are subject to licensing control by the director of the Environmental Protection Department which we are required to comply with.



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## REGULATORY OVERVIEW

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All discharge, other than domestic sewage to a communal sewer or unpolluted water to a communal drain, must be approved by a water pollution control licence. The licence specifies the permitted physical, chemical and microbial quality of the effluent. The general guidelines are that the effluent does not damage sewers or pollute inland or inshore marine waters. According to the Water Pollution Control Ordinance, unless being licensed under the Water Pollution Control Ordinance, a person who discharges any waste or polluting matter into the water or discharges any matter into a communal sewer or communal drain in a water control zone commits an offence and is liable to imprisonment for up to six months and (i) at a first offence, a maximum fine of HK\$200,000; (ii) for a second or subsequent offence, a maximum fine of HK\$400,000. In addition, if the offence is a continuing offence, a fine of HK\$10,000 for each day during which it is proved to the satisfaction of the court that the offence has continued will be imposed.

### **Environmental Impact Assessment Ordinance (Chapter 499 of the Laws of Hong Kong)**

The Environmental Impact Assessment Ordinance aims to avoid, minimise and control the adverse environmental impacts from designated projects as specified in Schedule 2 of the Environmental Impact Assessment Ordinance (which includes public utility facilities, certain large-scale industrial activities, community facilities, etc.) through the application of the environmental impact assessment process and the environmental permit system prior to their construction and operation (and decommissioning, if applicable), unless exempted.

According to the Environmental Impact Assessment Ordinance, a person commits an offence if he constructs or operates a designated project listed in Part I of Schedule 2 of the Environmental Impact Assessment Ordinance (which includes roads, railways and depots, dredging operation, residential and other developments, etc.) without an environmental permit for the project; or contrary to the conditions, if any, set out in the permit. The offender is liable (i) on a first conviction on indictment to a fine of HK\$2 million and to imprisonment for six months, (ii) on a second or subsequent conviction on indictment to a fine of HK\$5 million and to imprisonment for two years, and in any case where the offence is of a continuing nature, the court or magistrate may impose a fine of HK\$10,000 for each day on which he is satisfied the offence continued.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### OUR HISTORY

We are an E&M engineering solutions and services provider with a primary focus on Transportation Mission Critical System Solutions in Hong Kong with a long operating history of 40 years since 1977. We provide a full spectrum of E&M engineering solutions and services with focuses on the development, design, fabrication, installation and maintenance of public transport related systems. These include main control system, signalling control system, traffic control and surveillance system and platform screen door for public transports, automatic fare collection system and road toll collection system for public and private facilities.

Mr. KM Luk, our founder member of our Group, chairman and Executive Director, has more than 50 years of experience in the E&M engineering industry. During his tenure for more than 10 years with a well-established dockyard and engineering group in Hong Kong as an apprentice in electrical engineering, then as a technical assistant in the electrical department and later the head of the electronics and instruments department from September 1962 to June 1976, Mr. KM Luk foresaw the market need for E&M engineering solutions and services, in particular those relating to communication facilities and automatic control system and devices. With such business acumen, Mr. KM Luk established KML Engineering (the principal subsidiary of our Group), using his own personal savings, for his own E&M engineering business in August 1977.

To prepare for the construction of the first mass transit railway line in the late 1970s in Hong Kong, KML Engineering, leveraging on the experience, professional knowledge and qualification of Mr. KM Luk, participated in providing project management consultancy work on installation of signaling systems for the mega size railway transportation infrastructure project. Returns generated from the project fuelled the subsequent growth and development of KML Engineering, which developed into an engineering company with over 200 directly employed staff for design, fabrication, integration, installation and maintenance services in relation to E&M engineering systems.

Under the leadership of Mr. KM Luk, we are proud to have contributed to the development of public transport related systems in Hong Kong in the past decades as well as to be an early mover of the design and development of automatic fare collection systems for public and private facilities in the Asia Pacific region. In particular, we are the second largest player in the market with a revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing, and road and tunnel toll collection system solutions, accounting for approximately 8.9% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report. In addition, in 2016, our Group also recorded a revenue of approximately HK\$69.0 million for the provision of the Transport Mission Critical System Solutions, accounting for approximately 3.6% of the market share in Hong Kong.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### OUR KEY BUSINESS MILESTONES

The key business milestones in the development of our Group up to the Latest Practicable Date are set out below:

<b>Year</b>	<b>Event</b>
1977	<p>Incorporation of KML Engineering (under its former name “K.M. Luk &amp; Engineers Limited”)</p> <p>KML Engineering participated in providing engineering advisory work in relation to the installation of signal and control systems for the first mass transit railway transportation infrastructure project in Hong Kong</p>
1984	<p>KML Engineering was included on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works administered by the Works Branch of the Development Bureau under the following categories:</p> <ul style="list-style-type: none"><li>● Industrial Type Electrical Installations</li><li>● Manufacture and Erection of Mechanical Plant and Equipment (Group I) (now the category has been renamed as Mechanical Plant and Equipment (Group I))</li></ul>
1986	<p>KML Engineering was further included on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works administered by the Works Branch of the Development Bureau under the following categories:</p> <ul style="list-style-type: none"><li>● Electrical Installation (Group I – on probation)</li><li>● Supply and Installation of Electronic Timing and Display Systems (on probation) (now the category has been renamed as “Others (Electronic Timing and Display Installation)”)</li></ul>
1992	<p>KML Technology began its cooperation with companies in Indonesia, Taiwan and France to explore and engage in road toll system business</p>
1995	<p>KML Engineering was included on the List of Approved Suppliers of Materials and Specialist Contractors for Public Works administered by the Works Branch of the Development Bureau under the following category:</p> <ul style="list-style-type: none"><li>● Electrical Installation (Group II – on probation)</li></ul> <p>KML Engineering was granted the ISO 9001:1994 certificate for its quality management system</p>

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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- 1998 KML Engineering was granted the Contractor Safety Performance Award by MTRC for the first time
- 1999 KML Engineering was awarded the contract for replacing the toll collection system for the Aberdeen Tunnel in Hong Kong
- KML Engineering changed its name from its former name of K. M. Luk & Engineers Limited to its current name of KML Engineering Limited to signify Mr. KM Luk's determination to transform KML Engineering from a personal enterprise into a corporate enterprise
- 2000 KML Engineering was awarded the contract for installation of platform screen doors in urban lines for the MTR
- 2004 KML Engineering was granted the 2004 Hong Kong Awards for Industries: Machinery Equipment Design (Grand Award) accredited by The Chinese Manufacturers' Association of Hong Kong for its "MetroStile" project, being the fare collection gate installed at Kowloon station, Tsim Sha Tsui station and Disney Resort Line
- "MetroStile" is the first locally designed and developed AFC gate, which was put into regular service at the MTR
- 2005 KML Technology set up a branch in Taiwan to tap into emerging projects relating to the construction of Taiwan high speed rail
- KML Technology (Taiwan branch) secured the installation and testing for workstation desk and printer tables for station control rooms, depot workshops and operation control center of high speed rail in Taiwan
- 2007 KML Engineering was awarded the contract for the supply of relay racks to Dubai
- 2011 KML Engineering participated in the design and fabrication of AFC gates (automatic gates), token issuing machines, card vending and add value machines and cash counting handling equipment for the mass transit railway towards an international airport in Taipei, Taiwan
- 2015 KML Engineering was registered as a Registered Minor Works Contractor under the Buildings Ordinance to carry out the following types of works:
- Type A (Alteration and Addition Works) (Class II & III)
  - Type C (Works relating to Signboards) (Class II & III)
- 2016 KML Engineering was granted the Contractor Safety Performance Award by MTRC for the 10<sup>th</sup> time

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### CORPORATE HISTORY

The following sets forth the major corporate development of each member of our Group since its incorporation.

#### **Our Company**

Our Company was incorporated in the Cayman Islands under the Cayman Companies Law as an exempted company with limited liability on 5 May 2017 and is the immediate holding company of KML BVI. The principal business activity of our Company is investment holding. As at the date of incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 shares of a nominal value of HK\$0.01 each. On incorporation, one subscriber's Share was allotted and issued to a third party subscriber and such Shares was transferred to KML Holdings at the subscription price of HK\$0.01 on the same day.

As part of the Reorganisation, on 9 June 2017, 45, 35 and 19 Shares were allotted and issued to KML Holdings, Mr. KM Luk and Madam Leung respectively. On 6 September 2017, our Company allotted and issued 414 Shares to KML Holdings in consideration for the transfers of the entire shareholding in KML Technology by Mr. KL Luk and Mr. YC Luk to KML BVI; and on the same day, our Company allotted and issued 4,140, 3,465 and 1,881 Shares to KML Holdings, Mr. KM Luk and Madam Leung respectively, in consideration for the transfers of the entire shareholding in KML Engineering by KML Holdings, Mr. KM Luk and Madam Leung to KML BVI.

Upon completion of the above-said steps of the Reorganisation on 6 September 2017, our Company, through KML BVI, became the holding company of both KML Engineering and KML Technology; and our Company remained owned as to 46%, 35% and 19% by KML Holdings, Mr. KM Luk and Madam Leung respectively.

On 20 September 2017, for the purpose of preparation for Listing, our Company has increased its authorised share capital to HK\$38,000,000 divided into 3,800,000,000 Shares of HK\$0.01 each.

#### **KML BVI**

KML BVI was incorporated in the BVI with limited liability on 16 May 2017 and is an investment holding company for the purpose of holding KML Engineering and KML Technology. KML BVI is authorised to issue a maximum of 50,000 shares with par value of US\$1.00 each. On incorporation, one share in KML BVI was allotted and issued to our Company for cash at par.

As part of the Reorganisation, KML BVI acquired the entire shareholding in KML Technology from Mr. KL Luk and Mr. YC Luk and the entire shareholding in KML Engineering from KML Holdings, Mr. KM Luk and Madam Leung on 6 September 2017. Upon completion of the aforesaid acquisitions on 6 September 2017, KML BVI became the immediate holding company of both KML Engineering and KML Technology.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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### **KML Engineering**

KML Engineering was incorporated in Hong Kong with limited liability on 12 August 1977. It is the principal operating subsidiary of our Group and is principally engaged in the provision of E&M engineering solutions and services with a primary focus on Transportation Mission Critical System Solutions in Hong Kong.

KML Engineering was founded by Mr. KM Luk as a family business. On incorporation, KML Engineering allotted and issued a total of 199 shares and 1 share with the then par value of HK\$100 each to Mr. KM Luk and Madam Leung, respectively. Between 1980 and 2008, (i) Mr. KM Luk invited four employees to invest in minority interests in KML Engineering; (ii) each of the aforesaid employees has left KML Engineering due to personal reasons and has transferred all their shares in KML Engineering to Mr. KM Luk and Madam Leung at par value during the period; and (iii) Mr. KM Luk and Madam Leung restructured part of their family business and assets. These resulted in a number of allotment of new shares to, and transfer of shares among the then shareholders which also included KML Holdings and KML Limited which were both controlled by the Luk family during the period.

Since 23 October 2008 and until immediately before the Reorganisation, KML Holdings, Mr. KM Luk and Madam Leung had been holding 46,000, 35,000 and 19,000 shares in KML Engineering, respectively, representing 46%, 35% and 19% of the then total issued shares of KML Engineering respectively. KML Holdings was set up by Mr. KM Luk, and on 27 July 2011, as part of the restructuring of family business, all the shares in KML Holdings were transferred to and held by Mr. KL Luk and Mr. YC Luk as to 50% and 50% respectively.

As part of the Reorganisation, on 6 September 2017, KML Holdings, Mr. KM Luk and Madam Leung transferred 46,000, 35,000 and 19,000 shares in KML Engineering respectively to KML BVI; and in consideration for the said transfers, our Company issued 4,140, 3,465 and 1,881 Shares to KML Holdings, Mr. KM Luk and Madam Leung, respectively. Upon completion of the said transfers, KML Engineering has become a wholly-owned subsidiary of KML BVI and an indirect wholly-owned subsidiary of our Company.

### **KML Technology**

KML Technology was incorporated in Hong Kong with limited liability on 21 October 1988. It was acquired by KML Engineering from the nominee subscribers on 13 August 1991.

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

On 11 February 1992, in order for KML Engineering to cooperate with three business partners (all were independent third parties) which were companies set up in Indonesia, Taiwan and France (“**Business Partners**”) respectively to explore road toll system business in Asia (and in order to differentiate the shares held by the French Business Partner as its request), all shares in KML Technology were converted into A shares, and a new class of B shares was created, allotted and issued to the relevant parties to achieve the following shareholding structure. The A shares and B shares were both ordinary shares and carried the same rights in all respects. All the other three shareholders are independent third parties.

Shareholders	Number shares held	Class of share	Percentage of shareholding interests
KML Engineering (with 50 A shares transferred from KML Limited on 12 February 1992)	7,600	A	25.17%
An Indonesian company	7,600	A	25.17%
A Taiwanese company	7,600	A	25.17%
A French company	<u>7,400</u>	B	<u>24.50%</u>
Total:	<u>30,200</u>		<u>100.00%</u>

On 22 June 1998, given that the road toll business has not matured then, all the shares held by the Business Partners were transferred to KML Engineering and Madam Leung. Upon completion of the said transfers, KML Engineering held 20,626 A shares and 9,573 B shares in KML Technology and Madam Leung held 1 A share in KML Technology for the purpose of complying with the requirement under the then effective Predecessor Companies Ordinance that a limited company incorporated in Hong Kong must have at least two shareholders.

In June 2005, KML Technology set up a branch in Taiwan under the name of 香港商高萌科技有限公司台灣分公司 (KML Technology Limited Taiwan Branch) which is principally engaged in the provision of engineering services and solutions to railway transport projects in Taiwan.

On 12 January 2012, in view of the increasing responsibilities of Mr. KL Luk and Mr. YC Luk, both being Executive Directors and the sons of Mr. KM Luk and Madam Leung and as part of the restructuring of the family business, all shares in KML Technology were transferred to Mr. KL Luk and Mr. YC Luk in equal shares. In particular, (a) KML Engineering transferred 15,100 A shares in KML Technology to Mr. KL Luk at a total consideration of HK\$2 million and 5,526 A shares and 9,573 B shares in KML Technology to Mr. YC Luk at a total consideration of approximately HK\$1,999,867. On the same date, Madam Leung transferred her 1 A share in KML Technology to Mr. YC Luk at the consideration of approximately HK\$132. The considerations for the said transfers were determined with reference to the then net asset value of KML Technology. Upon completion of the aforesaid transfers and until immediately before the Reorganisation, KML Technology



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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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was held by Mr. KL Luk and Mr. YC Luk in equal shares. On 1 February 2012, Mr. KL Luk and Mr. YC Luk became, and have remained as at the Latest Practicable Date, the directors of KML Technology.

As part of the Reorganisation, on 6 September 2017, Mr. KL Luk transferred 15,100 A shares in KML Technology to KML BVI and Mr. YC Luk transferred 5,527 A shares and 9,573 B shares in KML Technology to KML BVI; and in consideration for the said transfers, our Company issued 414 Shares to KML Holdings, a company held by Mr. KL Luk and Mr. YC Luk in equal shares in respect of voting rights. Upon completion of the said transfers, KML Technology has become a wholly-owned subsidiary of KML BVI and an indirect wholly-owned subsidiary of our Company.

On 27 September 2017, all A shares and B shares in KML Technology were re-designated as the same class of ordinary shares given that they carried the same rights.

### ACTING-IN-CONCERT CONFIRMATION

Pursuant to the Acting-In-Concert Confirmation entered into among Mr. KM Luk, Madam Leung, Mr. KL Luk, Mr. YC Luk and KML Holdings, being the Controlling Shareholders, our Controlling Shareholders confirmed the existence of their previous acting-in-concert arrangements in respect of all corporate matters of KML Engineering and KML Technology and have undertaken to continue to maintain such arrangements for the purposes of consolidating their control over our Group. In particular, with respect to the businesses and voting rights of each member of our Group, our Controlling Shareholders have confirmed and/or undertaken to each other that since 27 July 2011, being the date when Mr. KL Luk and Mr. YC Luk became shareholders of KML Holdings (and including 12 January 2012, being the date when KML Engineering and Madam Leung transferred their respective shareholding in KML Technology to Mr. KL Luk and Mr. YC Luk):

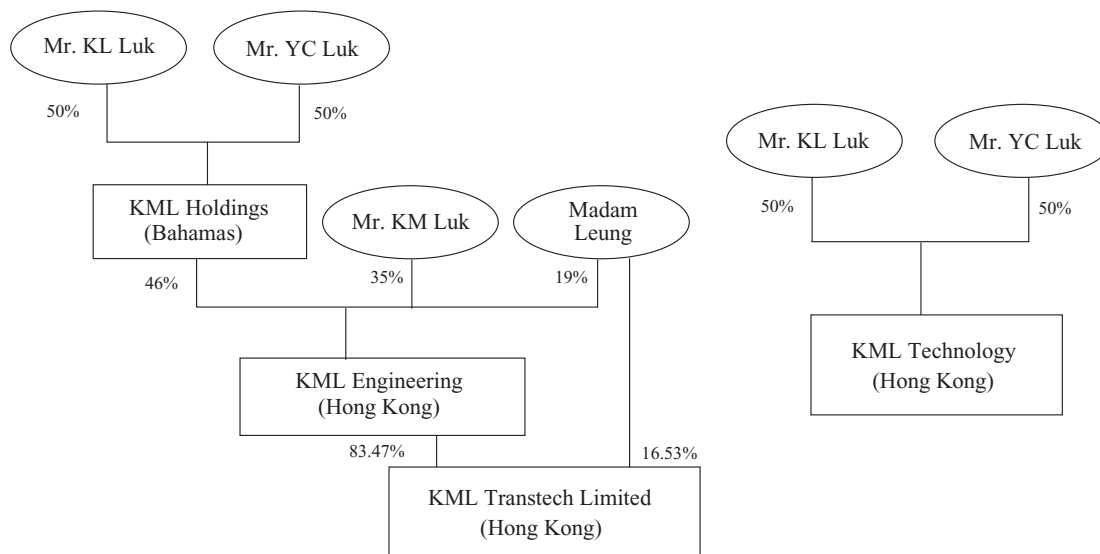
- (a) they have agreed to, and shall continue to, consult each other and reach a unanimous consensus among themselves on such matters being the subject matters of any shareholders' resolution, prior to putting forward such resolution to be passed at any shareholders' meeting of each member of our Group (including KML Engineering and KML Technology), and have historically voted on such resolutions in the same way;
- (b) they have consolidated, and shall continue to consolidate, the ultimate control and right to make final decisions with respect to their interests in the businesses and projects of all members of our Group; and
- (c) they have operated, and shall continue to operate, the businesses of all members of our Group as a single business venture.



# HISTORY, REORGANISATION AND CORPORATE STRUCTURE

## CORPORATE STRUCTURE

The following diagram shows the shareholding and corporate structure of our Group immediately before the Reorganisation:



## REORGANISATION

The Reorganisation consisted of the following major steps:

### Step 1 – Disposal of shares in KML Transtech Limited by KML Engineering

KML Transtech Limited is a company incorporated in Hong Kong on 23 June 2000 and owned as to approximately 83.47% and 16.53% by KML Engineering and Madam Leung respectively. It used to be principally engaged in the business of design, implementation and maintenance of system engineering and project management, but it has been an inactive company without business operations since April 2005 and did not record any revenue since the financial year ended 31 March 2006. The table below sets forth certain financial information of KML Transtech Limited for each of the two years ended 31 March 2017:

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$</i>	<i>HK\$</i>
Revenue	–	–
Loss and total comprehensive expense for the year	(5,855)	(2,155)

*Note:* The figures for the year ended 31 March 2016 were extracted from the audited accounts of KML Transtech Limited. The figures for the year ended 31 March 2017 were extracted from the management accounts of KML Transtech Limited.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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As KML Transtech Limited had had no business operation since April 2005 and there was no plan to utilise it for other investment or business operation purposes, our management considered that the disposal of KML Transtech Limited by our Group would help streamline our Group structure and minimise the maintenance costs. Therefore on 9 June 2017, pursuant to the Sale and Purchase Agreement, each of KML Engineering and Madam Leung transferred all shares in KML Transtech Limited held by it/her to Ms. Chan Patricia, the spouse of Mr. KL Luk, at the consideration of HK\$1,613,260 and HK\$319,462 respectively with reference to the net asset value of KML Transtech Limited as at 31 March 2017, being approximately HK\$1.9 million with share capital of HK\$2 million and accumulated losses of approximately HK\$67,273. The said considerations have been duly settled.

Given KML Transtech Limited did not have any operation during the Track Record Period, it is expected that there would not be any significant impact on our Group's financial position and results of operation if KML Transtech Limited were to be included in our Group. To the best information and knowledge of our Directors, KML Transtech Limited was not a subject of any material non-compliant incidents, claims, litigation or legal proceedings, whether actual or threatened during the Track Record Period and as at the date of the above transfers.

As advised by our Hong Kong legal advisers, Deacons, the disposal of shares in KML Transtech Limited by KML Engineering has been properly and legally completed and in compliance with Hong Kong laws and regulations.

### **Step 2 – Incorporation of our Company and issue of subscriber's Share**

Our Company was incorporated on 5 May 2017 with an authorised share capital of HK\$380,000 divided into 38,000,000 Shares of HK\$0.01 each. On incorporation, one subscriber's Share was allotted and issued to KML Holdings at a subscription price of HK\$0.01.

### **Step 3 – Incorporation of KML BVI**

KML BVI was incorporated on 16 May 2017 with an authorised share capital of US\$50,000 divided into 50,000 shares of US\$1.00 each. On incorporation, 1 subscriber's share in KML BVI was allotted and issued to our Company at a subscription price of US\$1.00.

### **Step 4 – Issue of Shares to KML Holdings, Mr. KM Luk and Madam Leung**

On 9 June 2017, 45, 35 and 19 Shares were allotted and issued to KML Holdings, Mr. KM Luk and Madam Leung respectively; and our Company became owned as to 46%, 35% and 19% by KML Holdings, Mr. KM Luk and Madam Leung respectively.

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## **HISTORY, REORGANISATION AND CORPORATE STRUCTURE**

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### **Step 5 – Transfer of shares in each of KML Technology and KML Engineering to KML BVI and issue of Shares to KML Holdings, Mr. KM Luk and Madam Leung**

On 6 September 2017, pursuant to the Share Swap Agreement, Mr. KL Luk and Mr. YC Luk transferred all their shares in KML Technology to KML BVI; and in consideration for the said transfers, our Company issued 414 Shares to KML Holdings, a company held by Mr. KL Luk and Mr. YC Luk in equal shares in respect of voting rights. Upon completion of the said transfers, KML Technology has become wholly-owned by KML BVI and an indirect wholly-owned subsidiary of our Company. Please refer to the subsection headed “Corporate history – KML Technology” in this section for details.

On the same day, pursuant to the Share Swap Agreement, KML Holdings, Mr. KM Luk and Madam Leung transferred all their shares in KML Engineering to KML BVI; and in consideration for the said transfers, our Company issued 4,140, 3,465 and 1,881 Shares to KML Holdings, Mr. KM Luk and Madam Leung, respectively. Upon completion of the said transfers, KML Engineering has become wholly-owned by KML BVI and an indirect wholly-owned subsidiary of our Company. Please refer to the paragraph “KML Engineering” in this section for details.

Upon completion of the above step of the Reorganisation, our Company remained owned as to 46%, 35% and 19% by KML Holdings, Mr. KM Luk and Madam Leung respectively.

### **Step 6 – Increase of share capital of our Company**

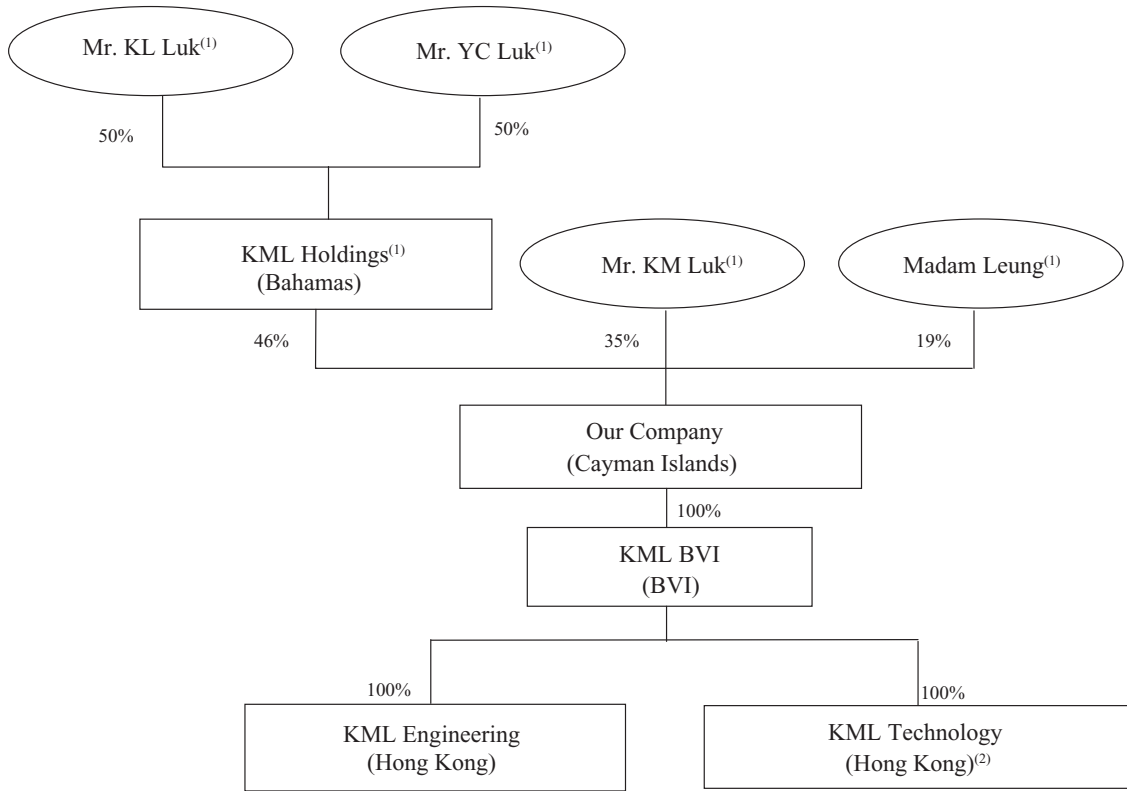
On 20 September 2017, for the purpose of preparation for Listing, our Company increased its authorised share capital to HK\$38,000,000 divided into 3,800,000,000 Shares of HK\$0.01 each.

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## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

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The corporate structure of our Group immediately following completion of the Reorganisation but before the Capitalisation Issue is set out in the diagram below.

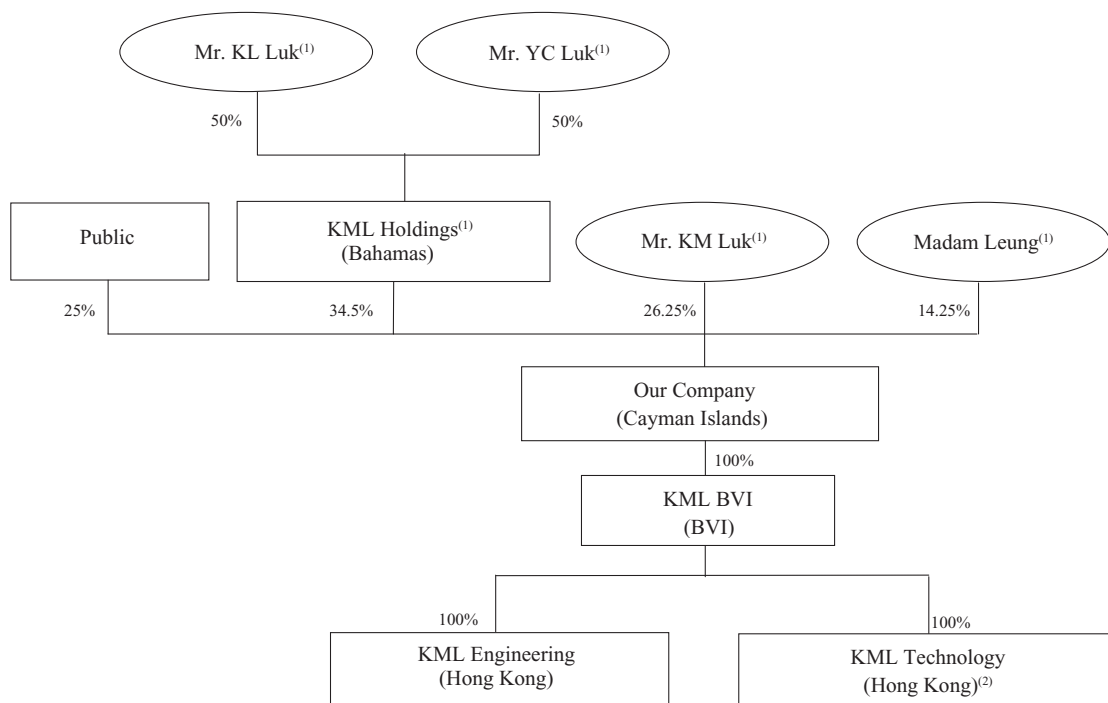


*Notes:*

- (1) Pursuant to the Acting-In-Concert Confirmation entered into among Mr. KM Luk, Madam Leung, Mr. KL Luk, Mr. YC Luk and KML Holdings, being our Controlling Shareholders, our Controlling Shareholders confirmed the existence of their previous acting-in-concert arrangements in respect of all corporate matters of KML Engineering and KML Technology and have undertaken to continue to maintain such arrangements for the purposes of consolidating their control over our Group.
- (2) KML Technology maintains a branch in Taiwan under the name of 香港商高萌科技有限公司台灣分公司 (KML Technology Limited Taiwan Branch).

## HISTORY, REORGANISATION AND CORPORATE STRUCTURE

The corporate structure of our Group immediately following completion of the Capitalisation Issue and the Share Offer (assuming the Offer Size Adjustment Option is not exercised) is set out in the diagram below.



*Notes:*

- (1) Pursuant to the Acting-In-Concert Confirmation entered into among Mr. KM Luk, Madam Leung, Mr. KL Luk, Mr. YC Luk and KML Holdings, being our Controlling Shareholders, our Controlling Shareholders confirmed the existence of their previous acting-in-concert arrangements in respect of all corporate matters of KML Engineering and KML Technology and have undertaken to continue to maintain such arrangements for the purposes of consolidating their control over our Group.
- (2) KML Technology maintains a branch in Taiwan under the name of 香港商高萌科技有限公司台灣分公司 (KML Technology Limited Taiwan Branch).

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### OVERVIEW

We have been providing E&M engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions, in Hong Kong for over 40 years. We also provide such services and solutions overseas, including Singapore, Taiwan and Canada. In particular, we are the second largest player in the market with a revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing and road and tunnel toll collection system solutions, accounting for 8.9% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report. In addition, our Group also recorded a revenue of approximately HK\$69.0 million for the provision of Transport Mission Critical System Solutions\*, accounting for 3.6% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report.

With technical knowledge in the areas of electrical, mechanical and electronic engineering, and a strong focus on product design and research and development, and through our vertically-integrated business model that combines design and fabrication, equipment assembly and system implementation, we are an E&M engineering solutions and services provider in Hong Kong who is capable of independently providing a full suite of custom-built products and services. We are able to provide services and technical support to our customers on system solutions, equipment assembly and installation, network optimisation, inspection and testing. We possess technologies and know-how in the Hong Kong Transportation Mission Critical System 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 operation and management costs and mitigates the incompatibility risks of different E&M engineering systems. In turn, our vertically-integrated business model enhances our ability to customise our products and services to address customers' needs and become more competitive in bidding for new projects. In addition, our business model also promotes the synergies among our individual products and services, reduces our marketing costs and lays a solid foundation for us to develop our maintenance services after our systems and equipment are put into operation.

We mainly undertake Transportation Mission Critical System Solutions projects that are related to the design, supply, installation, fabrication and/or maintenance of, among others, the following, depending on our customers' needs and engagement:

- (i) automatic fare collection system at railway stations;
- (ii) electronic payment and ticketing system;
- (iii) road and tunnel toll collection system;
- (iv) traffic control and surveillance system; and
- (v) railway signaling communication and control system.

\* Revenue of the Group refers to the total revenue generated from the relevant segment by the Group from 1 April 2016 to 31 March 2017.

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

- (i) security and access control systems;
- (ii) railway station E&M engineering services and architectural works, including services in relation to (a) air-conditioning and mechanical ventilation system, (b) fire service system, (c) plumbing and drainage system and (d) electrical system;
- (iii) rolling stock refurbishment and renovation works; and
- (iv) trackside and depot E&M engineering works.

For details of our different categories of E&M engineering solutions and services, please refer to the subsection headed “Business model and operations” in this section.

### OUR COMPETITIVE STRENGTHS

We believe that the following competitive strengths have distinguished us from our competitors, contributed to our success and are critical to our future prospects:

#### **Established E&M engineering solutions and services provider and system integrator in Hong Kong holding various qualifications and licences with proven track record**

Our Group was founded in 1977 and has been operating for over 40 years. We have gained vast experience in the E&M engineering industry and believe that we have built up excellent reputation in the industry with a proven track record of delivering our services on time and to the satisfaction of our customers. Because of our strong client relationships and goodwill, we are often invited to tender in major E&M engineering projects.

During the Track Record Period, our Group has undertaken over 200 projects covering the provision/supply of various types of (i) E&M engineering solutions and services, (ii) E&M engineering design and fabrication services, (iii) E&M engineering maintenance services, and (iv) sale of parts and components. We have established long-term business relationship with transportation companies, such as MTRC, the Hong Kong Government (such as the EMSD) and other engineering companies. With an initial focus on the railway signalling system since our inception, we have expanded our services to design and installation of toll collection and traffic control and surveillance systems, and other E&M engineering systems over the years.

Apart from our years of experience, licenses and registrations are also a key factor of recognition in the market. One of our operating entities, KML Engineering, is currently:

- included on the Specialist List as a specialist contractor (electrical installations, industrial type electrical installations, mechanical plant and equipment installation, and electronic timing and display installation) by the WDBD;

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- registered as a minor works contractor (company) Type A (Classes II and III) and Type C (Classes II and III) under the Buildings Department;
- registered as a Registered Electrical Contractor under the EMSD;
- registered as a registered subcontractor in the List of Registered Subcontractor under the CIC;
- included on the in-house contractor list for electronic system integration by the EMSD; and
- licensed to provide security work Type III in accordance with the SCL regime.

In view of our long operating history, reputation and proven track record, our Directors believe that we are a well-established E&M engineering corporation in Hong Kong.

### **Comprehensive and full-spectrum engineering services and solutions**

Our vertically-integrated business model allows us to benefit from the major stages of the E&M engineering solutions and services value chain, as well as enjoy the potential synergies arising from our coordinated efforts across different business sub-segments. Leveraging on our experience in providing comprehensive E&M engineering solutions and services, including design and fabrication, equipment assembly, installation, system integration and maintenance of various E&M engineering systems, we are able to provide one-stop service to our customers and participate in large-scale projects. We are able to undertake project coordination and design management to meet our customers' requirements under an integrated service contract, coordinating and liaising with various subcontractors, advising the customer on the progress of the project, ensuring that orders are carried out properly and the project is completed on schedule. Our integrated solutions enable our customers to save management and supervising time and costs and allow for better communication, collaborative management and more efficient problem-solving. During the Track Record Period, we had a total number of 242 projects for our E&M engineering solutions and services segment, 54 projects for our E&M engineering maintenance services segment and 35 projects for our E&M engineering design and fabrication services segment. The total revenue derived from our E&M engineering solutions and services segment for each of the two years ended 31 March 2017 was approximately HK\$113.6 million and HK\$131.3 million respectively. The total revenue derived from our E&M engineering design and fabrication services segment for each of the two years ended 31 March 2017 was approximately HK\$29.5 million and HK\$13.4 million respectively, whereas the total revenue derived from our E&M engineering maintenance segment for each of the two years ended 31 March 2017 was approximately HK\$15.0 million and HK\$22.3 million respectively.



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### **Long-term well-established relationships with customers, suppliers and subcontractors**

We have long-term and well-established relationships with the majority of our major customers, subcontractors and suppliers, including some of whom we have over 10 years of business relationship with. We believe that maintaining good customer relationships provides more opportunities to tender and also demonstrates the Group's ability to provide high-quality works within time and budget.

We believe that our reputation in the industry and on-time settlement of accounts payable help us in building a stable network of quality suppliers and subcontractors in all relevant areas. Establishing a good relationship with a stable list of reliable subcontractors and suppliers enables our Group to have more flexibility in negotiating prices, resources allocation and project execution compared with competitors. Our close relationship also enables us to procure the necessary services and supplies when we require them, reducing the risk of shortage or delay in delivery of materials or services causing material disruption to our works. Our Directors consider that partnering with these suppliers and subcontractors is one of the key success factors for us to deliver timely and high quality services to our customers.

### **Commitment to deliver quality works and services with quality, safety and environmental assurance**

We are committed to delivering high quality works and services. We have adopted a set of quality assurance measures which comprises monitoring, verifying and validating the works and materials to ensure that high quality E&M engineering works and services are delivered to our customers. In recognition of the quality assurance procedures in place, our quality management system has, since 1995, been accredited with the ISO 9001 certificate by the HKQAA. Our market recognition is evidenced by the numerous awards we have received over the years, as set out in the subsection headed "Certifications, awards and recognitions" in this section.

We have set up a comprehensive occupational health and safety management system to promote safe working practices among all employees and to prevent the occurrence of accidents through promoting safety awareness at the front line level. Furthermore, we have also set up an environmental management system to promote environmental awareness and to prevent pollution of the environment resulting from our works.

We believe that our quality assurance system and strong commitment to environmental and occupational health and safety management will allow us to minimise costs and be better positioned to deliver quality works on time and within budget to customers and enhance our reputation as a quality and reliable E&M engineering solutions and services provider and system integrator.

### **Experienced and dedicated management team with expertise and proven track record**

Most members of our existing senior management team have served our Group for over 10 years and possess in-depth knowledge and experience in the E&M engineering business. Two of our Executive Directors, Mr. KM Luk (our founder and the chairman of our Board)

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and Mr. Chan Chak Lun Philip (our chief executive officer), have over 50 and 30 years of experience in the E&M engineering industry in Hong Kong respectively. In addition, Mr. KM Luk has been a member of The Hong Kong Institution of Engineers in Hong Kong since July 1975, whereas Mr. Chan Chak Lun Philip has been a member of the Institution of Electrical Engineers in the United Kingdom, registered by the Engineering Council (UK) as a Chartered Engineer since April 2003 and a member of the Institution of Mechanical Engineers since October 2016. In addition, Mr. Hui Wah Pui, a director of KML Engineering, has more than 30 years of experience in the E&M engineering industry. He has also been admitted as a member of the Institution of Engineering and Technology in the United Kingdom and registered as a Chartered Engineer by the Engineering Council in the United Kingdom since July 2001.

Our Directors and senior management possess substantial industry insight and project management experience to facilitate the development of our Group's E&M engineering solutions and services business. Our Directors believe this has also facilitated our Group to secure tenders over the years as well as provides our Group with cost estimations during the tendering process and thereby reduce situations of cost overrun. For the experience and qualifications of our Directors and senior management, please refer to the section headed "Directors and Senior Management" in this prospectus.

Our project management teams have extensive industry and technical knowledge in E&M engineering works and our engineers possess relevant professional qualifications as required for the engineering works and have well-developed practical skills and experience. As at the Latest Practicable Date, all of our project managers and engineering staff possess the relevant engineering licenses and/or academic qualifications to supervise E&M engineering works.

Our Directors believe that our team's technical knowledge, commercial experience and business acumen have enabled us to build a stable customer base, and develop strong technical expertise. Our Directors believe that we will continue to benefit from the sound business judgment and managerial expertise of our management team going forward. In addition, we consider our employees as our core assets and we dedicate significant resources to their development and management. We seek to provide career opportunities and continue to invest in the training of our employees.

### **OUR BUSINESS STRATEGIES**

Our business strategies are to (i) 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, (ii) expand and enhance our E&M engineering technical capability, as well as to (iii) strengthen our Group's financial capabilities to undertake larger-scale E&M engineering projects in the future.

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### **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**

Hong Kong is our home market and forms the foundation for further growing our business and the springboard from which we expand our operations internationally. According to the Frost & Sullivan Report, the Transportation Mission Critical System Solutions market in Hong Kong is expected to grow at a CAGR of 6.3% from 2016 to 2021. We will continue to focus on solidifying our leading market position by deepening our penetration of Hong Kong's growing Transportation Mission Critical System Solutions market, through the enhancement of our marketing efforts, including recruiting additional marketing staff and further participation in exhibitions, conferences and symposiums to increase our business exposure.

Our research and development team is responsible for increasing our operational efficiency and effectiveness in order to improve the quality of our existing services and solutions and thereby increasing our profit margin. Further, it is responsible for advising on and improving equipment and software design for our customers after we receive their orders for our services and solutions, in order to better achieve our customers' objectives, improve the performance of our services and solutions and/or reduce costs. We are also committed to developing new technologies and to providing a broader range of services and solutions which we believe could increase sales and margins and help us expand our market share in key target markets both locally and overseas. We intend to enhance our research and development capabilities by recruiting more staff and by investing further in research technologies. Please refer to the section headed "Future Plans and Use of Proceeds" in this prospectus for details.

### **Expand and enhance our E&M engineering technical capability**

Our Group would like to develop new products and expand its products and services offering. We are sometimes engaged in E&M engineering works involving installation of extra low voltage systems, which mainly refer to antennae, surveillance systems and broadcasting systems. During the Track Record Period, we have established business relationships with certain data network infrastructure equipment suppliers for the provision of key components of extra low voltage systems, such as network switches and controllers, to our Group. Subject to our Group's orders from such suppliers having met specified quantities of such key components, (i) we will be entitled to receive rebate and (ii) our staff will be invited to attend various technical training programs organised by such suppliers. In order to enhance the comprehensiveness of our services, we plan to further enhance our capability in the installation of and expand the scope of our services to the maintenance of extra low voltage systems through (i) the further strengthening of our relationships with such suppliers; and (ii) based on our experience in this area and subject to our Group's future business needs, identifying other appropriate suppliers with which to establish new business relationships.

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We would also like to expand our focus to communications systems and tap into the provision of, for example, CCTV systems and LED displays to accompany such communications systems. As for communication systems such as CCTV, public address system and digital display, we will continue to look for opportunities to partner with relevant equipment or component suppliers. We believe that our communications systems capability will create synergy with our other E&M engineering solutions and services.

No additional licenses or permits are required for the provision of installation or maintenance services in relation to both extra low voltage systems and communication systems.

In addition, we will continue to upgrade and enhance the operation of our E&M engineering solutions and services. We intend to utilise approximately HK\$5.1 million for increasing our material handling and field service capacity, and purchasing related new machineries and equipment. We plan to further develop our E&M technical capability by purchasing machineries and equipment to increase our production capacity, and also new information technology solutions. We also intend to enhance our insurance coverage and employee remuneration packages in order to retain our employees.

### **Strengthen our Group's financial capabilities to undertake larger-scale E&M engineering projects in the future**

Certain projects require us to purchase performance guarantees, such as performance bonds, which may amount up to approximately 10% of the contract value. During the Track Record Period, we utilised our internal resources as well as obtained banking facilities which were secured by a personal guarantee provided by Mr. KM Luk to finance our payment of performance bonds for various projects. During the Track Record Period, bonds in the amount of approximately HK\$2.6 million were purchased and held by our Group. As such, our capacity to undertake more or larger-scale E&M engineering projects in the future relies on our ability in increasing our capital for the aforementioned performance guarantees requirement for projects.

The financial capital requirement at the initial stage of our Group's projects constraints the number of and size of projects that our Group could take at the same time under the currently available resources. In order to undertake projects with larger scale in terms of contract sum in the future, the Directors intends to apply part of the proceeds from the Listing to improve the financial capital position and expand our Group's capacity to undertake more projects in the future. Based on the aforesaid and given that our Group has been awarded with 66 new projects with an aggregate awarded contract sum of approximately HK\$110.8 million and has submitted tenders in respect of 38 contracts with total tender value of approximately HK\$213.3 million subsequent to the Track Record Period and up to the Latest Practicable Date, the Directors consider that it is justifiable and intend to utilise approximately HK\$6.0 million to strengthen the financial resources on our Group's E&M engineering projects, to finance, the provision or replacement of performance bonds so that we can (i) reduce the interest or handling fee incurred for obtaining banking facilities; and (ii) reduce the reliance on our Controlling Shareholders by releasing the aforementioned personal guarantees upon Listing. As a result, we will not only be able to satisfy the performance guarantee requirements without imposing significant pressure on our cashflow,

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but our Group will also be able to have sufficient financial resources to undertake projects of larger scale in terms of contract sum in the future, such as automatic people mover projects for the Hong Kong International Airport (given that a third runway is now under construction and is expected to be in operation around 2024), to capture the growth in market size of the Hong Kong Transportation Mission Critical System Solutions market.

### BUSINESS MODEL AND OPERATIONS

Our principal business is the provision of various E&M engineering works, and comprises (i) E&M engineering solutions and services, namely Transportation Mission Critical System Solutions and other E&M engineering solutions and services; (ii) E&M engineering design and fabrication services; and (iii) E&M engineering maintenance services. Depending on our customers' needs and requirements, we provide a full spectrum of solutions and services covering system design, equipment assembly, supply, installation, fabrication, testing, and commissioning and maintenance support with a focus on Hong Kong Transportation Mission Critical System Solutions. During the Track Record Period and up to the Latest Practicable Date, we have undertaken more than 200 E&M engineering projects in Hong Kong and overseas, 88 of which were Major Projects and the rest were projects with contract sum below HK\$1 million.

Our customers, who range from transportation companies and governmental authorities to main contractors of engineering projects, generally contract the E&M engineering works to us on project basis. As an E&M engineering solutions and services provider, we receive progress payments from our customers as set out in the relevant contracts, pursuant to the tender documents and contracts for the relevant projects. We are generally responsible for procuring and purchasing the equipment, materials and parts we use, and we also subcontract certain labour works to subcontractors. The table below sets out the breakdown of our revenue by customer type for the periods indicated:

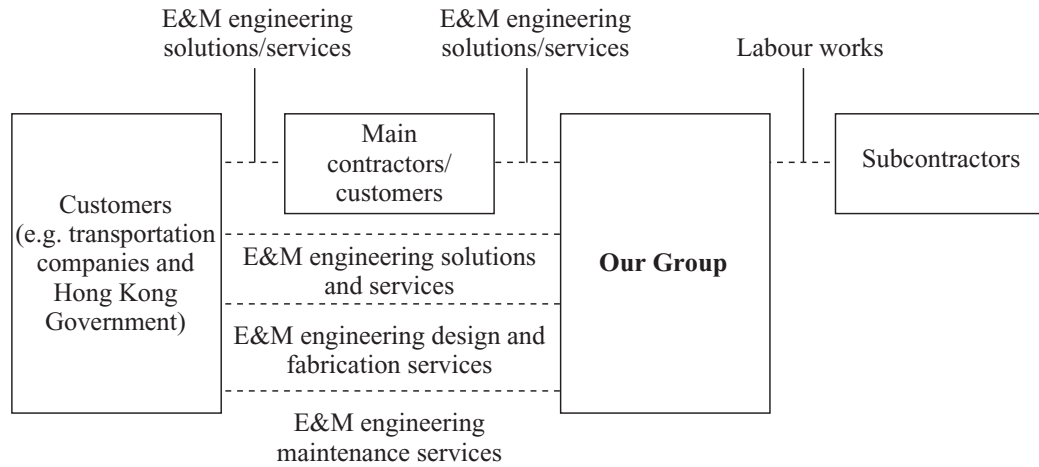
	<b>For the year ended 31 March</b>			
	<b>2016</b>	<i>% of total revenue</i>	<b>2017</b>	<i>% of total revenue</i>
	<i>HK\$'000</i>		<i>HK\$'000</i>	
Railway infrastructure sector	141,293	86.2	152,555	89.2
Airport infrastructure sector	1,669	1.0	713	0.4
Highway, tunnel and bridge sector	2,165	1.4	2,095	1.2
Commercial, industrial and public utilities sector	18,694	11.4	15,753	9.2
<b>Total</b>	<b>163,821</b>	<b>100.0</b>	<b>171,116</b>	<b>100.0</b>

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The diagram below illustrates the business model of our principal operations:



### **E&M Engineering Solutions and Services**

We principally provide services in relation to the following two sub-segments of our E&M engineering solutions and services segment:–

- (i) Transportation Mission Critical System Solutions; and
- (ii) other E&M engineering solutions and services, comprising: (a) security and access control systems; (b) railway station E&M engineering services and architectural works, including services in relation to (1) air-conditioning and mechanical ventilation system, (2) fire service system, (3) plumbing and drainage system and (4) electrical system; (c) rolling stock refurbishment and renovation works; and (d) trackside and depot E&M engineering works.

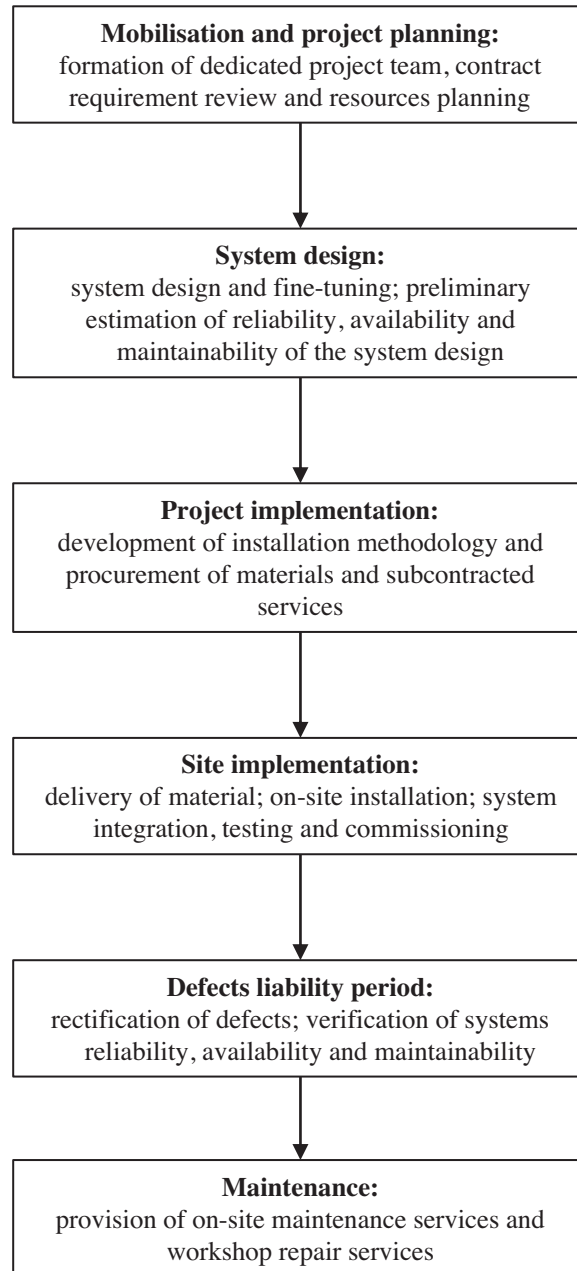
The total revenue derived from our E&M engineering solutions and services segment for each of the two years ended 31 March 2017 was approximately HK\$113.6 million and HK\$131.3 million respectively.

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For illustration purposes, our E&M engineering solutions and services principally involve the processes set out in the simplified workflow diagram below:



### Transportation Mission Critical System Solutions

We principally undertake projects in relation to the design, supply, installation and/or fabrication of various Transportation Mission Critical System Solutions, including:–

- (i) automatic fare collection system at railway stations;
- (ii) electronic payment and ticketing system;

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- (iii) road and tunnel toll collection system;
- (iv) traffic control and surveillance system; and
- (v) railway signaling communication and control system.

For details of our services in relation to Transportation Mission Critical System Solutions, please see the paragraphs below.

### *Automatic Fare Collection System at Railway Stations*

This covers the supply, installation and implementation of AFC systems, including the supply of passenger gates, namely the MetroStile, at MTR stations. We have accumulated experience over the years in the design and implementation of railway AFC systems by undertaking various AFC system projects for the railway industry in Hong Kong and overseas. In 2002, KML Engineering was awarded with a contract by MTRC for the provision of the AFC system for its then new extension line, the Disneyland Resort Line, which includes the supply of passenger gates at MTR stations, namely the MetroStile. The MetroStile was developed for this project and won the Grand Award in the Machinery Equipment Design category of the Hong Kong Awards for Industries.

From 2011 to 2014, our Group had continued to extend our AFC system business at railway stations by providing design, supply and implementation services to MTRC for the replacement of MTR's previous single-journey magnetic tickets system with a contactless smart cards system.

### *Electronic Payment and Ticketing System*

Our range of electronic payment and ticketing system products and/or solutions include:

- (i) turnstiles that are cash-operated or contactless smart card-operated or operated with mixed media;
- (ii) POS solutions (with available payment options including cash and contactless smart cards); and
- (iii) multi-media money changers (which change notes/coins to coins).

For example, in 2015, we were engaged by a company engaged in the business of ferry services in Hong Kong for the provision and installation of turnstile systems (including payment systems) at various Hong Kong and Kowloon ferry piers.



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### *Road and Tunnel Toll Collection System*

Our Group works with toll operators, owners or contractors to collect and maximise toll revenues through the installation and implementation of toll collection systems. We offer a full spectrum of toll collection system services including design (for both software and hardware), development, supply, installation, testing and commissioning.

We have extended our footprints to the following tunnels in Hong Kong including:

- Aberdeen Tunnel;
- Cross Harbour Tunnel;
- Discovery Bay Tunnel;
- Eastern Harbour Tunnel;
- Lion Rock Tunnel;
- Tate's Cairn Tunnel; and
- Tseung Kwan O Tunnel.

During the Track Record Period, we were also engaged to design, supply and install the "Stop-and-go" electronic payment system, which allows motorists to use contactless smart cards and credit cards as alternative payment methods at tolled tunnels and bridges owned by the Hong Kong Government as at the time when the contract was awarded.

### *Traffic Control and Surveillance System*

We acted as installation contractors for our customers in relation to traffic control and surveillance systems for tunnels and other areas, including Deep Bay Link and Tsing Ma Control Area. Our scope of services included installation and implementation of various traffic control system field equipment such as traffic signs, CCTV cameras, and signal and power cables.

### *Railway Signaling Communication and Control System*

Railway signaling communication and control system is a system used to control railway traffic, to prevent trains from colliding into one another, and to adjust distance and the speed for proper braking time and management of tracks.

We act as subcontractors for the design, supply and installation of railway signaling and control systems in relation to MTR lines. During the Track Record Period, we provided signaling installation services for high-speed rail including (i) cabling and (ii) site acceptance test for (x) signaling equipment room equipment and (y) trackside field equipment.

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We also offer the following railway signaling system products: (i) turnouts and switches; (ii) crossings; and (iii) turnout monitoring system, which is a remote controlled turnouts and switches surveillance system.

Furthermore, we are engaged in the provision of various SCADA systems, such as station management systems, depot regulatory signaling control panels and environmental control systems.

### Other E&M Engineering Solutions and Services

We also provide a variety of other E&M engineering solutions and services, comprising (i) security and access control systems, (ii) railway station E&M engineering services and architectural works, (iii) rolling stock refurbishment and renovation works and (iv) trackside and depot E&M engineering works. For details of our services in relation to other E&M engineering solutions and services, please see the subsections below.

#### *Security and Access Control System*

We have been involved in the provision of certain security and access control systems for pedestrians and vehicles at various venues across Hong Kong. Our range of products includes a QR Code-enabled entry system and people counting system for a not-for-profit organisation engaged in horse racing, sporting and betting entertainment in Hong Kong, a carpark monitoring system and modification works for a road blocker for a bank data centre in Shek Mun, a radio-frequency identification system at a bank data centre in Tseung Kwan O, and also turnstiles for a theme park in Hong Kong.

#### *Railway Station E&M Engineering Services and Architectural Works*

We provide railway station E&M engineering services and architectural works in relation to (i) air-conditioning and mechanical ventilation system, (ii) fire service system, which refers to fire prevention, detection, suppression and extinguishing systems, (iii) plumbing and drainage system, typically comprising pipework, valves, pumps and tanks, and (iv) electrical system, including electrical wiring and electricity supply. For example, during the Track Record Period, we had provided building services in relation to the construction of shops, undertook the replacement of trackside advertisement panels, and also the upgrade of platform supervisor booths (including the majority of ancillary E&M engineering systems within the booth) in certain railway stations. The railway station E&M engineering services and architectural works provided by us are either a combination of works in relation to (x) two or more or (y) all of the types of systems mentioned in items (i) to (iv) above. The majority of installation works are carried out at non-trackside station areas.

#### *Rolling Stock Refurbishment and Renovation Works*

We provide E&M engineering services in relation to rolling stock, with a principal focus on refurbishment, modification, replacement and installation of passenger trains, work trains and/or ancillary components. For example, in April 2017, we were awarded a contract by MTRC for the refurbishment of a cross-boundary double-decked passenger train running

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between Hung Hom and Guangzhou, including the (i) replacement of all passenger seat assembly components, (ii) replacement of carpets in the train compartments with floor mats, (iii) replacement of pipework, and (iv) replacement of toiletry facilities components.

### *Trackside and Depot E&M Engineering Works*

We also provide (i) trackside E&M engineering works, which refers to all E&M engineering works conducted along the railway track (for example, in tunnels and viaducts) including platform screen doors, platform gap fillers, radio network and trackside cabling work and (ii) depot E&M engineering works, which refers to all the E&M engineering works conducted within the railway depot area. For example, we acted as installation contractors for MTRC for the installation of (x) platform screen doors at LOHAS Park Station in 2007 and (y) additional platform gap fillers at certain light rail stops in 2016. We were also engaged by MTRC to provide installation and other E&M engineering works in relation to enhancement of the Siu Ho Wan depot workshop capacity in 2015 including provision of power distribution, lighting fixture, environmental control system, lightning protection system and cable containment.

### **E&M Engineering Design and Fabrication Services**

In addition to providing design and fabrication services for the above-mentioned Transportation Mission Critical System Solutions, we also provide E&M engineering design and fabrication services for the fabrication of made-to-order products for our customers. These design and fabrication services are often offered in conjunction with the E&M engineering solutions and services as described in the preceding paragraphs, which in our opinion provides our customers with a complete and convenient one-stop solution. At customers' requests, we may also design and fabricate other E&M engineering products, customised to fit their specific needs, including control room consoles, vending kiosks and terminals, relay racks, test rigs, control room technical furniture, station furniture and industrial enclosures and instrument cabinets, and also the conducting of ergonomic and work place studies.

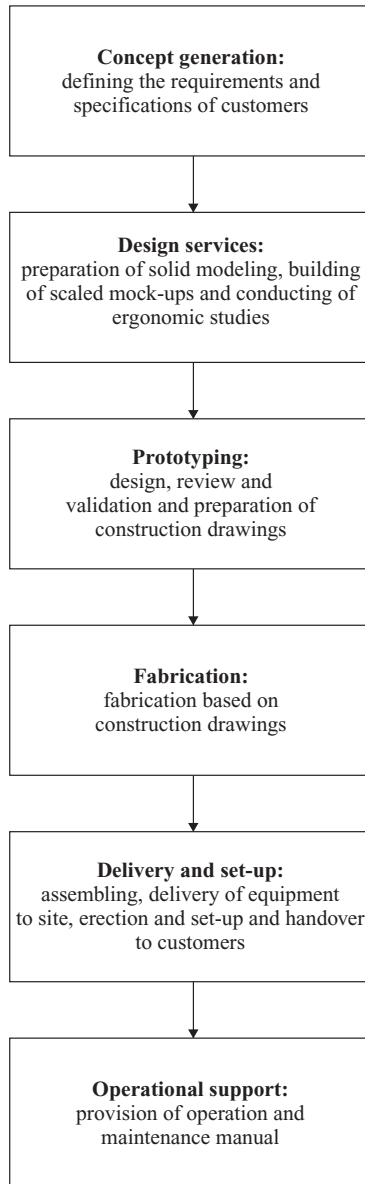
During the Track Record Period, the total revenue derived from our E&M engineering design and fabrication services amounted to approximately HK\$29.5 million and HK\$13.4 million respectively, representing approximately 18.0% and 7.8% of the revenue of our business respectively.

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For illustration purposes, our E&M engineering design and fabrication services principally involve the processes set out in the simplified workflow diagram below:



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The following table sets forth a comparison of the major features of our Group’s E&M engineering solutions and services and E&M engineering design and fabrication services:

	<b>E&amp;M engineering solutions and services</b>	<b>E&amp;M engineering design and fabrication services</b>
Nature of services projected by our Group	<ul style="list-style-type: none"> <li>● Primarily provides installation services for various E&amp;M engineering solutions. The installation involved typically takes place over a span of a few months, which accordingly is more labour intensive. For installation works in our E&amp;M engineering solutions and services projects, workers with specific technical skills and requisite licences are usually involved</li> <li>● Our Group develops the installation and implementation plan or methodology in accordance with customers’ specifications and/or site conditions</li> </ul>	<ul style="list-style-type: none"> <li>● Primarily provides design and fabrication services for E&amp;M engineering products, whereby our Group may generate concepts to fit customers’ needs and has full control over the design stage. As a result, products offered by our Group under the E&amp;M engineering design and fabrication services segment are customised and made-to-order products</li> </ul>
Project characteristics	<ul style="list-style-type: none"> <li>● Supply various E&amp;M engineering solutions, such as AFC system at railway stations, electronic payment and ticketing system and road and tunnel toll collection system</li> </ul>	<ul style="list-style-type: none"> <li>● Design and fabricate various E&amp;M engineering products, customised to fit customers’ specific needs, including control room consoles, relay racks and test rigs</li> </ul>
Project stages involved	<ul style="list-style-type: none"> <li>● Identification of potential projects and invitation for tendering</li> <li>● Preparation of quotations and tender submissions</li> <li>● Mobilisation, project planning, procurement and subcontracting</li> <li>● Project implementation and supervision</li> <li>● Testing and commissioning</li> <li>● Completion and handover</li> <li>● Defect rectifications (if any)</li> <li>● Maintenance (if engaged)</li> </ul>	<ul style="list-style-type: none"> <li>● Concept generation</li> <li>● Design services</li> <li>● Prototyping</li> <li>● Fabrication</li> <li>● Delivery and set-up (only if requested by customers). The set-up typically only involves on-site erection of the production which takes place and completes within 1-2 days. For set-up works in our E&amp;M engineering design and fabrication services projects, only workers with simple material handling skills are usually involved</li> <li>● Operational support</li> </ul>

*Note:* For further details on the processes involved in our E&M engineering solutions and services and E&M engineering design and fabrication services, please refer to the subsections headed “Business – Business model and operations – E&M engineering design and fabrication services” and “Business – Operational workflow” in this prospectus.

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## BUSINESS

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### **E&M Engineering Maintenance Services**

As part of our E&M engineering maintenance services, we provide technical and maintenance support services for existing systems, terminals and equipment, including the replacement of parts/components, equipment upgrading/improvement modification, provision of upgrade and/or replacement services for both hardware and software, testing and modification of software, and provision of routine preventive, corrective and workshop maintenance services. Our E&M engineering maintenance services are usually (i) project-based and offered as a value-added service in connection with our existing E&M engineering projects, or (ii) as a standalone service under a separate maintenance retainer contract.

In addition to AFC system implementation services and the provision of related systems and equipment, we are currently offering comprehensive AFC system solutions and the provision of after-sales services including preventive and corrective maintenance with support from our network of suppliers. We began our AFC business in 2000 in providing maintenance services for AFC systems for the MTR Lantau Airport Railway and subsequently the Tseung Kwan O line. During the Track Record Period, we provided AFC system maintenance services to certain operating railway lines operated by MTRC. We also provide maintenance services in relation to other E&M engineering system components and security systems.

For the each of the two years ended 31 March 2017, the revenue derived from the provision of E&M engineering maintenance services amounted to approximately HK\$15.0 million and HK\$22.3 million respectively, representing approximately 9.2% and 13.1% of the revenue of our business respectively.

### **Sale of Parts and Components**

At our customers' request, we will source certain parts and/or components with particular specifications provided by our customers. We primarily source railway signalling parts and/or components for our customers, who are situated in Hong Kong.

These parts and/or components, with their prices ranging from EUR9.9 to EUR7,820, will be on-sold to our customers on a cost-plus basis.

During the Track Record Period, the total revenue derived from the sale of parts and components amounted to approximately HK\$5.7 million and HK\$4.1 million respectively, representing approximately 3.5% and 2.4% of the revenue of our business respectively.

During the Track Record Period, we have not experienced any product return which has had a material impact on our business and operations, and we have not recalled any products due to quality or other issue.

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## BUSINESS

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### OUR PROJECTS

The E&M engineering projects undertaken by us comprise mainly one-off projects. Our projects encompass the design, fabrication, supply, development, integration, implementation and/or upgrade in relation to E&M engineering solutions and services.

During the Track Record Period, duration of our projects generally ranged from one month to three years, depending on the size of the contract and the complexity of the works undertaken. The following tables set forth the details of our projects which contributed to our revenue during the Track Record Period.

*By contract value*

Contract value	For the year ended 31 March							
	2016				2017			
	Number of projects with revenue contributed in the year		Revenue recognised in the year		Number of projects with revenue contributed in the year		Revenue recognised in the year	
	Awarded in prior years	Newly awarded	Awarded in prior years <i>HK\$'000</i>	Newly awarded <i>HK\$'000</i>	Awarded in prior years	Newly awarded	Awarded in prior years <i>HK\$'000</i>	Newly awarded <i>HK\$'000</i>
HK\$1 million or above	48	22	104,081	26,694	57	22	121,448	22,313
Below HK\$1 million but more than HK\$200,000	53	32	18,780	8,348	58	38	12,416	8,266
Below HK\$200,000	33	64	3,001	2,917	50	73	3,942	2,731
Total	<u>134</u>	<u>118</u>	<u>125,862</u>	<u>37,959</u>	<u>165</u>	<u>133</u>	<u>137,806</u>	<u>33,310</u>

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*By type of project*

Type of project	For the year ended 31 March							
	2016				2017			
	Number of projects with revenue contributed in the year in respect of projects		Revenue recognised in the year in respect of projects		Number of projects with revenue contributed in the year in respect of projects		Revenue recognised in the year in respect of projects	
awarded in prior years	newly awarded	awarded in prior years <i>(HK\$'000)</i>	newly awarded <i>(HK\$'000)</i>	awarded in prior years	newly awarded	awarded in prior years <i>(HK\$'000)</i>	newly awarded <i>(HK\$'000)</i>	
E&M Engineering Solutions and Services – Transportation Mission Critical System Solutions	33	22	54,372	12,966	41	26	60,253	8,727
– Other E&M Engineering Solutions and Services	62	42	38,558	7,733	70	55	40,559	21,748
<b>Subtotal</b>	<b>95</b>	<b>64</b>	<b>92,930</b>	<b>20,699</b>	<b>111</b>	<b>81</b>	<b>100,812</b>	<b>30,475</b>
E&M Engineering Design and Fabrication Services	5	6	21,554	7,910	10	24	12,343	1,045
E&M Engineering Maintenance Services	23	14	8,743	6,281	26	14	21,040	1,305
Sale of Parts and Components	11	34	2,635	3,069	18	14	3,610	485
<b>Total</b>	<b>134</b>	<b>118</b>	<b>125,862</b>	<b>37,959</b>	<b>165</b>	<b>133</b>	<b>137,805</b>	<b>33,310</b>



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## BUSINESS

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*Top ten projects by revenue contribution for the year ended 31 March 2016*

Rank	Description of work	Project type	Total awarded contract sum* <i>(HK\$ million)</i>	Revenue recognised for the year ended 31 March 2016 <i>(HK\$ million)</i>
1	Installation of signalling system for Shatin Central Link Phase 1 and signalling modification for Ma On Shan Line and West Rail Line	E&M Engineering Solutions and Services	37.9	14.4
2	Supply of relay racks and change over cubicle racks for various Singapore railway lines	E&M Engineering Design and Fabrication Services	37.3	13.0
3	Supply of relay racks for the Kuala Lumpur Ampang Line extension project	E&M Engineering Design and Fabrication Services	12.2	8.0
4	Provision of installation services for communications system	E&M Engineering Solutions and Services	17.3	8.0
5	Supply of relay rack, cable termination frame for Pat Heung Depot in East West Line	E&M Engineering Design and Fabrication Services	16.2	7.4
6	Provision of second telecommunications equipment rooms at various MTR stations	E&M Engineering Solutions and Services	12.6	7.3
7	Installation services for signalling system for the Express Rail Link	E&M Engineering Solutions and Services	32.9	6.7
8	Provision of maintenance services for AFC equipment installed at various MTR lines	E&M Engineering Maintenance Services	35.5	4.8
9	People counting system at racecourses in Hong Kong and modification work for existing turnstile	E&M Engineering Solutions and Services	5.5	4.3
10	Replacement of electronic control board for AFC gates for the Tung Chung Line, the Kwun Tong Line, the Tsuen Wan Line and the Island Line	E&M Engineering Solutions and Services	17.6	3.6

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*Top ten projects by revenue contribution for the year ended 31 March 2017*

Rank	Description of work	Project type	Total awarded contract sum* (HK\$ million)	Revenue recognised for the year ended 31 March 2017 (HK\$ million)
1	Provision of maintenance services for AFC equipment installed at various MTR lines	E&M Engineering Maintenance Services	35.5	13.0
2	Provision of installation services for signalling system for MTRC	E&M Engineering Solutions and Services	32.9	12.8
3	Enhancement of Siu Ho Wan Depot workshop capacity	E&M Engineering Solutions and Services	14.4	9.6
4	Installation of signalling system for Shatin Central Link Phase 1 and signalling modification for Ma On Shan Line and West Rail Line	E&M Engineering Solutions and Services	37.9	8.9
5	Provision of optical fibre backbone for communication-based train control signalling system in Tsuen Wan Line	E&M Engineering Solutions and Services	9.7	8.3
6	Provision of second telecommunications equipment rooms at various MTR stations	E&M Engineering Solutions and Services	12.6	5.2
7	Supply of relay rack and cable termination frame for Pat Heung Depot in East West Line	E&M Engineering Design and Fabrication Services	16.2	5.0
8	Replacement of electronic control board for AFC gates for the Tung Chung Line, the Kwun Tong Line, the Tsuen Wan Line and the Island Line	E&M Engineering Solutions and Services	17.6	4.9
9	Supply of relay racks for Kuala Lumpur Ampang Line	E&M Engineering Design and Fabrication Services	5.1	4.7
10	Basic provisions for South Island Line shops	E&M Engineering Solutions and Services	4.3	4.3

\*Note: The total awarded contract sum includes variation orders.

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### Projects on Hand

As at the Latest Practicable Date, we had 77 Major Projects on hand. A summary of the top 10 Major Projects and other projects on hand as at the Latest Practicable Date is set out below:

Description of works	Estimated project period (year/month)	Total awarded contract sum* (HK\$ million)	Revenue recognised for the year ended 31 March		Total revenue recognised during the Track Record Period (HK\$ million)	Outstanding contract sum as at the Latest Practicable Date (HK\$ million)	Estimated revenue expected to be recognised for the year ending		Estimated revenue expected to be recognised after 31 March 2019 (HK\$ million)
			2016 (HK\$ million)	2017 (HK\$ million)			2018 (HK\$ million)	2019 (HK\$ million)	
Optical fibre backbones for communication based train control signalling systems at various MTR lines	2016/08 – 2022/01	41.5	–	0.5	0.5	41.0	11.6	11.1	18.3
Installation of signalling system for Shatin Central Link Phase 1	2014/04 – 2019/12	37.9	14.4	8.9	23.3	13.9	10.6	3.3	–
Provision of maintenance services for AFC equipment installed at various MTR lines	2015/06 – 2018/08	35.9	4.8	13.0	17.8	18.1	12.0	6.0	0.1
Installation services for signalling system for MTR Express Rail Link	2013/05 – 2019/12	35.1	6.7	12.8	19.5	8.2	8.2	–	–
Refurbishment works on Guangzhou-Kowloon Through Train	2017/04 – 2020/01	26.5	–	–	–	26.5	10.3	13.7	2.5
Supply and installation of “Stop-and-go” e-Payment System at Hong Kong Government tolled tunnels and roads	2016/10 – 2018/05	20.5	–	1.2	1.2	19.4	16.8	2.0	0.6
Replacement of electronic control board for AFC gates for various MTR lines	2015/02 – 2018/12	17.6	3.6	4.9	8.5	8.8	5.1	3.4	0.3
Provision of optical data network	2016/10 – 2019/09	16.7	–	0.4	0.4	16.3	9.9	6.4	–
Supply of relay rack and cable termination frame for Pat Heung Depot in East West Line	2015/04 – 2018/05	16.9	7.4	5.0	12.4	4.5	4.2	0.3	–
Provision of Concessions at Kowloon Station	2016/08 – 2018/06	15.7	–	3.5	3.5	12.2	12.1	–	0.1
Other projects on hand	–	449.2	57.6	90.1	147.7	156.0	94.0	52.0	10.0
<b>Total</b>	–	<b>713.4</b>	<b>94.5</b>	<b>140.2</b>	<b>234.7</b>	<b>324.9</b>	<b>194.8</b>	<b>98.2</b>	<b>31.9</b>

\*Note: The total awarded contract sum includes variation orders.

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### Completed Major Projects

During the Track Record Period and up to the Latest Practicable Date, we have undertaken more than 200 E&M engineering projects in Hong Kong and overseas, 88 of which were Major Projects and the rest were projects with contract sum below HK\$1 million. The following table sets forth information about the 13 Major Projects that were completed during the Track Record Period and up to the Latest Practicable Date:

Description of work	Project period <sup>(1)</sup> (year/month)	Total awarded contract sum <sup>(2)</sup> (HK\$ million)	Revenue recognised for the year ended 31 March		Total revenue recognised during the Track Record Period (HK\$ million)
			2016 (HK\$ million)	2017 (HK\$ million)	
Supply of relay racks for the Kuala Lumpur Ampang Line	2013/09 – 2016/12	12.2	8.0	0.6	8.6
Expansion of optical fibre networks at West Rail Line, Ma On Shan Line and Tung Chung Line	2014/02 – 2016/07	19.0	3.3	0.2	3.4
Adaptation and system integration of single journey smart card in various AFC equipments	2011/05 – 2015/06	46.7	3.2	–	3.2
Reinforcement of platform screen door insulation for Tseung Kwan O Line	2014/05 – 2016/01	8.6	2.9	0.0	2.9
Supply of labour for CLP Power gas insulated switchgear/ring main unit refurbishment project	2014/01 – 2015/12	3.4	2.0	–	2.0
Yau Ma Tei – Gascoigne Road line sump room modification work	2014/06 – 2015/12	6.8	1.4	0.5	2.0
Replacement of damaged panels for the Urban Line	2015/04 – 2015/12	1.4	1.4	–	1.4
Provision of workshop equipment and installation works at Tseung Kwan O Depot	2014/12 – 2017/02	1.5	1.4	0.0	1.4
Modification of wagons	2014/09 – 2016/11	2.3	1.3	0.0	1.4
Modification of toll collection systems at Hong Kong Government tunnels	2014/08 – 2016/07	2.0	0.8	0.4	1.2

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Description of work	Project period <sup>(1)</sup> (year/month)	Total awarded contract sum <sup>(2)</sup> (HK\$ million)	Revenue recognised for the year ended 31 March		Total revenue recognised during the Track Record Period (HK\$ million)
			2016 (HK\$ million)	2017 (HK\$ million)	
Comprehensive maintenance of electronics turnstile systems and associated equipment for various swimming pools	2014/12 – 2016/07	1.5	1.1	0.0	1.2
Modification of toll collection system at Tsing Sha Control Area	2014/12 – 2016/10	1.2	0.9	0.2	1.1
Provision of maintenance for trip wire system	2014/07 – 2016/03	1.4	1.1	–	1.1

*Notes:*

1. The project period is inclusive of the defects liability period.
2. The total awarded contract sum includes variation orders.

### Project Movement and Backlog during the Track Record Period

The following table sets out the movement of the number of our projects during the Track Record Period:

	Year ended 31 March	
	2016	2017
<b>Opening number of projects</b>		
– E&M Engineering Solutions and Services	95	111
– E&M Engineering Maintenance Services	23	26
– E&M Engineering Design and Fabrication Services	5	10
<b>Number of new projects</b>		
– E&M Engineering Solutions and Services	64	81
– E&M Engineering Maintenance Services	14	14
– E&M Engineering Design and Fabrication Services	6	24
<b>Number of completed projects</b>		
– E&M Engineering Solutions and Services	48	61
– E&M Engineering Maintenance Services	11	12
– E&M Engineering Design and Fabrication Services	1	15
<b>Closing number of projects</b>		
– E&M Engineering Solutions and Services	111	131
– E&M Engineering Maintenance Services	26	28
– E&M Engineering Design and Fabrication Services	10	19

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*Notes:*

1. Opening number of projects means the number of awarded projects which were not completed as of the beginning of the relevant year indicated.
2. Number of new projects means the number of new projects awarded to us during the relevant year indicated, including those projects tendered in the preceding year which are awarded in the relevant year.
3. Number of completed projects means the number of projects (i) where the certificates of practical completion have been issued by our customers or their representatives; (ii) we have agreed with our customers on practical completion by exchange of correspondence; or (iii) we have handed over the project site to our customer during the relevant year indicated.
4. Closing number of projects equals to the opening number of projects plus number of new projects minus number of completed projects during the relevant year indicated.
5. As the sale of parts and components is not provided on a project basis, the relevant figures on project numbers have not be included in this table.

The following table sets out the movement of backlog of our projects during the Track Record Period:

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Opening value of backlog</b>		
– E&M Engineering Solutions and Services	183,859	156,902
– E&M Engineering Maintenance Services	11,223	40,826
– E&M Engineering Design and Fabrication Services	24,477	18,277
<b>Contract sum of new projects</b>		
– E&M Engineering Solutions and Services	86,672	173,618
– E&M Engineering Maintenance Services	44,627	5,858
– E&M Engineering Design and Fabrication Services	23,264	1,884
<b>Revenue recognised</b>		
– E&M Engineering Solutions and Services	(113,629)	(131,288)
– E&M Engineering Maintenance Services	(15,024)	(22,345)
– E&M Engineering Design and Fabrication Services	(29,464)	(13,388)
<b>Ending value of backlog</b>		
– E&M Engineering Solutions and Services	156,902	199,232
– E&M Engineering Maintenance Services	40,826	24,339
– E&M Engineering Design and Fabrication Services	18,277	6,773

*Notes:*

1. Contract sum of new projects represents the total contract sum of new projects awarded to us during the relevant year or period indicated, including contract sum of those projects tendered in the preceding year which are awarded in the relevant year or period. The contract sum takes into account the additional works or variation orders (if any).

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2. Ending value of backlog equals to the opening value of backlog plus contract sum of new projects minus revenue recognised during the relevant year indicated.

### Tenders submitted

During the Track Record Period and up to the Latest Practicable Date, we had submitted 209 tenders, with 67 contracts having been awarded as a result. The results of 11 tenders out of the remaining 142 tenders are expected to be made known to us within approximately one to six months after our submission.

### Tender success rate

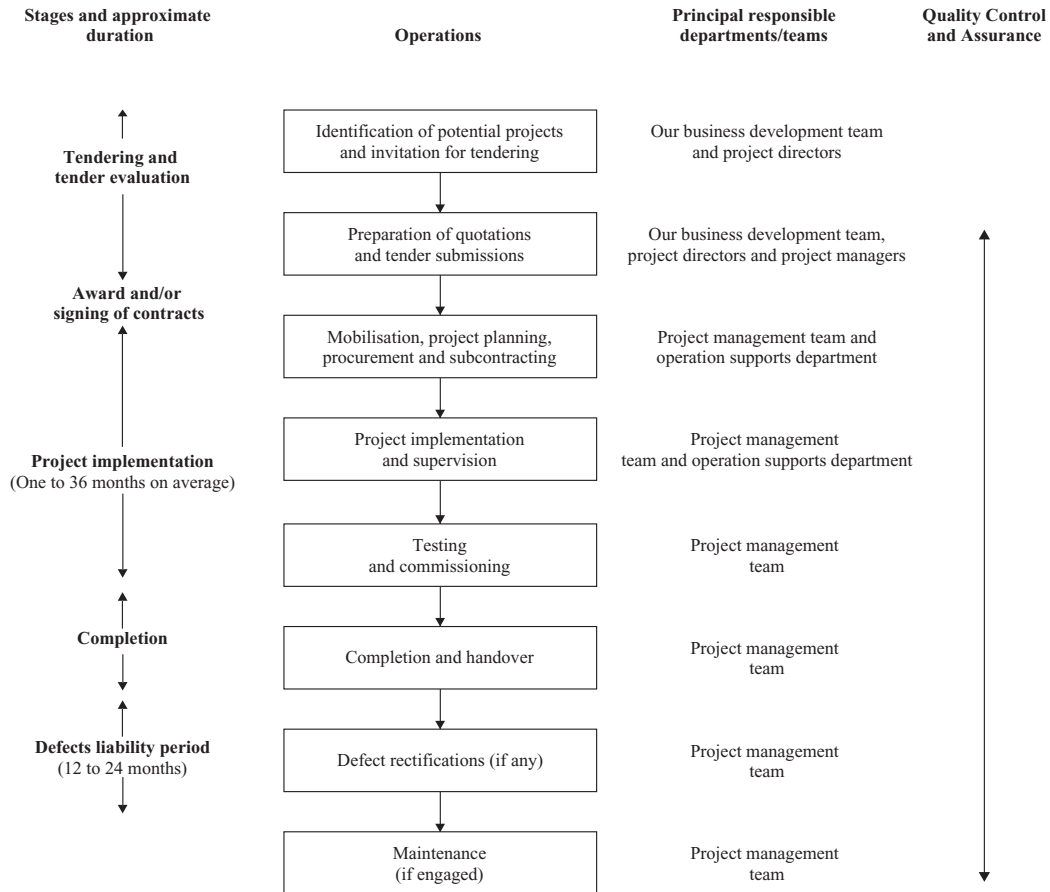
The table below shows the approximate number and contract value of tenders (each with contract value over HK\$1 million) submitted by and contracts awarded to our Group during the Track Record Period:

	For the year ended 31 March 2016						For the year ended 31 March 2017					
	Tenders Submitted		Tenders Awarded		Success Rate		Tenders Submitted		Tenders Awarded		Success Rate	
	Number	Contract value (HK\$'000)	Number	Contract value (HK\$'000)	by number (%)	by contract value (%)	Number	Contract value (HK\$'000)	Number	Contract value (HK\$'000)	by number (%)	by contract value (%)
E&M Engineering Solutions and Services												
- Transportation Mission Critical System Solutions	44	117,717	18	41,392	40.9	35.2	39	164,840	12	70,039	30.8	42.5
- Other E&M Engineering solutions and Services	34	256,801	11	28,047	32.4	10.9	48	354,373	15	55,303	31.3	15.6
<b>Subtotal</b>	<b>78</b>	<b>374,518</b>	<b>29</b>	<b>69,440</b>	<b>37.2</b>	<b>18.5</b>	<b>87</b>	<b>519,212</b>	<b>27</b>	<b>125,342</b>	<b>31.0</b>	<b>24.1</b>
E&M Engineering Design and Fabrication Services	1	637	0	0	0.00	0.00	1	266	1	266	100	100
E&M Engineering Maintenance Services	2	35,573	1	35,139	50.0	98.8	2	22,692	0	0	0.00	0.00
Sale of Parts and Components	0	0	0	0	N/A	N/A	0	0	0	0	N/A	N/A
<b>Total</b>	<b>81</b>	<b>410,728</b>	<b>30</b>	<b>104,579</b>	<b>37.0</b>	<b>25.5</b>	<b>90</b>	<b>542,171</b>	<b>28</b>	<b>125,608</b>	<b>31.1</b>	<b>23.2</b>

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## OPERATIONAL WORKFLOW

For illustration purposes, our E&M engineering operations principally involve the processes set out in the simplified workflow diagram below:



### Identification of potential projects and invitation for tendering

From time to time, we receive invitations or expressions of interest from potential customers about new project tendering. Other than the tender invitations sent to us from customers, we also keep track of upcoming expenditure in the public sector based on announcements of the Hong Kong Government in relation to its financial budget or public consultation. For substantial projects implemented by established organisations, such as transportation companies, invitations to prequalification and tender are often given to well-established contractors and specialist contractors which are usually licensed by the Hong Kong Government and have relevant job experience. We also act as subcontractors to other main contractors who have been awarded tender contracts for other E&M engineering projects.

We may sometimes be invited to provide a quotation for a potential project from a customer directly. During each of the two years ended 31 March 2017, approximately 39.4% and 58.2% of our revenue respectively was generated from tendering, whereas approximately 60.6% and 41.8% of our revenue respectively was generated from quotations. In particular,



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the majority of revenue generated from tendering was attributable to tendering by invitation during the Track Record Period. If we are interested to proceed with the project, our tender team will prepare the quotation documents. The steps for preparing the quotation documents are same as the ones as mentioned in the subsection headed “Operational workflow – Preparation of quotations and tender documents” in this section.

### **Preparation of quotations and tender submissions**

Our business development team will be responsible for the tender submission and the bidding process. Our tender submission may include, among others, a schedule with tender price and project organisation chart. Our tender team will obtain preliminary quotations for equipment and materials from potential subcontractors and suppliers in respect of the engineering design at this stage in order to ascertain the costs expected to be incurred in purchasing such materials when we prepare the tender documents. In pricing a tender, we also make references to major material and equipment costs, manpower costs, and subcontractor labour rates and costs, historical quotations, and availability of internal resources. The tender preparation process includes a thorough analysis of the project to be undertaken, including contract requirements and possible risks that will arise. In addition, related market information, such as material price trend, is also retrieved for reference.

We also take into account the manageability and profitability of such projects with reference to our resources, capacity and capability. Although we engage subcontractors to carry out certain site works and complete certain tasks as required in the contracts with our customers, our project management teams are substantially involved in the project implementation phase. For instance, our project management teams need to prepare work plans, conduct site inspections, make arrangements with and supervise our subcontractors and suppliers, source equipment and materials, and take up relevant tasks as required in the contracts. Any material deviation in the actual time and resources spent from initial estimation may result in significant cost overruns which may in turn adversely affect the financial results of our Group. We strive to maintain a balance between making a competitive bidding price against our competitors and maintaining a reasonable profit margin for each project. For each of the two years ended 31 March 2017, our total revenue was approximately HK\$163.8 million and HK\$171.1 million respectively. As such, in order to avoid exceeding our Group’s capacity and having an adverse impact on our financial performance resulting from excessive tendering, we may decline tender invitations. Before submission, each tender has to be reviewed by contract managers and approved by senior management in accordance with our pricing policy and limits of authority.

After our quotations and tender submission, our customers may reach out to us to further clarify details of or raise queries in relation to our tender submissions. They would then decide whether to engage us as the contractor or subcontractor based on the quotations we submitted.

### **Mobilisation, project planning, procurement and subcontracting**

Once a contract has been awarded to us, a project management team will be formed, usually comprising a project director, a project manager and a team of engineering, S.H.E.Q. and administration staff, to review the contract terms and conditions, to identify and assess material project risks and cost control risks and to prepare a budget and work execution plan setting out the detailed forecast expenditures, delivery schedules and work schedules. The

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general responsibilities of our project management team mainly include (i) formulating detailed work programs; (ii) fine-tuning and finalising overall system designs based on the preliminary design documents and/or proposals and project specifications received from our customers; (iii) preparing and/or submitting documents, such as works programmes, safety, quality and/or environment plans, method statements, and design and material specifications; (iv) procurement of materials; (v) engaging and delegation of works to subcontractors; (vi) coordinating with our customers to complete the projects according to the work schedules; (vii) managing our respective engineering internal resources, suppliers and subcontractors in order to complete projects on time; and (viii) ensuring work quality.

The project management team is generally supervised by the relevant project manager who is responsible for the general and routine supervision of the project, and will regularly report the progress of the project to related parties, such as the customer and other stakeholders' representatives. Planning on the allocation of human resources and procurement of requisite materials parts, components and equipment is carried out simultaneously.

When we are awarded a contract, purchase orders for the major materials and equipment required are planned and placed after the completion of the necessary internal procurement approval process. Our project management team will first check the availability of the required raw material in our inventory, then submit a requisition for a purchase order. Every purchase order requisition will need to be approved on a case-by-case basis by an authoriser from our operation support department. We are responsible for completing material planning at the commencement of a project with the objectives of ensuring the materials are delivered ahead of time and material expenditure and wastage are under control. Our material plan generally includes details of the material suppliers, total quantities required and the schedule for delivery. Besides having to meet specification requirements, we usually select our suppliers from our internal list of approved suppliers. We estimate the amount of materials to be ordered and we specify the location, delivery time and quantity to our suppliers on a project-by-project basis. Generally, we request our suppliers to provide quotations of materials for our internal material procurement process so as to select the best offer to suit our project needs.

We sometimes subcontract labour works to selected subcontractors based on the availability of resources, intensiveness of labour and technicality of the work involved and cost effectiveness. We believe that the use of subcontractors is common industry practice and can enhance our flexibility and efficiency. Please see the subsection headed "Subcontractors" in this section for further details.

### **Project implementation and supervision**

Our project management team is responsible for the implementation of the installation works and supervision of the works of our subcontractors. Some of the installation works may only be conducted by personnel with the relevant licence(s) under the regulatory requirements, for details of which please see the section "Regulatory Overview" in this prospectus. Regular meetings among the project management team members and subcontractors are held to review the work-in-progress and to ensure effective control of a project and efficient information flow. Frequent meetings with related project parties, such

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as main contractor and the customer representative are also held to keep them informed of the progress of the project, to identify any actual or potential problems and to take corrective action promptly in order to ensure that the client's requirements are satisfied.

Our project management team is responsible for overseeing the materials on-site and ensuring the engineering installation works performed by our subcontractors meet technical requirements and are tested properly. In particular, for our E&M engineering design and fabrication projects, our project management team is also responsible for the overall coordination of fabrication.

We utilise a computerised management information system to facilitate effective management of project and internal communication. We conduct regular meetings (whether formal or informal) to facilitate (i) resources scheduling, (ii) planning of our materials procurement, (iii) implementing of cost controls for each category of materials, subcontracting and other expenses, (iv) conducting of cash flow analysis, and (v) overall project logistics and monitoring.

### **Testing and commissioning**

Before completion of a project, the project management team will ensure that all specified inspections, testing and commissioning have been carried out and that the relevant systems or products meets the specified requirements under the contract. We will also conduct relevant functional and performance tests according to the testing and commissioning plan and also specifications as approved by the customer during the testing and commissioning stage before completion and handover to our customer. In the event that the test results do not meet the requirements specified in the contract or regulatory standards, rectification works and/or re-commissioning works will be carried out until the requirements are eventually met.

### **Completion and handover**

We will arrange for delivery of our solutions or products, and/or complete our services in accordance or as specified in the contracts for the relevant projects, which marks the practical completion of the relevant project on our end. Practical completion means that (i) the works to be completed under the contract have been substantially completed, and there is no major outstanding works; or (ii) the certificates of completion have been issued by our customers. If there is any delay in completion, the customer may claim liquidated damages in accordance with the agreed rates of calculation as stipulated in the contract (if any). However, if the delay is caused by factors that are beyond our control, an extension of time may be negotiated with our customer. It also marks the beginning of the defects liability period.

### **Defects liability period**

After completion of our works, the defects liability period is generally one to two years. During this period, we are required to make good any defects in the systems or products we provide and install and other defective works at our own costs. The remainder of the retention money will be released after the defects liability period, usually within 30 to

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45 days, depending on the terms of our customer contracts. In general, we will impose a back-to-back defects liability period to our subcontractors to ensure the Group's liability is sufficiently covered under the defects liability period.

### **Quality control and assurance**

Our quality control team is responsible for the overall management and conducting of quality control, and for ensuring the quality of our services and/or products. In order to achieve a consistent standard in our performance, we have adopted a quality control and assurance system for monitoring the quality of materials used and the project implementation process.

Our quality control and assurance system is divided into the following stages:

*Materials quality control:* All incoming materials, parts and/or components used in our development processes are subject to inspection upon receipt. We conduct sample inspections and tests on our materials, parts and/or components when they are delivered to our project sites or workshops, to ensure that they are in accordance with our standards. Raw materials that fail to meet our standards are returned to our suppliers for corrective measures or replacement at the supplier's own cost or for refunds. We maintain a non-conformity record for all materials or deliveries that do not pass our quality control checks and conduct regular reviews of our suppliers.

*Development quality control:* Our project management team monitors our development processes to ensure consistency in the quality of our products. Work-in-progress products are checked by the designated quality control staff before being passed on to the next stages of development. Our quality control staff at the next stage of development re-examines the work-in-progress products received, to ensure there are no defects before the products are further processed.

*Product quality assurance:* At the end of the development process, the installation team will carry out the installation work, which will be reviewed by our testing personnel upon completion. Our quality control staff will then physically inspect our products on a sampling basis to verify that their mechanical and dimensional properties meet quality standards and specifications under the relevant contract.

*Customer feedback:* We receive feedback from our customers by reaching out to them on a regular basis, or by providing them with a questionnaire upon completion of a project. We relay feedback from customers on product quality issues to our project management team and quality control staff, who implement corrective measures in our quality control procedures when necessary.

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Our quality management system is established in accordance with the requirements of ISO 9001:2015. To ensure that our works are completed to the required standards and satisfaction of our customers, we normally assign a team of experienced engineering staff to each project as the first line of monitoring of the quality of our products and works. Our quality control staff and project managers are responsible for the overall monitoring of the work quality and progress of projects and ensuring that engineering works are completed according to schedule.

### MACHINERY AND EQUIPMENT

As at the Latest Practicable Date, we owned all machinery and equipment which are material to our business operations. The following table sets out information on the number, book value, estimated useful life, remaining useful life and average actual utilisation rates during the Track Record Period of our major types of machinery and equipment as at the Latest Practicable Date:

Types of machinery and equipment	Quantity	Aggregate book value as at date of acquisition	Aggregate net book value (Note 1) as at 31 March 2016	Aggregate net book value (Note 1) as at 31 March 2017	Aggregate net book value (Note 1) as at the Latest Practicable Date	Year of acquisition	Estimated useful life	Remaining useful life	Actual average utilisation rate (Note 3) for the year ended 31 March	
		(HK\$'000)	(HK\$'000)	(HK\$'000)	(HK\$'000)	(year ended 31 March)	(years)	(years)	2016	2017
Laser cutting machine	1	1,988.7	397.7	0	0	2012	10	5	80%	80%
Folding machine	1	145.1	0	0	0	1996	23	2	50%	50%
Cutting machine	1	122.4	0	0	0	1997	22	2	50%	50%
Fusion splicer set (Note 4)	1	55.0	11.0	0	0	2012	7	2	100%	100%
Hipot test set (Note 5)	1	42.0	42.0	33.6	31.9	2016	5	4	90%	90%
Scissor lift (Note 6)	1	80.0	0	0	0	2011	7	1	50%	50%
Scissor lift (Note 6)	2	77.2	61.8	46.3	43.1	2015	5	3	100%	100%
Milling machine	1	21.8	13.1	8.7	7.8	2014	5	2	80%	80%
Three-dimensional printer	1	20.9	20.9	16.7	15.9	2016	5	4	80%	80%
Vaporizer	1	11.0	2.2	0	0	2012	10	5	80%	80%
Pressure regulator	1	5.6	1.1	0	0	2012	10	5	80%	80%
Multimeter (Note 7)	3	5.4	4.3	3.2	3.0	2015	3	1	90%	90%

#### Notes:

- The aggregate net book value of a number of machinery and equipment is zero (0) on the basis that our Group's property, plant and equipment are depreciated on a straight-line basis at 20% per annum.
- The remaining useful lives of our Group's machinery and equipment have been estimated based on (i) the historical usage of such machinery and equipment since its acquisition and (ii) the current and expected condition of such machinery and equipment.
- Calculation of utilisation rate for each of the two years ended 31 March 2017 is based on the number of days that the machinery and equipment were in operation during the respective financial year which is then divided by the number of business days in the relevant financial year.
- The fusion splicer set is a type of fibre cable testing equipment, which will be purchased by the Group using the net proceeds from the Share Offer.

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5. The Group intends to purchase new and/or additional hipot test set(s) using its internal resources.
6. The scissor lifts currently owned by the Group share similar functions with the aerial platforms to be purchased by the Group using the net proceeds from the Share Offer.
7. The multimeter is a type of miscellaneous testing equipment, which will be purchased by the Group using the net proceeds from the Share Offer.

## SUPPLIERS

We source equipment, parts and components from our suppliers. The principal materials and equipment used by our E&M engineering business include steel and copper parts, switchboards, and various mechanical equipment. During the Track Record Period, most of these materials and equipment are sourced from local suppliers or imported mainly from France, Taiwan or the PRC.

To ensure consistency in quality, purchase orders are only placed with suppliers which are on our internal list of approved suppliers or that of our customers. We enter into contracts with our suppliers on a project basis and as at the Latest Practicable Date, apart from the Master Purchase Agreement, we have not entered into any long term agreements with our suppliers. We have an extensive network of suppliers on our internal list of approved suppliers which can provide competitive quotations promptly and deliver the materials and equipment on schedule. In selecting a supplier, we take into account a number of criteria, including: (i) its track record; and (ii) quality of materials or components/parts (if applicable). In accordance with our internal policies, we conduct an annual comprehensive evaluation of our suppliers and update our internal list of approved suppliers with the results of such performance evaluation.

As at the Latest Practicable Date, we had over 400 suppliers on our list of approved suppliers with 19 vendor types. We have built up business relationships with some of our major suppliers for more than 10 years. We do not anticipate any difficulty in sourcing the required materials and equipment in the future. We work with our suppliers to plan ahead for the purchase and delivery of products to enable that it has sufficient inventory to fulfil the current orders. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any substantial delay or shortage in the supply of products.

For each of the two years ended 31 March 2017, our five largest suppliers accounted for approximately 42.9% and 39.2% of our total purchases, respectively, and our single largest supplier accounted for approximately 18.2% and 15.1% of our total purchases during the same periods respectively. Our five largest suppliers for each of the two years ended 31 March 2017 supply parts or components for our business, each of which is an independent third party. We have not entered into long-term agreement with our major suppliers during the Track Record Period.

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The table below sets out information on our five largest suppliers for each year during the Track Record Period:

Suppliers	Amount of purchase (HK\$'000)	% of our total purchases	Business with us	Year of commencement of business relationship with us	Credit terms and payment method
<b>For the year ended 31 March 2017</b>					
Supplier A	4,534	15.1	Supply of sheet metal products	2006	30 days, by cheque or bank transfer
Supplier B	3,029	10.1	Supply of electrical products	2005	30 days, by cheque or bank transfer
Supplier C	1,404	4.7	Supply of electronic parts/components	2005	14 days, by cheque or bank transfer
Supplier D	1,395	4.6	Supply of electronic parts/components	2011	45 days, by cheque or bank transfer
Supplier E	1,391	4.6	Supply of electrical cables	2015	60 days, by cheque
<b>For the year ended 31 March 2016</b>					
Supplier A	5,319	18.2	Supply of sheet metal products	2006	30 days, by cheque or bank transfer
Supplier F	2,750	9.4	Supply of railway signalling parts	2003	60 days, by cheque or bank transfer
Supplier D	2,171	7.4	Supply of electronic parts/components	2011	45 days, by cheque or bank transfer
Supplier C	1,444	4.9	Supply of electronic parts/components	2005	14 days, by cheque or bank transfer
Supplier G	877	3.0	Supply of electrical parts	2010	30 days, by cheque or bank transfer

*Notes:*

1. Supplier A is a private limited liability company which was incorporated in Hong Kong in 2006.
2. Supplier B is a private limited liability company which was incorporated in Hong Kong in 1996.
3. Supplier C is a company established in Taiwan, which is a manufacturer and supplier of industrial computers.
4. Supplier D is a private limited liability company which was incorporated in Hong Kong in 2010, which is engaged in the electronics business.



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5. Supplier E is a private limited liability company incorporated in Hong Kong in 2014, which is engaged in the supply of electric cables.
6. Supplier F is a corporation established in France (société anonyme) in 2002, which is a manufacturer of turnout, switched and crossings for railway and urban transport networks.
7. Supplier G is a private limited liability company which was incorporated in Hong Kong in 2010, which is engaged in the sale of electrical/electronic parts and equipment.

To the best of the knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest suppliers during the Track Record Period.

### **Key contract terms with our suppliers**

The major contract terms with our suppliers are summarised as follows:

#### *Description of products or materials*

This would typically include a description and/or specifications of the relevant materials, equipment, parts or components to be supplied by our suppliers, together with the quantity and unit price.

#### *Payment terms*

We usually need to settle purchase payments in accordance with the relevant contracts, with our credit period generally ranging between 30 to 60 days.

#### *Cancellation and variation*

We have the right to cancel or vary our purchase orders or any part thereof by giving notice in writing to our suppliers. In the event of cancellation or variation of all or part of the purchase order, our liability shall be limited to reimbursing the supplier for any reasonable costs or expenses which it has necessarily incurred in connection therewith after the purchase order was confirmed.

#### *Termination*

We are entitled to terminate the contracts with our suppliers if (i) the materials, equipment, parts or components are not provided or manufactured in accordance with the specifications or designs stipulated in the purchase orders, or (ii) our suppliers enter into liquidation (whether compulsorily or voluntarily) or are otherwise subject to a winding up order.

### **Raw materials and inventory control**

We have multiple sources for most of our materials, equipment, parts or components to reduce possible interruptions to our business operations and reliance on individual suppliers. This helps us to maintain stability of components and materials procurement. During the Track Record Period, we did not experience any material shortage or delay of our major



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materials, equipment, parts or components. During the Track Record Period, we have not experienced any material adverse effect to our business or financial performance as a result of price fluctuations of raw materials. However, as the prices of raw materials such as steel and copper may rise, and we may not be able to effectively pass on the effect of fluctuations in such costs to our customers, increase of our materials, equipment, parts and components costs may negatively affect our Group's operations and financial performance. Please also refer to the subsection headed "Financial Information – Cost of sales – Sensitivity analysis" in this prospectus.

Inventory mainly comprises spare parts and components for various E&M engineering solutions we supply and provide maintenance services for. We monitor our inventory daily with an established internal inventory management system and also carry out an annual audit of our inventory.

Our inventory levels are not high as we place separate purchase orders to our suppliers and subcontractors depending on requirements of each project and equipment and materials are usually delivered and stored at the relevant project sites and our internal storage. We monitor the market prices and trends of raw materials such as steel and copper on a regular basis, and may occasionally make pre-purchases of materials, parts or components if their market prices are relatively low. We do not undertake hedging activities against the price of raw materials. The project management team is responsible for the overall scheduling of orders and deliveries of the materials, so as to match material deliveries with the project's requirements. Purchase orders issued to suppliers would indicate the different tentative delivery dates that match with the relevant project schedule.

### **SUBCONTRACTORS**

For complementing different needs of our projects and flexibility in our resources deployment, we procure certain services from third-party service providers for some of our works, such as certain works which require technical expertise and/or licences possessed by the subcontractors, or works which require more manpower than that available in our Group on a project-by-project basis.

During the Track Record Period, we have maintained business relationships with over 20 subcontractors who have undertaken engineering works with us. We maintain an internal list of approved subcontractors. The majority of our top five subcontractors during the Track Record Period have been working with us for over 6 years. When we select a subcontractor, we generally consider a number of criteria, including: (i) its financial condition; (ii) its experience, performance, safety and track record; and (iii) quality of workmanship. In accordance with our internal policies, we conduct an annual comprehensive evaluation of our subcontractors and update our internal list of approved subcontractors with the results of such performance evaluation. For Hong Kong Government projects, only subcontractors which are registered under the Subcontractor Registration Scheme maintained by the CIC can be engaged. Please see the section "Regulatory Overview" in this prospectus for further information.

We enter into subcontracts on a project basis and have not entered into any long term agreement with our subcontractors during the Track Record Period. During the Track Record Period, there has been no material non-performance by our subcontractors.

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For each of the two years ended 31 March 2017, our five largest subcontractors, each being an independent third party and subcontractor for labour works for E&M engineering services in Hong Kong, accounted for approximately 69.8% and 73.0% of our total subcontracting cost, respectively, and our single largest subcontractor accounted for approximately 24.8% and 26.4% of our total subcontracting cost during the same periods, respectively.

The table below sets out information on our five largest subcontractors for each year during the Track Record Period:

Subcontractors	Amount of purchase (HK\$'000)	% of our total subcontracting cost	Business with us	Year of commencement of business relationship with us	Credit terms and payment method
<b>For the year ended 31 March 2017</b>					
Subcontractor A	10,027	26.4	Provision of tools and labour for lighting installation works	2000	30 days, by cheque
Subcontractor B	7,538	19.8	Provision of installation labour works	2011	30 days, by cheque
Subcontractor C	4,014	10.6	Provision of fire services installation works	2016	30 days, by cheque
Subcontractor D	3,257	8.6	Provision of air conditioning installation works	2011	30 days, by cheque or bank transfer
Subcontractor E	2,877	7.6	Provision of installation works	2010	30 days, by cheque or bank transfer
<b>For the year ended 31 March 2016</b>					
Subcontractor B	6,319	24.8	Provision of installation labour works	2011	30 days, by cheque
Subcontractor A	4,847	19.0	Provision of tools and labour for lighting installation works	2000	30 days, by cheque
Subcontractor F	2,449	9.6	Assembly and wiring of relay rack	2013	30 days, by cheque or bank transfer
Subcontractor G	2,355	9.2	Provision of installation labour works	2009	30 days, by cheque

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Subcontractors	Amount of purchase (HK\$'000)	% of our total subcontracting cost	Business with us	Year of commencement of business relationship with us	Credit terms and payment method
Subcontractor H	1,845	7.2	Provision of delivery and installation services	2000	30 days, by cheque

*Notes:*

1. Subcontractor A is a sole proprietorship registered in Hong Kong engaged in lamp installation and other engineering works.
2. Subcontractor B is a private limited liability company which was incorporated in Hong Kong in 2011 which is engaged in electrical works.
3. Subcontractor C is a private limited liability company which was incorporated in Hong Kong in 2000, which is engaged in E&M engineering works.
4. Subcontractor D is a private limited liability company which was incorporated in 1993.
5. Subcontractor E is a sole proprietorship registered in Hong Kong engaged in the repair of auto motors.
6. Subcontractor F was a private limited liability company which was incorporated in Hong Kong in 2013. Subcontractor F has been deregistered since October 2016.
7. Subcontractor G is a private limited liability company which was incorporated in Hong Kong in 2009.
8. Subcontractor H is a private limited liability company which was incorporated in Hong Kong in 1996.

To the best of the knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest subcontractors during the Track Record Period.

### **Key contract terms with our subcontractors**

The major contract terms with our subcontractors are summarised as follows:

*Project information*

This would typically include a description of the project, work scope, duration of the project and contract value. The duration of the subcontractor contract is usually determined in accordance with the project schedule set by our customer.

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### *Schedule of rates*

The schedule of rates contains a breakdown of the contract value itemising the works and quantities, and their respective price rates. The price rates are generally determined by comparison of fees obtained from various subcontractors, with reference to the estimate of market rate for comparable projects, taking into account their scope, size, complexity and contract value.

### *Payment terms*

Progress payments will be paid to our subcontractors according to the contract terms. Our subcontractors will submit a statement specifying the estimated work completed together with a payment application to us from time to time. We generally make payment to our subcontractors within 30 days after we certify completion of the work that had been carried out. Subcontractors will generally then receive payment based on the relevant amount less the retention money within 30 days from the issuance of the relevant invoice.

### *Defects liability period*

Our subcontractors are required to make good any defects at their own cost within this period, which is generally 12 months (or 24 months, where there are outstanding works or defects at the end of the initial 12-month defects liability period) from completion of the relevant project.

### *Retention money*

In general, we withhold 5% to 10% of the contract sum as retention money. Retention money will be released to the subcontractor upon expiry of the defects liability period.

### *Termination*

We are entitled to terminate the contracts with our subcontractors if they (i) fail to perform any part of the contract or the work; (ii) become bankrupt or subject to winding up order; or (iii) subcontract work to third parties without our consent.

### *Others*

We request our subcontractors to ensure that all works performed must satisfy the requirements as imposed by our customers. Further, the material terms of the subcontracting agreements entered into between us and the subcontractors reflect the terms of the main contracts entered into between us and our customers, and such subcontracting agreements also state that the subcontractors are required to observe all the requirements and provisions of the relevant main contracts entered into between us and our customers or have provisions to a similar effect.

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For those subcontractors who are required to source and supply for materials as part of their subcontracting services, we generally provide specifications for these materials. Should the subcontractors request us to procure these materials on their behalf, the relevant costs of the materials and equipment will not be taken into account in the relevant subcontracting fees in accordance with the subcontracting agreements.

### SALES AND MARKETING

During the Track Record Period, our projects were mainly awarded by tender. We strategically focus on managing business relationships with our existing customers and will gradually expand our market share in the E&M engineering industry. For details, please refer to the subsection headed “Our competitive strengths” in this section. Our Group has not engaged in any marketing and advertising activities during the Track Record Period.

Our Directors believe that we have an established relationship with a number of transportation and engineering companies in Hong Kong. We believe that we have achieved this by completing projects with high quality, which enable us to become one of the qualified service providers of our customers. In addition, we have been in the industry for over 40 years and our Directors believe that we have built up a good reputation and proven track record in the E&M engineering industry.

Our Executive Directors are responsible for maintaining our relationship with our customers. We believe our Listing will also enhance our reputation in Hong Kong.

### MARKET AND COMPETITION

The E&M engineering industry in Hong Kong is a relatively fragmented market with different players with a wide range of scale and expertise. Among the top players, the level of competition is high and is dominated by a small number of large local companies with business relationships with several major Hong Kong-based transportation companies or engineering companies, as well as the Hong Kong Government. According to the Frost & Sullivan Report, we are the second largest player in the market with a revenue of approximately HK\$34.2 million for the provision of automatic fare collection, electronic payment and ticketing and road and tunnel toll collection system solutions, accounting for 8.9% of the market share in Hong Kong in 2016. In addition, our Group also recorded a revenue of HK\$69.0 million for the provision of Transport Mission Critical System Solutions\*, accounting for 3.6% of the market share in Hong Kong in 2016, according to the Frost & Sullivan Report. We believe that competition between our Group and other companies providing similar E&M engineering solutions and services exists but is not severe. As many of the existing or previous projects relating to Transportation Mission Critical System Solutions involve operating railways, roads and tunnels, there are complex and stringent requirements in place for us to adhere to the rules and procedures stipulated by the operators with respect to design capabilities and the level of engineering effort, and extensive experience in the railway environment is also required in order to maintain a high level of workmanship. We often have to work overnight and complete works within limited working hours (during non-traffic hours, namely between approximately 1:30 a.m. and 4:30

\* Revenue of the Group refers to the total revenue generated from the relevant segment by the Group from 1 April 2016 to 31 March 2017

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a.m.), hence we believe that detailed and precise planning is a prerequisite to completing the work without disruption and delay to ensure (i) that the physical assets in operation are not disturbed and (ii) safety at work in a hazardous environment. We believe that there are not many competitors which are sufficiently committed and possess similar competence and experience to compete with our Group.

We believe that the large number and diverse nature of projects undertaken by us have enabled our management and staff to acquire a high degree of expertise in and experience of both public and private sector E&M engineering service works, thus enhancing our competitive position.

For further information regarding the competitive landscape of the industry in which our Group operates, please refer to the section headed “Industry Overview” in this prospectus.

### CUSTOMERS

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

For each of the two years ended 31 March 2017, our five largest customers accounted for approximately 79.5% and 87.5% of our revenue, respectively, and our single largest customer accounted for approximately 40.3% and 61.0% of our revenue for the corresponding periods. All of our five largest customers for each of the two years ended 31 March 2017 are independent third parties.

The table below sets out information on our five largest customers for each year during the Track Record Period:

Customers	Revenue contribution (HK\$'000)	% of our total revenue	Location	Year of establishment	Principal business/ description of customer	Business with us	Year of commencement of business relationship with us	Credit terms and payment method
<b>For the year ended 31 March 2017</b>								
MTRC	104,318	61.0	Hong Kong	1975	Mass transit railway	Provision of design, supply, installation and/or maintenance of various E&M engineering services such as AFC system, railway signaling, communication, railway station E&M engineering services and architectural works, rolling stock refurbishment, trackside and depot E&M engineering works	1978	30 days, by cheque, bank transfer or purchase card

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Customers	Revenue contribution (HK\$'000)	% of our total revenue	Location	Year of establishment	Principal business/ description of customer	Business with us	Year of commencement of business relationship with us	Credit terms and payment method
Customer A	21,433	12.5	Hong Kong, Singapore and Canada	2000	Companies located in Hong Kong, Singapore and Canada engaged in the design and building of electrical systems under a French multinational group which, according to its website, acts as a prime contractor, systems integrator, equipment supplier and value-added service provider in relation to the aerospace, space, ground transportation, defence and security sectors. The said French multinational group has, according to its website, operations in 56 countries, and is a key player in guarding vital infrastructure and protecting the national security interests of countries around the globe	Supply of railway signaling equipment and provision of railway signaling related installation services	2002	30 days, by cheque or bank transfer
Concord Solutions (HK) Limited	12,791	7.5	Hong Kong	2012	Mechanical engineering for railway and transport infrastructure	Provision of railway signaling related installation services	2012	30 days, by cheque
Customer B	5,592	3.3	Hong Kong	1987	A private limited liability company in Hong Kong which, according to its website, is a leading solution provider and system supplier in Hong Kong, with over 29 years of experience in implementation of large-scale data communications, multimedia and information technology projects. It has also, according to its website, positioned itself as a technology leader in delivering multimedia and communications systems, total network infrastructure and security solutions and various communications applications	Provision of communication installation services in a railway environment	1998	30 days, by cheque
EMSD	5,548	3.2	Hong Kong	1948	Provision of regulatory and E&M engineering trading services	Provision of design, development, supply, factory testing, installation, commissioning and/or maintenance services in relation to different E&M engineering and electronic system services, such as road and tunnel toll collection system, traffic control and surveillance system, electronic payment and ticketing system, access control system, information display system	1999	30 days, by bank transfer or purchase card

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Customers	Revenue contribution (HK\$'000)	% of our total revenue	Location	Year of establishment	Principal business/ description of customer	Business with us	Year of commencement of business relationship with us	Credit terms and payment method
<b>For the year ended 31 March 2016</b>								
MTRC	66,018	40.3	Hong Kong	1975	Mass transit railway	Provision of design, supply, installation and/or maintenance of various E&M engineering services such as AFC system, railway signaling, communication, railway station E&M engineering services and architectural works, rolling stock refurbishment, trackside and depot E&M engineering works	1978	30 days, by cheque, bank transfer or purchase card
Customer A	43,876	26.8	Hong Kong, Singapore and Canada	2000	Companies located in Hong Kong, Singapore and Canada engaged in the design and building of electrical systems under a French multinational group which, according to its website, acts as a prime contractor, systems integrator, equipment supplier and value-added service provider in relation to the aerospace, space, ground transportation, defence and security sectors. The said French multinational group has, according to its website, operations in 56 countries, and is a key player in guarding vital infrastructure and protecting the national security interests of countries around the globe.	Supply of railway signaling equipment and provision of railway signaling related installation services	2002	30 days, by cheque or bank transfer
Customer B	8,425	5.1	Hong Kong	1987	A private limited liability company in Hong Kong which, according to its website, is a leading solution provider and system supplier in Hong Kong, with over 29 years of experience in implementation of large-scale data communications, multimedia and information technology projects. It has also, according to its website, positioned itself as a technology leader in delivering multimedia and communications systems, total network infrastructure and security solutions and various communications applications.	Provision of communication installation services in a railway environment	1998	30 days, by cheque
Concord Solutions (HK) Limited	6,685	4.1	Hong Kong	2012	Mechanical engineering for railway and transport infrastructure	Provision of railway signaling related installation services	2012	30 days, by cheque
Gilgen Door Systems AG	5,240	3.2	Hong Kong and Switzerland	1961	Automatic doors	Provision of installation and modification services for platform screen doors along railway lines	2000	30 days, by bank transfer

We usually enter into agreements with our customers, which are generally Hong Kong Government departments, main contractors, engineering companies or transportation companies, on project basis, and the majority of such contracts have term over one year.



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To the best of the knowledge of our Directors, none of our Directors, their respective close associates or any shareholder who owns more than 5% of our issued share capital had any interest in any of our five largest customers during the Track Record Period.

### **Pricing policy**

Our Group adopts a cost-plus pricing model in setting our tender prices for all projects. On a case-by-case basis, we take into account various factors, including but not limited to: (i) the project's specifications; (ii) the estimated project cost which mainly comprises (a) subcontracting fees, (b) equipment and material costs, and (c) direct labour costs, with reference to preliminary quotations from our subcontractors and suppliers; (iii) scope and complexity of the project; (iv) our Group's capacity and resources at the relevant time; and (v) possible risks arising from the project to be undertaken. We would also make reference to market information such as expected fluctuations in equipment and material costs in arriving at our final tender price. Our tender quotation would usually specify the quantity or volume of work done – if the actual work completed exceeds that specified volume, we may offer a discount.

Besides, during the preparation of tenders to our customers, we obtain preliminary quotations from our suppliers to ensure the equipment and material costs to be deployed in projects are accurately assessed. After projects are awarded to us, our engineers will make sure that the equipment and materials to be ordered from suppliers can match the projects' specifications. With a view to further improving our profit margin from projects, we also strive to pursue better offers and terms, than those set out in the preliminary quotations from the relevant suppliers. We may occasionally bundle our materials purchase orders in bulk to procure price reduction from suppliers. Suppliers may also take into account factors including market competition and whether the supplier is desirous of providing the equipment and materials in specific projects. Consequently, these projects usually give rise to higher gross profit margins.

### **Key contract terms of our customers**

#### *Pricing*

Most of our project contracts are fixed price contracts. The lump sum price is usually determined based on factors including project requirements and estimated costs of materials, labour and time required for the completion of the project. Please see the subsection headed "Customers – Pricing policy" in this section.

Contracts for private projects generally do not contain cost fluctuation clauses. In the case of tender on a fixed price basis with no provisions for cost adjustment, we usually take into account contingencies for cost fluctuation when preparing the tender price.

#### *Payments*

With the exception of certain small-scale projects, where we may receive lump sum payments upon completion, our contracts usually provide for progress payments to be made by the customers. We make progress claims periodically to our customers in respect of the

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value of the works we have performed and materials delivered to project site in the preceding period, and we will proceed to issue the invoices or submit payment application for the customer's assessment and settlement. Generally, the customer will make payment around 30 to 60 days after the issuance of the invoice.

### *Retention money*

The contracts usually contain a term for the customers to require retention money be held up by them from the progress payments. The retention money is typically 5% to 10% of the total awarded contract sum. Either (i) half of the retention money is released to us upon completion of the project, with the remaining half released upon expiry of the defects liability period; or (ii) the whole sum of retention money is released after the end of the defects liability period.

### *Defects liability period*

Our contracts typically include a defects liability period, during which we are responsible for rectifying the works defects. With the exception of works in relation to our railway signalling communication and control systems and train works having a defects liability period of two years, the defects liability period is typically for a period of one year from the date of completion for our E&M engineering projects and two years for our railway signalling systems and train works. If the materials used are defective, we will replace them during the defects liability period or request our suppliers or subcontractors to do so. Costs incurred by us to rectify defective works or products during the Track Record Period were immaterial.

### *Variation orders*

Pursuant to a typical contract, we may be given variation orders where our customers amend the specifications and scope of works from that originally contracted. A variation order may increase, omit or vary the original scope of work and alter the original contract sum. We will prepare a quotation for our customer's confirmation. Our project teams may occasionally be instructed by our customers to carry out some variation works on-site. In such situations, we will provide our quotations for the variation work to our customers whilst simultaneously carrying out the variation work, in order to keep up with the project work schedule or progress. Our project team will also negotiate with customers in the meanwhile with respect to details of our quotations and we will usually reach a consensus either verbally or via email. The formal variation orders will usually be issued at a later stage upon finalisation of the quotations. Our accounting team will receive information regarding the value of the variation order upon receipt of the formal variation order, which is issued after price negotiations have concluded, sometimes being after the relevant variation works are completed.

### *Performance guarantees*

For certain of our contracts, we are required to provide stipulated value of performance guarantees with a financial institution, made in favour of our customer, which will remain in effect until the return of the performance guarantees or upon expiry of the guarantees, which

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is generally upon completion of the relevant project. The customer may utilise the performance guarantees to make good any loss or damages sustained as a result of any breach of the contract with them due to us. There was no claim by any customer against our performance guarantees during the Track Record Period.

### *Insurance*

Generally, pursuant to the contract between our customers and us, the main contractors or employers are generally responsible for purchasing third-party liability insurance and contractors' all risks insurance for the relevant projects, which cover liabilities arising from accidents or acts of the main contractors and its subcontractors (including us and our subcontractors). In the case where we are subcontractors of the main contractors or a direct contractor of the customer, the employees' compensation insurance will usually be purchased by us.

### *Damages relating to or costs arising from delay or non-completion of works*

Our contracts usually contain a clause which provides that in case of delay in the completion of works, a sum of liquidated damages calculated on the basis of a fixed sum of money per day (as stated in the contracts) will have to be paid by us to the customer for the period during which the works so remain incomplete due to our default. Alternatively, the contract may provide that the customer may recover from us any costs reasonably incurred for the procurement of work or services in replacement of incomplete works due to any delay or non-completion on our part.

### *Termination*

Our contracts can typically be terminated, inter alia, if our performance is found to be unsatisfactory, if we become bankrupt or insolvent, or if for any reason the main contract for the project has been terminated. During the Track Record Period, there has been no contract which is material to our Group that has been terminated for such reasons.

## **Customer Complaints**

We consider customer feedback a valuable tool for improving our services. We have established a set of procedures for handling customer feedback. Our project management team and S.H.E.Q. team are responsible for handling customer complaints and answering any questions in relation to our products and services to ensure timely responses to customers' enquiries. If our customers have complaints regarding the quality of our products or services, they may contact our project management team, or provide feedback by filling in a questionnaire upon completion of a project. Details of such complaints will be relayed to the S.H.E.Q. team for implementation of corrective measures where necessary. During the Track Record Period and up to the Latest Practicable Date, we have not received any material complaints from customers.

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### RESEARCH AND DEVELOPMENT

During the Track Record Period, a number of our engineers have also been performing the following research and development functions in addition to their daily project management responsibilities:

- (i) research and development of new processes for development of our E&M engineering solutions, to enhance the solutions' function, feature and reliability;
- (ii) inventing new products and designing new solutions;
- (iii) improving existing development processes to increase operational and development efficiency, with an aim to reduce operational and development costs;
- (iv) providing solutions to technical difficulties arising from operations and development processes; and
- (v) gathering market intelligence and closely monitoring the technological trends in our industry globally.

As at the Latest Practicable Date, we had five engineers who also served research and development functions. In particular, Mr. Tung Tsz On, our Chief Engineer, is responsible for leading the overall direction and initiatives of our research and development.

During the Track Record Period, our engineers who have been performing the research and development functions have developed various technologies, such as tripod mechanism, flap mechanism, electro-mechanical drive, electronic control unit, passenger detection and styled enclosure for entrance gate.

During the Track Record Period, our expenditure on research and development, which comprised (i) manpower costs for employees who also served research and development functions and (ii) expenses incurred through the conducting of other research and development activities (such as equipment compatibility testing services), amounted to approximately HK\$2.0 million in aggregate. The said HK\$2.0 million was recognised as expenses during the Track Record Period as the relevant research and development work was conducted in response to various customers' requirements and specifications, but was not capitalised as all relevant work products were ultimately delivered to customers.

We are of the view that having the ability to develop new technological solutions relating to the assembly and development of E&M engineering systems and solutions will benefit the future development of the Group as a whole for the purposes of implementation of our projects undertaken.

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### INSURANCE

We maintain different types of insurance policies, including (i) insurance for employees' compensation insurance policy, covering the liability to make any payment in respect of the death, injury or disability of our employees under relevant employment laws in Hong Kong, (ii) contractors' all risk insurance policy covering public liability of bodily injury or property damage claim arising from or related to the provision of services and caused by our (or our subcontractors') negligent acts or omissions, its employees, (iii) public liability insurance, (iv) property all risks insurance covering physical loss or damage of our office content and inventory, (v) motor vehicle insurance policy covering the third party legal liabilities, (vi) marine cargo insurance, (vii) miscellaneous insurance such as medical insurance, life insurance and travel insurance, and (viii) other project-based insurance. Please see the section headed "Risk Factors – We have limited insurance cover, and any uninsured losses incurred could be substantial and therefore adversely affect our operations and financial condition." in this prospectus for further details. We currently do not maintain professional indemnity insurance and hence any claims against us may expose our Group to potential professional indemnity liabilities to the extent not covered by other insurance policies.

Our Directors believe that our current insurance policies provide sufficient coverage of the risks to which we may be exposed to and is in line with the industry norm. For each of the two years ended 31 March 2017, the total amount of premium paid were approximately HK\$1.7 million and HK\$1.8 million respectively. During the Track Record Period and as at the Latest Practicable Date, we had not made and did not make or had not been subject to any material insurance claims.

### QUALITY CONTROL AND ASSURANCE

There are strict requirements on the reliability of the E&M engineering systems and solutions which we provide, therefore, we strive to provide high quality work to our customers. We place great emphasis on quality control, which is also important during our procurement and development processes. As such, we have established a quality management system to monitor both our work and our subcontractors' work.

In recognition of our quality management system, the HKQAA has awarded to us the ISO 9001:2015 certification. Please refer to the subsection headed "Certifications, awards and recognitions – Certifications" in this section for further details.

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### ENVIRONMENTAL MATTERS

In providing our E&M engineering solutions and services, we aim to ensure that all services are conducted in an environmentally responsible manner. We believe that as a responsible engineering corporation, our Group and our employees have the social obligation to preserve and enhance the quality of environment we live in. In this connection, we have established an environmental management system and also formulated an environmental policy to provide guidance, support and adequate resources for effective implementation of our environmental protection measures.

Our environmental management system currently in place involves, among others, the following environmental protection measures:

- ensuring that we are committed to regulatory compliance and comply with customer requirements and industry best practices from an environmental perspective in undertaking our activities;
- evaluating the environmental impact of our business activities, products and services and the associated risks, and devising targets and plans for managing such risks; and
- effectively conserving the use of resources and minimizing waste generation.

Our S.H.E.Q. team is responsible for ensuring that our environmental management system is established, implemented and maintained. We also ensure that our subcontractors and their workers comply with our environmental protection policy on the basis of appropriate education, training and/or experience. Further, environmental management system, operational control and compliance trainings are provided for our employees so as to encourage their active participation in environmental protection and ensure compliance with the regulatory and internal requirements.

We continuously observe the laws and regulations in relation to environmental protection in Hong Kong. Our Directors confirm that as at the Latest Practicable Date, no administrative sanctions, penalties or punishments have been imposed upon us for the violation of any environmental laws or regulations. We do not expect to incur material costs in relation to compliance with applicable environmental laws and regulations upon Listing.

**OCCUPATIONAL HEALTH AND WORK SAFETY****Occupational health and safety measures**

We are committed to providing a working environment that prioritises the occupational health and safety of our employees. We currently have various safety management and operational guidelines in place, including, among other things, in connection with the following:

- (i) fire prevention;
- (ii) waste disposal;
- (iii) work site safety procedures;
- (iv) operation of equipment and machineries; and
- (v) use and disposal of chemicals/dangerous goods.

As at the Latest Practicable Date, our S.H.E.Q. team includes one associate safety manager, two safety officers, one assistant safety officer and two quality engineers. In addition, three members of our S.H.E.Q. team are registered safety officers, while two of them are registered safety auditors with the Labour Department.

Since each project has different specific safety requirements, our S.H.E.Q. team will work with the project manager for each project on safety issues. Our S.H.E.Q. team will ensure that the work plan for each project complies with our safety guidance and relevant laws and regulations. Please refer to the section headed “Regulatory Overview” in this prospectus for further details on the applicable laws and regulations. In the course of carrying out the project, our S.H.E.Q. team will closely monitor the work sites by conducting inspection. We have strict guidelines for our employees and subcontractors to comply with our safety policy. If substandard performance is found, we will issue warning letters or suspension notices to the relevant personnel. We also conduct a safety review of projects from time to time and produce internal safety review reports to (i) evaluate the adequacy and effectiveness of our safety management system, (ii) evaluate our compliance with legal, corporate and project safety requirements and to identify any shortfalls, and (iii) make recommendations for improvement. Our S.H.E.Q. team will also hold meetings and provide trainings from time to time to communicate safety measures with our staff.

**Work injuries during Track Record Period**

We maintain an internal record of our employees’ work injuries. All injuries on site must be reported to us, and we will arrange to report to relevant authorities. Our S.H.E.Q. team will participate in investigations into incidents of work injury and provide suggestions for handling such incidents. Reports about such work injury will be made to the Commissioner for Labour under the Employees’ Compensation Ordinance (Chapter 282 of the Laws of Hong Kong) and to the insurance company under the relevant insurance policy.

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During the Track Record Period and up to the Latest Practicable Date, we did not have any material incidents of work injury.

Our Group's lost time injuries frequency rate(s)<sup>(Note 1)</sup> ("LTIFR(s)") for each of the two years ended 31 March 2017 were approximately 0.9 and 0.4, respectively. The following table also sets out our Group's accident rate compared to the accident rate of the construction industry in Hong Kong during the Track Record period:

	Year ended 31 March 2016	Year ended 31 March 2017
Accident rate of the Group <sup>(Note 2)</sup>	6.9	2.9

	Year ended 31 December 2015	Year ended 31 December 2016
Accident rate in construction industry in Hong Kong <sup>(Note 3)</sup>	39.1	34.5

*Notes:*

1. LTIFR is a frequency rate that shows the number of lost time injuries within a given time period (e.g. 100,000 hours) relative to the total number of hours worked in the same period. The LTIFRs shown above are calculated by multiplying the number of lost time injuries in terms of lost days of our Group that occurred during the relevant financial year by 100,000 and then divided by the number of hours worked by our employees over the same financial year. Lost time injuries in Hong Kong refer to accidents resulting in death or incapacity for work of over three days and reported under the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong).
2. The accident rate of the Group is calculated as to the number of accidents during the year divided by the daily average number of workers of the Group during the financial year, and then multiplied by 1,000. For the purposes of this table, the daily average number of workers includes employees of the Group and its subcontractors. Based on the above analysis, the accident rates of the Group is lower than those of the construction industry during the Track Record Period.
3. The accident rate in the construction industry in Hong Kong is for each of the two years ended 31 December 2015 and 2016 respectively, which is based on the Occupational Safety and Health Statistics Bulletin Issues No. 16 and No. 17 issued by the Occupational Safety and Health Branch, Labour Department of Hong Kong, which represents the accident rate per 1,000 workers of the construction industry in Hong Kong in the relevant year.

Further, as of the Latest Practicable Date, there is no outstanding or pending claim of work injury from our employees. As such, our Directors consider that our Group did not have any material work injuries during the Track Record Period.

## INTELLECTUAL PROPERTY

As at the Latest Practicable Date, we held one registered trademark in Hong Kong in relation to the MetroStile and have registered two domain names in Hong Kong, which are being used by our Group. We also have two trademarks which are pending registration in Hong Kong. We have not granted, except within our Group, and do not intend to grant any licenses to other parties for the use of our trademarks.



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We were not aware of any infringement by us of any intellectual property rights owned by third parties, or by any third parties of any intellectual property rights owned by us as at the Latest Practicable Date. Further, during the Track Record Period, we were not involved in any disputes or proceedings concerning any material claims of infringement, either threatened or pending, of any intellectual property rights initiated by or against us that had a material and adverse effect on our business.

Please refer to the paragraph headed “B. Further information about our business – 2. Intellectual property rights of our Group” in Appendix IV to this prospectus for further details on our intellectual property rights.

### EMPLOYEES

As at the Latest Practicable Date, our Group had 223 employees in Hong Kong who are all directly employed by us. The following table sets forth a breakdown of our employees by function as at the Latest Practicable Date:

Function	Number of Employees
Management and Business Development	17
Engineering <i>(Note)</i>	
– Project Control	10
– Design (E&M Engineering)	40
– Electronic	49
– Software Development	7
Site Supervision	19
Skilled Workers	54
Accounting	4
Human Resources and Administration	3
Operation Support	14
S.H.E.Q.	6
<b>Total</b>	<b><u>223</u></b>

*Note:* During the Track Record Period and as at the Latest Practicable Date, we had five engineers serving engineering functions who also served research and development functions. Of these five engineers, two serve the function of engineering – design (E&M engineering), two serve the function of engineering – software development and the remaining one serves the function of engineering – electronic.

As at 31 March 2016 and 2017, the total number of our employees was 207 and 216 respectively, representing a 3.0% and 4.3% increase respectively compared to the preceding financial year end.

We provide various types of trainings to our employees, including in particular our Electrical Engineering Graduate Scheme “A” Training, which has been approved by the Hong Kong Institution of Engineers since 1984. Recruitment in the E&M engineering service industry is highly competitive, especially with respect to recruitment of qualified

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engineering staff. We believe we are hiring high-quality employees in the market by offering competitive wages and benefits and comprehensive training opportunities. We have facilitated the recruitment of our staff through a variety of channels, such as newspapers, internet websites, recruitment agencies, career talks, and internal referrals. We believe our continuous efforts will help us attract suitable personnel.

Our employee remuneration packages include salary and discretionary bonuses. We conduct periodic performance reviews for our employees. In general, our Group determines employee salaries based on each employee's qualifications, overall work performance and market trends. We provide a defined contribution to (i) the Mandatory Provident Fund as required under the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) or (ii) retirement benefit scheme as required under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong) for our eligible employees in Hong Kong.

Our direct labour costs during the Track Record Period amounted to approximately HK\$41.7 million and HK\$43.5 million, or accounted for 41.7% and 37.6% of our total cost of sales respectively.

Our Directors consider that we have maintained good relationships with our employees. During the Track Record Period, we have not experienced any significant disputes with our employees or any disruption to our operations due to labour disputes. In addition, we have not experienced any difficulties in recruitment and retention of experienced core staff or skilled personnel during the Track Record Period.

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### PROPERTY

As at the Latest Practicable Date, we did not own any real property. The following table sets out details of the properties leased by us:

Location	Usage	Approximate gross floor area	Lessor	Term	Annual rent
Workshop 12 on Ground Floor, Workshops 7, 9, 10 and 11 on First Floor, Workshop 7 on Third Floor of Block B, and Carparking Spaces numbered V20, V25, L33, L37 and L39 on First Floor, Shatin Industrial Centre, Nos. 5-7 Yuen Shun Circuit, Shatin, New Territories, Hong Kong	Office, workshop and warehouse	25,000 sqf	KML Limited	Three year rental agreement from 1 April 2015 to 31 March 2018	HK\$3.96 million
<p>* On 12 September 2017, KML Engineering as tenant entered into the Tenancy Agreement with KML Limited as landlord with respect to the Premises. The term of the Tenancy Agreement shall commence on the Listing Date. For further details of this lease arrangement, please see the subsection headed "Connected Transactions – Non-exempt continuing connected transaction – Tenancy Agreement" in this prospectus.</p>					
Units 312, 313, 315 and 316, Koon Wah Building, 2 Yuen Shun Circuit, Yuen Chau Kok, Shatin	Office and workshop	6,850 sqf	Koon Ngai Company Limited, an independent third party	Two year rental agreement from 15 November 2016 to 14 November 2018, with an option to renew for a further term of one year	Approximately HK\$1.30 million

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### LEGAL COMPLIANCE AND LITIGATION

As at the Latest Practicable Date, we have been in compliance in all material aspects with the applicable laws and regulations in all jurisdictions where we operate business and have obtained all necessary approvals, permits license, approvals and certificates that are material to our business operations from the relevant government authorities.

#### Non-compliance

During the Track Record Period, our Group had inadvertently breached the IRO. Details of the historical non-compliance incidents are set out in the table below:

Relevant section of the IRO	Particulars of the non-compliance	Reason for the non-compliance	Remedial actions	Estimated/actual fine/penalty
Non-compliance with section 52(4) of the IRO	During the period from April 2015 to January 2017, KML Engineering and KML Technology did not submit the notices (Forms IR56E) within three months of the commencement of employment of the relevant employees, as required under the relevant provisions, regarding commencement of employment of 78 and 2 employees respectively. All the relevant notices had been filed by mid-June 2017.	The breaches were not willful and were due to the inadvertent oversight of the administrative staff responsible for employee records, who was not familiar with the relevant IRO requirements.	After ascertaining the relevant legal requirements under the IRO and adopting the enhanced compliance measures, all the Forms IR56E for all employees of our Group who commenced employment since April 2017 have been duly filed with the Inland Revenue Department and there has not been any recurrence of similar types of non-compliances.	<p>Under the IRO, the maximum penalty for each offence is HK\$10,000 and the aggregate maximum penalty for all offences is HK\$800,000.</p> <p>As advised by the counsel to our Company and barrister-at-law in Hong Kong, Mr. Henry H.G. Cheng, such non-compliances were not serious or material, and hence he considers that the risk of prosecution for these non-compliances to be relatively low.</p> <p>Further, given the circumstances of the non-compliances, Mr. Henry H.G. Cheng was of the opinion that even if KML Engineering, KML Technology and the relevant officers were convicted, the likely penalty which would be imposed on our Group in respect of such non-compliances would be no more than HK\$1,000 to HK\$2,500 per offence and no more than HK\$80,000 to HK\$150,000 in aggregate for all offences.</p>

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Relevant section of the IRO	Particulars of the non-compliance	Reason for the non-compliance	Remedial actions	Estimated/actual fine/penalty
Non-compliance with section 52(5) of the IRO	During the period from April 2015 to March 2017, KML Engineering did not submit the notices (Forms IR56F) within one month before the expected date of cessation of employment of the relevant employees, as required under the relevant provisions, regarding the cessation of employment of 116 employees. Such notices were filed in the second week of each month after the relevant employee ceased to be employed by KML Engineering instead.	The breaches were not willful and were due to the inadvertent oversight of the administrative staff responsible for employee records, who was not familiar with the relevant IRO requirements.	After ascertaining the relevant legal requirements under the IRO and adopting the enhanced compliance measures, all the Forms IR56F for all employees of our Group who commenced employment since April 2017 have been duly filed with the Inland Revenue Department and there has not been any recurrence of similar types of non-compliances.	Under the IRO, the maximum penalty for each offence is HK\$10,000 and the aggregate maximum penalty for all offences is HK\$1,160,000.  As advised by the counsel to our Company and barrister-at-law in Hong Kong, Mr. Henry H.G. Cheng, such non-compliances were not serious or material, and hence he considers that the risk of prosecution for these non-compliances to be relatively low.  Further, given the circumstances of the non-compliances, Mr. Henry H.G. Cheng was of the opinion that even if KML Engineering and the relevant officers were convicted, the likely penalty which would be imposed on our Group in respect of such non-compliance would be no more than HK\$1,000 to HK\$2,500 per offence and no more than HK\$116,000 to HK\$200,000 in aggregate for all offences.

### Litigation and claims

From time to time we have been, and may in the future be occasionally, involved in legal proceedings or disputes in the ordinary course of business that are common for our industry. In carrying out its ordinary course of business, our Group is subject to the risk of being named as a party in legal actions, claims and disputes in connection with its business activities. During the Track Record Period and up to the Latest Practicable Date, our Group has been involved in a number of employees' compensation claims against our Group, which in our Directors' opinion are immaterial, either in our capacity as main contractor or subcontractor, which have arisen due to personal injuries suffered by our Group's employees or the employees of our subcontractors during the course of their employment for our Group's projects, but these have all been fully settled as at the Latest Practicable Date.

During the Track Record Period and as at the Latest Practicable Date, no member of our Group was involved in any litigation, arbitration or claim that could, individually or in aggregate, have a material adverse effect on our business, financial condition or results of operations and, so far as the Directors are aware, no such litigation, arbitration or claim is pending or threatened against any member of our Group.

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### RISK MANAGEMENT

We have implemented a series of measures to manage the risks that we face in our operation. Our management team actively monitors and promptly reacts to changes in the industry's laws and regulations that impact our operations. Each of our project, S.H.E.Q. and administration team members regularly report to our management with respect to any compliance issues.

Our project management teams are responsible for identifying and analysing risks arising from each project, preparing risk mitigation plans, measuring effectiveness of such risk mitigation plans and reporting the status of risk management. Our Risk Management Committee and ultimately our Board of Directors supervise the implementation of our risk management policy at the corporate level by bringing together each operating department, such as our S.H.E.Q. and business development teams, to collaborate on risk issues among different business functions. The Risk Management Committee consists of three Executive Directors, namely Mr. Chan Chak Lun Philip, Mr. KL Luk and Mr. YC Luk, and one Independent Non-executive Director, namely Mr. Law Wing Chi Stephen. For details about the qualifications and experiences of the members, and composition of our Risk Management Committee and our Board of Directors, see the section headed "Directors and Senior Management" in this prospectus.

### INTERNAL CONTROL MEASURES

It is the responsibility of our Board of Directors to ensure that our Company maintains sound and effective internal controls to safeguard our Shareholders' investment and our Group's assets at all times. We have adopted or expect to adopt immediately after the Listing a series of internal control policies, procedures and programmes designed to provide reasonable assurance for achieving objectives including effective and efficient operations, reliable financial reporting and compliance with applicable laws and regulations.

In April 2017, we engaged an internal control consultant to perform an internal control review of our Group's internal control system including the areas of financial, operation and compliance. According to the results of the internal control review, our internal control consultant did not note any material deficiency in our existing internal control mechanisms. Based on the recommendation of our internal control consultant, we have implemented various internal control measures, including but not limited to the following:

- (i) we have adopted a set of internal control policies and procedures, which includes but is not limited to the following:–
  - (a) accounting policy and procedure – providing guidelines on, for example, the use of company funds, the maintenance of a chart of accounts in our Group's accounting system, and the recording, adjustment and correction of transactions in order to ensure the reliability of the Group's financial statements;

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- (b) pricing policy and procedure – providing guidelines on the setting of prices in order to maintain an optimum level of gross profit margin, and is applicable to all quotations (including budget quotations, tenders and proposals);
  - (c) human resources guideline – providing guidelines on the process for submission of forms or notices to the Inland Revenue Department in relation to the employment and/or remuneration of employees;
  - (d) corporate governance policy – setting out procedures and guidelines in relation to Board communications and duties and responsibilities of the Directors;
  - (e) inventory handling policy – laying down guidelines in relation to the monitoring of our inventory level in an efficient and effective manner, including the safeguarding and disposal of inventory; and
  - (f) intellectual property policy – providing guidelines on the management of our Group’s intellectual property in order to, among other things, ensure that our intellectual property rights are properly reviewed and protected;
- (ii) we have established an Audit Committee which comprises three Independent Non-executive Directors to review our Group’s financial information and oversee our Group’s financial reporting system, risk management and internal control systems; and
  - (iii) our Directors attended a training conducted by our legal advisers as to Hong Kong law on, among other things, the on-going obligations, duties and responsibilities of directors of listed companies under certain applicable laws and regulations.

In addition, we have a code of business conduct in place which explicitly communicates to each employee our vision, values, acceptable criteria for decision making processes, and ground rules for dealing with suppliers, contractors and customers.

Our internal control consultant conducted a follow-up review and was of the view that we have implemented their recommendations through the adoption of our Group’s enhanced internal control policies and procedures as mentioned. Our Directors are of the view that our current internal control measures are adequate and effective.

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### INFORMATION TECHNOLOGY

We currently have an information technology policy in place, which contains various measures relating to the security of our information resources, in order to, among others, protect our Group's information resources and intellectual property, and provide general security awareness of our Group's information technology security practices. For information security risk management, we have put in place a network security system, to enhance our information safety prevention and management and ensure the maintenance of continuously safe information systems. In order to reduce risk arising from potential system, software or hardware failures, there are also contingency plans in place to back up data for our operating systems and relevant procedures for hard disk data recovery in case of failure or loss of the backed-up data. There are also contingency plans in place to prevent the intrusion of our information systems and networks by network viruses. We believe information technology infrastructure and information systems are essential for the effective management and successful development of our businesses. In order to adapt to changing requirements of corporate governance, we will continue to optimise and upgrade our information technology infrastructure and the functionality of our current systems.

### LICENCES, PERMITS AND REGISTRATIONS

We have obtained all requisite material licences, permits, qualifications and registrations, the details of which are set forth in the following table:

<b>Licence/permit/registration</b>	<b>Granting/ registration/ issuing authority</b>	<b>Holding subsidiary</b>	<b>Date of grant/ issue</b>	<b>Expiry date (where applicable)</b>
Certificate of Registration of Electrical Contractor	EMSD	KML Engineering	24 June 2016	12 August 2019
Certificate of Registration of Registered Minor Works Contractor (Type A (Classes II & III) and Type C (Classes II & III))	Buildings Department	KML Engineering	12 October 2015	12 October 2018
Registered Specialist Contractors for Public Works (Electrical Installations (Group II))(on probation)	WBDB	KML Engineering	28 February 2000	Not applicable
Registered Specialist Contractors for Public Works (Industrial Type Electrical Installations)	WBDB	KML Engineering	28 February 2000	Not applicable



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Licence/permit/registration	Granting/ registration/ issuing authority	Holding subsidiary	Date of grant/ issue	Expiry date (where applicable)
Registered Specialist Contractors for Public Works (Manufacture and Erection of Mechanical Plant and Equipment (Group I)) (now renamed as Mechanical Plant and Equipment (Group I))	WBDB	KML Engineering	28 February 2000	Not applicable
Registered Specialist Contractors for Public Works (Supply and Installation of Electronic Timing & Display Systems (now renamed as Electronic Timing and Display Installation))	WBDB	KML Engineering	7 May 2001	Not applicable
Registration of Waste Producer	Environmental Protection Department	KML Engineering	5 January 2017	Not applicable
Security Company Licence	Security and Guarding Services Industry Authority	(1) KML Engineering	(1) 4 April 2017	(1) 3 April 2022
		(2) KML Technology	(2) 11 June 2013	(2) 10 June 2018
Subcontractors Registration Scheme	CIC	(1) KML Engineering	(1) 26 August 2016	(1) 25 August 2018
		(2) KML Technology	(2) 16 January 2016	(2) 15 January 2018

In relation to our licences, permits, qualifications and registrations that are subject to periodic review and renewal, each of our respective holding subsidiaries maintain a list recording details of such licences, permits, qualifications and registrations obtained, including their expiry dates and renewal requirements. Our administration team attends to and informs our management in a timely manner of any amendments to renewal requirements as notified by relevant granting or registration authorities. During the Track Record Period and up to the Latest Practicable Date, we have not experienced any refusal of renewal of our licences, permits, qualifications and registrations that are necessary for our business operations.

### Employees' certificates and licences

Some of our employees possess security personnel permits, and are registered as Registered Electrical Workers with the EMSD and hold licences from the Institution of Railway Signal Engineers in the United Kingdom.

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## BUSINESS

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### CERTIFICATIONS, AWARDS AND RECOGNITIONS

#### Certifications

The following table sets out the major certification(s) which we have received during the Track Record Period:

Certification	Description	Award organisation or authority	Recipient	Period of validity
ISO 9001:2015	Design, supply, production, installation and maintenance of “high voltage”, “low voltage” and “extra low voltage” electrical, electronic (hardware and software) and mechanical plants, systems and equipment, and railway control and communication systems as defined in the Electricity Ordinance (Chapter 406 of the Laws of Hong Kong)	HKQAA	KML Engineering	19 October 2016 to 22 October 2020

The ISO accreditation demonstrates that we have achieved an international standard of quality management. We actively implement our commitment to ISO 9001 (Quality Management) standards, setting internal targets and guidelines that align to defined performance indicators.

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## BUSINESS

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### Awards and Recognitions

Over the past years, KML Engineering has received recognition from various organisations. The table below sets out the significant awards and recognitions which we received:

Award	Year of Award	Issuer of award
<i>Industry Awards</i>		
Hong Kong Awards for Industries: Machinery and Machine Tools Design – Certificate of Merit	2013	Hong Kong Awards for Industries
Hong Kong Awards for Industries: Machinery Equipment Design – Certificate of Merit	2007	Hong Kong Awards for Industries
Hong Kong Awards for Industries: Machinery Equipment Design – Grand Award	2004	Hong Kong Awards for Industries
<i>Safety, Quality and Environmental Awards</i>		
Contractor Safety Performance Award	1997/98, 1998/99, 2002/03, 2006/07, 2010/11, 2011/12, 2012/13, 2013/14, 2014/15 and 2015/16	MTR Corporation Limited
Class of Excellence Wastewi\$e Label	2013 to 2017	Hong Kong Awards for Environmental Excellence
Certificate of Merit	2004, 2012 to 2013, 2016	Hong Kong Smoke-Free Leading Company Awards
Certificate of Participation in Good Housekeeping	2010 and 2013	Occupational Safety & Health Council
Class of Good Wastewi\$e Label	2012	Hong Kong Awards for Environmental Excellence
Good Housekeeping Plan – Merit Award	2012	Occupational Safety & Health Council
Class of Good Energywi\$e Label	2011	Hong Kong Awards for Environmental Excellence

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## BUSINESS

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Award	Year of Award	Issuer of award
Continual Implementation of Good Housekeeping – Certificate of Participation	2010	Occupational Safety & Health Council
Partnering Award for Operation Systems Projects – Signalling & Communication	2012/2013	MTR Corporation Limited
Top 10 Performance Recognition Award – Best Maintenance Contractor Partner	2003 and 2007	MTR Corporation Limited
Contractor Partnering Award – Maintenance Contract	2004/05 and 2005/06	MTR Corporation Limited
Contractor Partnering Award – Works Contract	2005/06	MTR Corporation Limited
Project Quality Award – MTR Disneyland Resort Line Project (AFC System)	2004	MTR Corporation Limited
<i>Corporate Social Responsibility Awards</i>		
Caring Company	2007 to 2016	The Hong Kong Council of Social Service
Family-Friendly Employers	2013/14, 2015/16	Family Council
Partner Employer Award	2013/14, 2014/15 and 2015/16	The Hong Kong General Chamber of Small and Medium Business
Good MPF Employer	2014 to 2016	Mandatory Provident Fund Authority

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### OUR CONTROLLING SHAREHOLDERS

Immediately following the completion of the Capitalisation Issue and the Share Offer, KML Holdings (which is owned as to approximately 50% by each of Mr. KL Luk and Mr. YC Luk respectively), Mr. KM Luk and Madam Leung will, respectively, hold approximately 34.5%, approximately 26.25% and approximately 14.25% of our Company's entire issued share capital (without taking into account any Shares which may be allotted and issued pursuant to the exercise of the Offer Size Adjustment Option and any options that may be granted under the Share Option Scheme). Each of Mr. KL Luk and Mr. YC Luk owns one common share in KML Holdings, representing 50% of the issued share capital of KML Holdings carrying voting rights. Mr. KL Luk and Mr YC Luk also own approximately 50% and approximately 50%, respectively, of the issued preferred shares in KML Holdings which do not carry voting rights but only rights to dividends. KML Holdings is an investment holding company and Mr. KM Luk, Mr. KL Luk and Mr. YC Luk are the directors of KML Holdings. Pursuant to the Acting-In-Concert Confirmation, Mr. KM Luk, Madam Leung, Mr. KL Luk, Mr. YC Luk and KML Holdings, i.e. our Controlling Shareholders confirmed the existence of their previous acting-in-concert arrangements in respect of all corporate matters of KML Engineering and KML Technology and have undertaken to continue to maintain such arrangements for the purposes of consolidating their control over our Group. Accordingly, our Controlling Shareholders together are directly and indirectly entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of our Company and will continue to be so immediately following the completion of the Capitalisation Issue and the Share Offer. As such, they are regarded as our Controlling Shareholders under the GEM Listing Rules. For details regarding the shareholding interest of our Controlling Shareholders, please see the section headed "Substantial Shareholders" in this prospectus.

Our Controlling Shareholders confirmed that none of them nor their respective close associates is interested in any business which competes or is likely to compete, directly or indirectly, with the business of our Group. As disclosed in the section headed "Connected Transactions" in this prospectus, Logistic Industrial, being an associate of Mr. KM Luk and Madam Leung, is principally engaged in the supply and trading of electrical parts, accessories and equipment. For details, please refer to the section headed "Connected Transactions" in this prospectus. Our Directors consider that the business of Logistic Industrial is clearly delineated from, and would not directly or indirectly compete with, our Group's business, as the two businesses differ in various aspects including the following:

	<b>Our Group</b>	<b>Logistic Industrial</b>
Business focus	<ul style="list-style-type: none"><li>● Principally engaged in offering E&amp;M engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions</li></ul>	<ul style="list-style-type: none"><li>● Principally engaged in the supply and trading of electrical parts, accessories and equipment</li></ul>

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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	<b>Our Group</b>	<b>Logistic Industrial</b>
Services/ products offered	<ul style="list-style-type: none"><li>● E&amp;M engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions</li><li>● Although our Group offers parts and/or components, these parts and components are for specialised E&amp;M engineering related segments such as railway signalling parts and/or components specified by our customers</li></ul>	<ul style="list-style-type: none"><li>● Electrical parts, accessories and equipment including for example cable ties, cable lugs, component marker, industrial marker, stainless steel marker, shoulder screws, which are generally and commonly used in electrical, electronic and manufacturing industries</li></ul>
Target customers	<ul style="list-style-type: none"><li>● Mainly transportation companies and other engineering companies</li></ul>	<ul style="list-style-type: none"><li>● General manufacturers and distributors of electrical components, accessories and equipment</li></ul>

Mr. KM Luk is an Executive Director and the chairman of our Board and a director of KML Engineering, the principal operating subsidiary of our Group. Each of Mr. KL Luk and Mr. YC Luk is an Executive Director and a director of both of our operating subsidiaries, namely KML Engineering and KML Technology. For further details about the respective roles of Mr. KM Luk, Mr. KL Luk and Mr. YC Luk in our Group, please see the section headed “Directors and Senior Management” in this prospectus. KML BVI is an investment holding company incorporated in the BVI.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### INDEPENDENCE FROM CONTROLLING SHAREHOLDERS

Our Directors consider that our Group is capable of carrying on its business independently from our Controlling Shareholders and their respective close associates after Listing for the following reasons:

#### Management independence

Our management and operational decisions are made by our Board and our senior management team. Our Board comprises four Executive Directors and three Independent Non-executive Directors. Despite the fact that Mr. KM Luk, Mr. KL Luk and Mr. YC Luk, who are Executive Directors, are also our Controlling Shareholders and that Mr. KM Luk, Mr. KL Luk and Mr. YC Luk are directors of KML Holdings, we consider that our Board and our senior management team will function independently from our Controlling Shareholders for the following reasons:

- (a) KML Holdings is an investment holding company. Other than the interest in our Company, KML Holdings does not have any other business. The time required for Mr. KM Luk, Mr. KL Luk and Mr. YC Luk to attend the affairs of KML Holdings is therefore limited;
- (b) each Director is aware of his fiduciary duties as a Director which require, amongst others, that he acts for the benefit and in the best interests of our Company;
- (c) in the event that any Director or any of his close associates has a material interest in any transaction or arrangement or there is an actual or potential conflict of interest arising out of any proposed transaction or arrangement to be entered into between our Group and any of our Directors or their respective close associates, or due to the dual positions of our Director(s) acting as director of our Company and another company involved in the proposed transaction or arrangement, pursuant to the relevant provisions of the Articles, our Director(s) shall fully disclose such matters to our Board and unless otherwise provided by the Articles, abstain from voting on the relevant resolution(s) in respect of such transactions and shall not be counted in the quorum for any Board meeting approving such transactions. Our Group has also adopted certain corporate governance measures for conflict situation, details of which are set out in the subsection headed “Corporate governance measures” in this section;
- (d) most of our senior management members, namely Mr. Hui Wah Pui, Ms. Wai Hang Ying Helen, Mr. Tung Tsz On and Ms. Law Shuk Ming, are independent from our Controlling Shareholders. They have substantial experience in the industry we are engaged in and/or management of our Group, and have served our Group for a considerable period of time during which they have demonstrated their capability of discharging their duties independently from our Controlling Shareholders. Please see the section headed “Directors and Senior Management” in this prospectus for details of our senior management;
- (e) our Independent Non-executive Directors will also bring independent judgment to the decision-making process of our Board; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (f) our Group holds the relevant licences and employs employees who hold the relevant licences necessary for operating our business and does not rely on any licence held by our Controlling Shareholders for operating our business. Our Directors confirm that our Group should be able to find replacements for employees holding the relevant licences with other licence holders on the market who are independent third parties without difficulty, if necessary.

Based on the reasons mentioned above, our Directors are of the view that our Board as a whole, together with our senior management, are capable of managing our business independent of our Controlling Shareholders and their respective close associates.

### **Operational independence**

Our Group has established our own independent organisational structure comprised of separate individual departments, each with specific areas of responsibilities. We have our own independent management team and staff to handle our day-to-day operations, including project management and execution, finance and accounting, administration and human resources functions. During the Track Record Period, our Group was operationally and administratively independent of our Controlling Shareholders and their respective close associates as we have our own operational and administrative personnel and we do not share any operational resources with our Controlling Shareholders and/or their respective close associates.

As at the Latest Practicable Date, our Group had certain continuing connected transactions, comprising (i) the Tenancy Agreement between KML Engineering (as the tenant) and KML Limited (as the landlord) and (ii) the Master Purchase Agreement between our Company (for itself and other members of the Group as purchaser) and Logistic Industrial (as supplier) for the procurement of electrical parts, accessories and equipment. Details of the connected transactions are set out in the section headed “Connected Transactions” in this prospectus. As at the Latest Practicable Date, our Group does not intend to enter into any other connected transaction or continuing connected transaction with our Controlling Shareholders which will continue after Listing. In the event our Group does enter into any connected transactions or continuing connected transactions after Listing, such transactions will only be entered into or conducted on normal commercial terms or better to our Group and on terms which are fair and reasonable and in the interests of our Company and our Shareholders as a whole and we will then comply with all the applicable requirements under the GEM Listing Rules in relation to connected transactions and/or (as the case may be) continuing connected transactions.

Based on the above reasons, our Board is of the view that we have been operating independently from our Controlling Shareholders and their respective close associates and will continue to do so after the Listing.



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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### Financial independence

We have an independent financial system and make financial decisions according to our own business needs. We have established our own internal control and accounting systems and accounting and finance department to perform independent treasury function for cash receipts and payments, independent accounting and reporting functions and independent internal control functions.

During the Track Record Period, we maintained bank facilities in our ordinary and usual course of business which were secured by personal guarantees given by Mr. KM Luk and Madam Leung. As at 30 April 2017, the total amount of utilised bank facilities amounted to approximately HK\$2.6 million. Further, performance of certain contracts of our Group in its ordinary and usual course of business was secured by parent company guarantee given by KML Holdings. Our Directors confirm that all such personal guarantees and parent company guarantees will be released upon Listing. As at 30 April 2017, we did not have any outstanding loans or borrowings from any of our Controlling Shareholders or any of their respective associates. As such, we expect that our Group will have independent access to third party financing without relying on our Controlling Shareholders for financing or for providing guarantee or security for financing after the Listing and therefore our Directors consider that our Group is capable of operating independently from our Controlling Shareholders from the financial perspective.

### DEED OF NON-COMPETITION

In order to avoid any future competition between our Group and our Controlling Shareholders, our Controlling Shareholders as covenantors (collectively, the “**Covenantors**”) have executed the Deed of Non-Competition in favour of our Company (for itself and as trustee for its subsidiaries) on 20 September 2017. Pursuant to the Deed of Non-Competition, each of the Covenantors has irrevocably and unconditionally undertaken to and covenanted with our Company (for itself and as trustee for its subsidiaries) that, subject to the exceptions below, during the period that the Deed of Non-Competition remains effective, he/she/it shall not, and shall procure that his/her/its associates (other than any members of our Group) will not, during the term of the Deed of Non-Competition, directly or indirectly, either for his/her/its own account or in conjunction with or on behalf of or for any other person, firm or company, whether for profit, reward or otherwise, (i) carry on, participate in, be interested or engaged in, or acquire or hold any right or interest (in each case whether as a shareholder, partner, agent, consultant, employee or otherwise) directly or indirectly in any business which is or likely to be in competition with the business currently and from time to time engaged by our Group (“**Restricted Business**”) in Hong Kong, Taiwan and any other country or jurisdiction in which any member of our Group provides such services and/or in which any member of our Group carries on its business currently and from time to time (“**Territory**”); (ii) solicit, interfere with or endeavour to entice away from any member of our Group any person, firm, company or organisation who to his/her/its knowledge is now or has been a customer, supplier, subcontractor or employee of any member of our Group in the past twelve months before such proposed engagement or employment; or (iii) without prior written consent of our Company, make use of any information pertaining to the business of our Group which have or may have come to his/

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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her/its knowledge in his/her/its capacity as a Controlling Shareholder and/or Director for any purpose of his/her/its engaging, investing or participating in any Restricted Business in the Territory.

Each of the Covenantors further undertakes that if he/she/it or his/her/its associates (other than any members of our Group) is offered or becomes aware of any business opportunity which may be a Restricted Business (“**Relevant Business Opportunity**”), he/she/it shall (and he/she/it shall procure his/her/its associates to) notify our Company in writing to provide all relevant information in respect of such Relevant Business Opportunity to enable our Board to assess such Relevant Business Opportunity, and our Company shall have a right of first refusal to take up such Relevant Business Opportunity via any member of our Group (“**Right of First Refusal**”). Our Company shall, within two months after receipt of the written notice (or such longer period if our Company is required to complete any approval procedures as set out under the GEM Listing Rules from time to time), notify the Covenantors whether our Company will exercise the Right of First Refusal or not.

Upon receiving an offer notice, our Company shall seek approval from a board committee (comprising, among others, all the Independent Non-executive Directors who do not have a material interest in the Relevant Business Opportunity) (the “**Independent Board**”) as to whether it is in the interest of our Company and our Shareholders as a whole to pursue or decline the Relevant Business Opportunity. Any Director who has actual or potential interest in the Relevant Business Opportunity shall not be a member of the Independent Board and shall abstain from attending (unless their attendance is specifically requested by the Independent Board) and voting at, or count towards the quorum for, any meeting or part of a meeting convened to consider such Relevant Business Opportunity. The Independent Board, in considering whether to refuse the Relevant Business Opportunity, shall consider the financial impact of pursuing the Relevant Business Opportunity offered, whether the nature of the Relevant Business Opportunity is consistent with our Group’s strategies and development plans and the general market conditions; if appropriate, the Board may appoint independent financial and legal advisers to assist in the decision-making process in relation to such Relevant Business Opportunity.

Our Company shall only exercise the Right of First Refusal upon the approval of the Independent Board, and where required under the GEM Listing Rules, our independent Shareholders. The relevant Covenantor(s) who is/are Director(s) and any other interested Directors (if any) shall abstain from voting at and shall not be counted as quorum at all meetings of our Board where there is a conflict of interest or potential conflict of interest (including but not limited to the relevant meeting of the Independent Board for considering whether or not to exercise the Right of First Refusal).

Notwithstanding the undertakings as stated above, nothing shall restrict the Covenantors and his/her/its associates from:

- (a) investing, participating or engaging in or carrying on any Restricted Business or any project or business opportunity, regardless of value, which has been offered or made available to our Group, provided always that information about the principal terms thereof have been disclosed to our Company and our Directors, and our Company shall have, after review (taking into account whether the entering into of such project or

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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business opportunity will be in the best interest of our Group) and approval by our Directors (including our Independent Non-executive Directors but without the attendance by any Director with material interest in such project or business opportunities at the meeting, in which resolutions have been duly passed by the majority of the Independent Non-executive Directors), confirmed its rejection in writing to be involved or engaged, or to participate, in or carry on the relevant Restricted Business and provided also that the principal terms under which the Covenantor or his/her/its associate(s) invests, participates or engages, in or carries on the Restricted Business are substantially the same as or not more favourable than those disclosed to our Company. Subject to the above, if the Covenantor or his/her/its associate decides to be involved, engaged, participate in or carry on the relevant Restricted Business, whether directly or indirectly, the terms of such involvement, engagement, participation or carrying on must be disclosed to our Company and our Directors as soon as practicable; and

- (b) acquiring, holding or controlling the exercise of equity securities carrying voting rights less than 5% of the total issued share capital of a publicly listed company where a principal business or part of the businesses of such company or its subsidiary is the Restricted Business and provided that neither the Covenantor nor his/her/its associates participates in the management of such company and/or its subsidiaries.

The Deed of Non-Competition shall be effective upon Listing and commencement of trading of our Shares on the GEM subject to the fulfilment of the conditions precedent under the Underwriting Agreements (including waiver of any conditions precedent by the Underwriters, if applicable) and the Underwriting Agreements not being terminated.

If the above condition is not fulfilled on or before the date agreed between the Underwriters and our Company or the Underwriters and our Company have agreed to terminate the Underwriting Agreements thereafter, the Deed of Non-Competition shall become null and void and cease to have any effect whatsoever and no party shall have any claim against the other under the Deed of Non-Competition.

The obligations of a Covenantor under the Deed of Non-Competition shall terminate when (i) the relevant Covenantor and, his/her/its associates, individually or taken together, ceases to be a Controlling Shareholder of our Company; or (ii) our Shares ceases to be listed on the Stock Exchange (except for temporary trading halt or suspension of trading of our Shares on the Stock Exchange for any reason), whichever occurs first.

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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### CORPORATE GOVERNANCE MEASURES

Each of our Controlling Shareholders has confirmed that he/her/it fully comprehends his/her/its obligations to act in the best interests of our Company and our Shareholders as a whole. To avoid potential conflicts of interest and to safeguard the interests of our Shareholders as a whole, our Company will implement the following measures:

- (a) in the event that any Director or any of his/her/its close associates has a material interest in any transaction or arrangement or there is an actual or potential conflict of interest arising out of any proposed transaction or arrangement to be entered into between our Group and any of our Directors or their respective close associates, or due to the dual positions of our Director(s) acting as director of our Company and another company involved in the proposed transaction or arrangement, pursuant to the relevant provisions of the Articles, our Director(s) shall fully disclose such matters to the Board and unless otherwise provided by the Articles, abstain from voting on the relevant, resolution(s) in respect of such transactions and shall not be counted in the quorum for any Board meeting approving such transactions;
- (b) we have appointed three Independent Non-executive Directors to our Board to ensure there is sufficient independent element on our Board which can effectively exercise independent judgment in the decision-making process. Our Directors believe that our Independent Non-executive Directors are of sufficient calibre, are free of any business or other relationship which could interfere in any material manner with the exercise of their independent judgment and will be able to provide impartial and professional advice to protect the interests of our minority Shareholders. Please see the section headed “Director and Senior Management” in this prospectus for further details of our Independent Non-executive Directors;
- (c) our Controlling Shareholders have undertaken to make an annual confirmation as to compliance with his/her/its undertaking under the Deed of Non-Competition for inclusion in the annual report of our Company;
- (d) our Controlling Shareholders have undertaken to provide all information requested by our Group and to allow our Directors, their respective representatives and the auditors of our Group to have reasonable access to their records which are necessary for the annual review by the Independent Non-executive Directors and the enforcement of the Deed of Non-Competition;
- (e) our Controlling Shareholder have undertaken to abstain from voting at any general meeting of our Company if there is any actual or potential conflict of interests;
- (f) our Independent Non-executive Directors will, based on the information available to them, review on an annual basis (i) the compliance with the Deed of Non-Competition; and (ii) all the decisions taken in relation to whether to pursue the new opportunity under the Deed of Non-Competition; and

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## RELATIONSHIP WITH OUR CONTROLLING SHAREHOLDERS

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- (g) our Company has appointed Kingsway Capital as our compliance adviser, which will provide advice and guidance to our Company in respect of compliance with the applicable laws and the GEM Listing Rules including various requirements relating to directors' duties and internal controls. Please see the subsection headed "Directors and Senior Management – Compliance adviser" in this prospectus for further details in relation to the appointment of our compliance adviser.

Our Directors consider that the above corporate governance measures are sufficient to manage any potential conflicts of interest between our Controlling Shareholders and their respective close associates and our Group and to safeguard the interests of our Shareholders.

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## CONNECTED TRANSACTIONS

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### OVERVIEW

During the Track Record Period, our Group entered into certain transactions with connected persons of our Company, namely KML Limited and Logistic Industrial, in our ordinary and usual course of business which are expected to continue and constitute continuing connected transactions (as defined under Chapter 20 of the GEM Listing Rules) of our Company upon the Listing.

### RELATIONSHIP BETWEEN OUR GROUP AND OUR CONNECTED PERSONS

KML Limited is a company incorporated in Hong Kong and owned as to 78.2% by Golden Sail, 20% by an independent third party, 1.6% by Mr. KM Luk and 0.2% by Madam Leung. Golden Sail is a company incorporated in the BVI which is wholly-owned by a trustee for a family trust where the beneficiaries include Mr. KM Luk and Madam Leung. Therefore, KML Limited is an associate of each of Mr. KM Luk (being an Executive Director and one of our Controlling Shareholders) and Madam Leung (being one of our Controlling Shareholders) and hence is a connected person of our Company. KML Limited is the registered owner of the Premises which is currently used by our Group as head office and workshops. KML Limited is principally engaged in the leasing of the Premises.

Logistic Industrial is a company incorporated in Hong Kong and owned as to 48.5% by Golden Sail, 49% by two independent third parties and 2.5% by Madam Leung. Golden Sail is a company incorporated in the BVI which is wholly-owned by a trustee for a family trust where the beneficiaries include Mr. KM Luk and Madam Leung. Therefore, Logistic Industrial is an associate of each of Mr. KM Luk (being an Executive Director and one of our Controlling Shareholders) and Madam Leung (being one of our Controlling Shareholders) and hence is a connected person of our Company. Logistic Industrial is principally engaged in the supply and trading of electrical parts, accessories and equipment.

### NON-EXEMPT CONTINUING CONNECTED TRANSACTION – TENANCY AGREEMENT

On 12 September 2017, KML Engineering as tenant entered into the Tenancy Agreement with KML Limited as landlord, pursuant to which KML Limited agreed to lease to KML Engineering the Premises located in Shatin Industrial Centre, Nos. 5 – 7 Yuen Shun Circuit, Shatin, New Territories, Hong Kong, which are currently used by our Group as head office and workshops, together with five car parking spaces numbered V20, V25, L33, L37 and L39 located in the same building (collectively, “**Car Parking Spaces**”).

The principal terms of the Tenancy Agreement are set out below:

Term:	The term of the Tenancy Agreement is for a fixed term commencing on the Listing Date and expiring on 31 March 2020 unless terminated earlier upon certain event of default as provided in the Tenancy Agreement
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## CONNECTED TRANSACTIONS

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Monthly rent payable by KML Engineering (exclusive of management fees, government rates and rent and outgoings):	From the Listing Date to 31 March 2018: HK\$371,000 per calendar month
	From 1 April 2018 to 31 March 2019: HK\$383,000 per calendar month
	From 1 April 2019 to 31 March 2020: HK\$398,000 per calendar month

### *Annual caps in respect of the Tenancy Agreement*

During the Track Record Period, KML Engineering leased the Premises from KML Limited as its head office and workshops and the Car Parking Spaces under the Existing Tenancy Agreement. The total amount of rent paid by our Group in respect of the leasing of the Premises and the Car Parking Spaces under the Existing Tenancy Agreement were HK\$3,960,000 for each of the financial years ended 31 March 2016 and 31 March 2017 respectively. The Existing Tenancy Agreement will be terminated on the Listing Date, upon commencement of the term of the Tenancy Agreement.

Our Directors estimate that for the financial years ending 31 March 2018, 31 March 2019 and 31 March 2020, the maximum aggregate annual rent payable by KML Engineering under the Tenancy Agreement will be as follows:

<b>Financial year ending 31 March 2018</b>	<b>Financial year ending 31 March 2019</b>	<b>Financial year ending 31 March 2020</b>
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Maximum aggregate annual rent payable    HK\$4,452,000    HK\$4,596,000    HK\$4,776,000

The rent payable by KML Engineering under the Tenancy Agreement for the financial years ending 31 March 2018, 31 March 2019 and 31 March 2020 was negotiated on an arm's length basis with reference to (i) the historical rent paid by KML Engineering to KML Limited under the Existing Tenancy Agreement; (ii) the prevailing market conditions and the prevailing market rent for similar properties in the vicinity at the relevant time; (iii) the expected increases in the market rent for similar properties in the financial years ending 31 March 2019 and 31 March 2020 with reference to the historical trend of the relevant market rent; and (iv) the valuation report in respect of the Premises and the Car Parking Spaces



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## CONNECTED TRANSACTIONS

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issued by an independent professional property valuer. Having taken into account the said factors, our Directors are of the view that the Tenancy Agreement was entered into on normal commercial terms and that the rent payable under the Tenancy Agreement is in line with the prevailing market rate.

### *GEM Listing Rules implications in respect of the Tenancy Agreement*

As disclosed above, KML Limited is a connected person of our Company for the purpose of the GEM Listing Rules. Accordingly, the Tenancy Agreement will constitute a continuing connected transaction of our Company under Chapter 20 of the GEM Listing Rules upon Listing.

Since the applicable percentage ratios (other than the profits ratio) for (a) the Tenancy Agreement is expected to be more than 0.1% but less than 5% on an annual basis, the transactions contemplated under the Tenancy Agreement will be subject to the reporting, annual review and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 20 of the GEM Listing Rules.

### *Waiver in respect of the Tenancy Agreement*

Our Company has applied to the Stock Exchange for, and the Stock Exchange has granted us, a waiver from strict compliance with the announcement requirement under Chapter 20 of the GEM Listing Rules in respect of the Tenancy Agreement which constitute a non-exempt continuing connected transaction of our Company upon Listing.

## **EXEMPT CONTINUING CONNECTED TRANSACTION – MASTER PURCHASE AGREEMENT**

During the Track Record Period, KML Engineering purchased certain electrical parts, accessories and equipment from Logistic Industrial such as cable ties, component markers, cable markers and shrinkable tubing. There was no long-term agreement between KML Engineering and Logistic Industrial and KML Engineering placed purchase orders with Logistic Industrial on separate occasions at such purchase prices as agreed between the parties after arm's length negotiations from time to time.

On 20 September 2017, our Company (for itself and other members of our Group) and Logistic Industrial entered into the Master Purchase Agreement, pursuant to which our Company (for itself and other members of our Group) agreed to purchase from Logistic Industrial, and Logistic Industrial agreed to sell and/or supply to our Group, on a non-exclusive basis the electrical parts, accessories and equipment ("**Supplied Products**") procured by Logistic Industrial in accordance with the specifications provided by our Group, at the purchase price set out in each individual purchase order ("**Purchaser Order**") as may be offered by our Group and accepted by Logistic Industrial from time to time. The purchase price in each Purchase Order shall be determined after arm's length negotiations between our Group and Logistic Industrial from time to time with reference to the then prevailing market price of similar products in the market and that in any event shall be no less favourable to our Group than that offered to our Group by independent third parties.



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## CONNECTED TRANSACTIONS

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Our Directors confirmed that the transactions with Logistic Industrial during the Track Record Period were (i) conducted on normal commercial terms or better to our Group; (ii) carried out in our Group's ordinary and usual course of business; and (iii) fair and reasonable, and in the interest of our Company and our Shareholders as a whole.

The term of the Master Purchase Agreement will commence on the Listing Date and expire on 31 March 2020. Either party may terminate the Master Purchase Agreement by serving a written notice of not less than three months to the other party.

### ***Reasons for and benefits of entering into the Master Purchase Agreement***

Logistic Industrial had been one of the suppliers supplying the Supplied Products to our Group since 2007. Logistic Industrial is an authorised dealer for some of the Supplied Products. We may also purchase the Supplied Products from other suppliers including manufacturers, authorised dealers or trading companies from time to time when we require the Supplied Products, after taking into account various factors including the unit prices, availability of stock, delivery time and payment terms and when the overall terms offered by other suppliers are more favourable than those offered by Logistic Industrial. For example, some manufacturers and/or authorised dealers of the Supplied Products may impose minimum purchase quantity whereas there is no such term imposed by Logistic Industrial. The purchase price and payment terms offered by manufacturers and/or authorised dealers for purchase in small quantity may not be as favourable as those offered by Logistic Industrial.

Taking into account (i) the products supplied by Logistic Industrial in the past were of satisfactory quality; (ii) the prices were reasonable compared to prevailing market prices; and (iii) our Group has a regular demand for such products in our projects, our Directors consider that the entering into of the Master Purchase Agreement would allow our Group to maintain a stable supply of the Supplied Products which may from time to time be necessary for our business. Further, our Directors (including our Independent Non-executive Directors) confirmed that the terms of the Master Purchase Agreement are fair and reasonable, on normal commercial terms or better to our Group and in the interest of our Company and the Shareholders as a whole.

### ***Annual caps in respect of the Master Purchase Agreement***

The historical aggregate transaction amounts between our Group and Logistic Industrial for the purchase of the Supplied Products for each of the two years ended 31 March 2017 amounted to approximately HK\$226,000 and HK\$149,000 respectively. Our Directors estimate that the maximum aggregate annual amount payable by our Group under the Master Purchase Agreement for each of the financial years ending 31 March 2018, 31 March 2019 and 31 March 2020 will be as follows:

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## CONNECTED TRANSACTIONS

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	<b>Financial year ending 31 March 2018</b>	<b>Financial year ending 31 March 2019</b>	<b>Financial year ending 31 March 2020</b>
Maximum aggregate annual amount payable	HK\$500,000	HK\$500,000	HK\$500,000

The above annual caps were determined by reference to (i) the historical transaction amounts for the purchase of the Supplied Products from Logistic Industrial as set out above; (ii) the future expansion of our Group's business and the nature and scope of works involved under our contracts on hand as at the Latest Practicable Date; and (iii) the projected increase in the prices of the Supplied Products for the three financial years ending 31 March 2020.

### ***GEM Listing Rules Implications in respect of the Master Purchase Agreement***

As disclosed above, Logistic Industrial is a connected person of our Company for the purpose of the GEM Listing Rules. Accordingly, the Master Purchase Agreement will constitute a continuing connected transaction of our Company under Chapter 20 of the GEM Listing Rules upon Listing.

Since the annual consideration for the transactions contemplated under the Master Purchase Agreement for each of the three financial years ending 31 March 2020 will be limited to less than HK\$3.0 million and it is estimated that all percentage ratios (other than the profits ratio) under Rule 19.07 of the GEM Listing Rules in respect of the annual consideration for such transactions for each of the three financial years ending 31 March 2020 will be less than 5%, the transactions contemplated under the Master Purchase Agreement will constitute de minimis transactions under Rule 20.24 of the GEM Listing Rules and hence will be fully exempt from all the reporting, annual review, announcement, circular and independent shareholders' approval requirements under Chapter 20 of the GEM Listing Rules.

### ***Pricing policies and internal control***

To ensure that the transactions under the continuing connected transactions of the Company will be on normal commercial terms or better to our Group, our Company has adopted the following pricing policies and internal control procedures:

In respect of the Master Purchase Agreement:

- (a) the management of KML Engineering will obtain quotations from at least two suppliers which are independent third parties for products with similar specifications and in similar quantities to determine if the price and terms offered under the Master Purchase Agreement are fair and reasonable and comparable to those offered by independent suppliers;

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## CONNECTED TRANSACTIONS

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- (b) our accounts department will supervise and monitor the transaction amounts under the Master Purchase Agreement and will regularly review the quotations and transactions records in respect of the Master Purchase Agreement to ensure that the transactions are on normal commercial terms or better to our Group; and
- (c) our operation supports department will regularly review the quotations obtained from independent suppliers and update the market price of the relevant products for reference.

In respect of all the continuing connected transactions of our Company:

- (a) our accounts department will supervise and monitor the transaction amounts of the continuing connected transactions and will regularly review the transaction records to ensure that the transactions are on normal commercial terms or better to our Group;
- (b) we will engage external auditors to conduct annual review on the pricing and the annual caps of the continuing connected transactions of our Company;
- (c) our Audit Committee will regularly review the analysis reports and improvement measures prepared by our management team in respect of the continuing connected transactions of our Company; and
- (d) our Independent Non-executive Directors will conduct an annual review on the continuing connected transactions of our Company to ensure the transactions are entered into on normal commercial terms, are fair and reasonable and are carried out pursuant to the terms of the relevant agreements.

### **DIRECTORS' VIEW**

Our Directors, including the Independent Non-executive Directors, consider that all the continuing connected transactions as disclosed above and their respective annual caps are fair and reasonable, and that such transactions have been entered into in the ordinary and usual course of the business of our Group, on normal commercial terms and are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

### **SOLE SPONSOR'S VIEW**

The Sole Sponsor is of the view that all the continuing connected transactions as disclosed above have been entered into in the ordinary and usual course of business, are on normal commercial terms, and are fair and reasonable and in the interests of our Group and our Shareholders as a whole. The Sole Sponsor is also of the view that the respective annual caps are fair and reasonable and in the interests of our Group and our Shareholders as a whole.

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## DIRECTORS AND SENIOR MANAGEMENT

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### OVERVIEW

#### Directors

Our Board currently consists of four Executive Directors and three Independent Non-executive Directors. Our Board is responsible for and has general powers for the management and conduct of the business of our Group. The table below sets forth certain information in respect of the members of our Board.

#### Members of our Board

Name	Age	Date of joining our Group	Date of appointment as Director	Present position in our Company	Roles and responsibilities in our Group	Relationship with other Directors and senior management
<b>Executive Directors</b>						
Mr. Luk Kam Ming (陸鑑明)	70	30 August 1977	9 June 2017	Executive Director, chairman of our Board, chairman of the Nomination Committee and a member of the Remuneration Committee	Overall strategic planning and development of our Group and oversee the financial management and planning of our Group	Father of Mr. KL Luk and Mr. YC Luk, and father-in-law of Ms. Woo Siu Wai, our company secretary
Mr. Chan Chak Lun Philip (陳澤麟)	55	5 October 1987	9 June 2017	Executive Director, our chief executive officer and a member of the Risk Management Committee	Oversee the daily operations and overall general management of our Group	Nil
Mr. Luk Kwai Lung (陸季農)	40	20 January 2003	5 May 2017	Executive Director and a member of the Risk Management Committee	Oversee the business development of our Group	Son of Mr. KM Luk, elder brother of Mr. YC Luk, and brother-in-law of Ms. Woo Siu Wai, our company secretary
Mr. Luk Yin Cheung (陸彥彰)	38	1 June 2006	5 May 2017	Executive Director and a member of the Risk Management Committee	Oversee operation support of our Group, including sourcing and project administration	Son of Mr. KM Luk, younger brother of Mr. KL Luk, and spouse of Ms. Woo Siu Wai, our company secretary

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## DIRECTORS AND SENIOR MANAGEMENT

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Name	Age	Date of joining our Group	Date of appointment as Director	Present position in our Company	Roles and responsibilities in our Group	Relationship with other Directors and senior management
<b>Independent Non-executive Directors</b>						
Mr. Lau On Kwok (劉安國)	51	20 September 2017	20 September 2017	Independent Non-executive Director, chairman of the Audit Committee, and a member of the Remuneration Committee	Provide independent opinion and judgement to our Board, particularly with regard to the financial aspects of our Group	Nil
Dr. Tse Chi Kong (謝智剛)	52	20 September 2017	20 September 2017	Independent Non-executive Director, chairman of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee	Provide independent opinion and judgement to our Board, particularly with regard to the business aspects of our Group	Nil
Mr. Law Wing Chi Stephen (羅永志)	47	20 September 2017	20 September 2017	Independent Non-executive Director, chairman of the Risk Management Committee, and a member of the Audit Committee and the Nomination Committee	Provide independent opinion and judgement to our Board, particularly with regard to the corporate governance and risk management of our Group	Nil

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## DIRECTORS AND SENIOR MANAGEMENT

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### Senior management

Our senior management consists of our Executive Directors and the following employees who are responsible for the day-to-day management of our business.

Name	Age	Date of joining our Group	Date of appointment to the present position	Present position	Roles and responsibilities in our Group	Relationship with other Directors and senior management
Hui Wah Pui (許華培)	59	17 October 1983	2 October 2009	Director of KML Engineering	Provide general advice relating to formulation of solutions, technical and commercial feasibility, planning and implementation of our projects	Nil
Wai Hang Ying Helen (衛杏英)	42	8 December 1997	2 October 2009	Associate director of KML Engineering	Overall administration, human resources and risk management	Nil
Tung Tsz On (董子安)	48	5 February 2003	1 April 2010	Chief engineer	Research and development, planning, formulation and monitoring the implementation of our projects with provision of day-to-day technical and expert advice	Nil
Law Shuk Ming (羅淑明)	46	3 May 1995	1 April 2013	Senior accounting officer	Accounting and financial reporting	Nil
Woo Siu Wai (胡劭卉)	37	12 April 2011	9 June 2017	Company secretary	Overall company secretarial matters	Spouse of Mr. YC Luk, daughter-in-law of Mr. KM Luk, and sister-in-law of Mr. KL Luk

### DIRECTORS

#### Executive Directors

**Mr. Luk Kam Ming** (陸鑑明), aged 70, is an Executive Director and the chairman of our Board. Mr. KM Luk founded our Group and joined us when he was appointed as a director of KML Engineering in August 1977. Mr. Luk is responsible for overall strategic planning and development of our Group, and oversees the financial management and planning of our Group. Mr. KM Luk is also the chairman of the Nomination Committee, and a member of the Remuneration Committee.

Mr. KM Luk has more than 50 years of experience in the E&M engineering industry, with a focus on the development of automatic fare collection and railway transportation control systems. Mr. KM Luk was employed as an apprentice by Taikoo Dockyard & Engineering Company of Hong Kong Limited (now known as Swire Pacific Limited) (“**Taikoo Dockyard**”) from September 1962 to August 1966, during which he took on a four-year apprenticeship training in Electrical Engineering in Hong Kong and was awarded the Taikoo Dockyard scholarship for the year of 1966, which allowed him to join the

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## DIRECTORS AND SENIOR MANAGEMENT

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advanced training and studies in the United Kingdom from September 1966 to December 1968. He was employed as a technical assistant by Taikoo Dockyard from December 1968 to December 1972, where he was engaged in the design, development, servicing and operation of a large range of electronic, radio and communication equipment. He was transferred to Hongkong United Dockyards Limited (“**United Dockyards**”, which was a joint venture between Taikoo Dockyard and Hongkong & Whampoa Dock Co., Ltd and a provider of multi-disciplinary marine services and engineering solutions) in January 1973 and was promoted to head of department of electronics and instruments in March 1975. From July 1976, he served as a superintendent of United Dockyards until he left in September 1976.

In August 1977, Mr. KM Luk founded KML Engineering, the principal subsidiary of our Group as a contractor for providing services in the fields of electrical power engineering, signalling and communication engineering, and computer-based toll collection systems, etc.

Mr. KM Luk obtained an ordinary certificate in electrical engineering in June 1965 and an ordinary certificate in mechanical engineering in June 1966 from City Guilds of London Institute, the United Kingdom. He also obtained a higher national certificate of electrical and electronic engineering awarded by The Institution of Electrical Engineers (currently known as the Institution of Engineering and Technology) and the Institution of Electronic and Radio Engineers in conjunction with the Scottish Education Department in August 1967, and a certificate of a one-year full-time course in electrical engineering from Paisley College of Technology, the United Kingdom, in October 1968. In July 1996, he obtained a continuing education certificate in occupational safety and health from the City University of Hong Kong, Hong Kong. He completed a diploma course in marketing and international business in November 1995 and a diploma course in management communication in February 1998 from the Chinese University of Hong Kong, Hong Kong. He was awarded the Professional Diploma in Corporate Governance & Directorship jointly by the Hong Kong Institution of Directors and Hong Kong Productivity Council in September 2003.

Mr. KM Luk was registered as a Chartered Engineer (C.Eng.) by The Institution of Electronic and Radio Engineers, the United Kingdom, in November 1973, and a Chartered Engineer by the Council of Engineering Institutions, the United Kingdom, in December 1974. He was admitted a member and registered as a Chartered Electrical Engineer by The Institution of Electrical Engineers (currently known as the Institution of Engineering and Technology), the United Kingdom, in June 1974 and registered as a Chartered Engineer by the Council of Engineering institutions, the United Kingdom, in December 1974. He was also admitted as a member of the Hong Kong Institution of Electrical Engineers in July 1975, a member of Institution of Railway Signal Engineers in December 1988, and a member of Hong Kong Association of Energy Engineers in 2009. He was nominated as the Country Vice President of Institution of Railway Signal Engineers for Hong Kong, China in March 2011.

Mr. KM Luk is the father of Mr. KL Luk and Mr. YC Luk, both our Executive Directors. Mr. KM Luk is also the spouse of Madam Leung, our Controlling Shareholder, and the father-in-law of Ms. Woo Siu Wai, our company secretary.

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## DIRECTORS AND SENIOR MANAGEMENT

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**Mr. Chan Chak Lun Philip** (陳澤麟), aged 55, is an Executive Director and our chief executive officer. Mr. Chan is responsible for overseeing the daily operations and overall general management of our Group. Mr. Chan is also a member of the Risk Management Committee.

Mr. Chan has more than 30 years of experience in E&M engineering, specialised in designing and developing automatic fare collection and railway transportation control systems. Prior to joining our Group, Mr. Chan served as an apprentice and later as a junior engineer draughtsman in United Dockyards from July 1981 to September 1984, responsible for repairing ship engines and machineries, preparing drawings required for repair or conversion of ships, engineering structures or fabrications, etc. He also worked in G.E.C (Hong Kong) Limited from November 1984 to August 1985. Mr. Chan joined KML Engineering in October 1987 as a mechanical engineer and was subsequently promoted to manager of mechanical division in January 1991 and general manager of advanced products department in May 2002. He became the operation director of KML Engineering from October 2009 to March 2017 and has been the managing director since April 2017.

Mr. Chan has been a director of KML Engineering since June 1991. He is a technical director and one of the authorised signatories appointed by KML Engineering for its qualification as a Registered Minor Works Contractor for Type A and Type C of Class I, II & III under the Buildings Ordinance since September 2011.

Mr. Chan was awarded a diploma in shipbuilding and ship repair from Hong Kong Education Department (currently known as the Education Bureau of Hong Kong) in July 1981. He obtained a higher certificate in mechanical engineering from Hong Kong Polytechnic University, Hong Kong, in November 1983 and a certificate of completion of apprenticeship from United Dockyards in July 1984. He obtained a degree of Bachelor of Engineering with first class honours in mechanical engineering from the University of Newcastle, the United Kingdom, in July 1987, and a degree of Master of Science in Engineering from The University of Hong Kong, Hong Kong, in November 1993.

Mr. Chan was admitted as graduate of the Hong Kong Institution of Engineers in March 1988, and a member of The Institution of Electrical Engineers (currently known as the Institution of Engineering and Technology), the United Kingdom, and registered as a Chartered Engineer (CEng) by the Engineering Council (UK) in April 2003. He was elected as a member of the Institution of Mechanical Engineers, the United Kingdom, in October 2016.

**Mr. Luk Kwai Lung** (陸季農), aged 40, is an Executive Director. Mr. KL Luk is responsible for overseeing the business development of our Group. Mr. KL Luk has been a director of KML Technology and KML Engineering since February 2012 and November 2015 respectively. Mr. KL Luk is one of the authorised signatories appointed by KML Engineering for its qualification as a Registered Minor Works for Type A of Class I, II & III under the Buildings Ordinance since September 2011. Mr. KL Luk is also a member of the Risk Management Committee.



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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. KL Luk joined our Group in January 2003 as a management assistant and developed comprehensive experiences in process management in various departments in KML Engineering. He was promoted to the position of project officer in March 2006, associate installation manager in January 2011 and installation manager in April 2015. Mr. KL Luk also acted as the project manager for various projects undertaken by our Group in the past seven years.

Mr. KL Luk obtained a degree of Bachelor of Science in hotel administration from University of Nevada, Las Vegas, the United States, in December 2000, a degree of Master of Science in administrative studies from Boston University, the United States, in May 2002, and a degree of Master of Science in engineering business management from the Hong Kong Polytechnic University, Hong Kong, in November 2010.

Mr. KL Luk is a son of Mr. KM Luk, our founder, Executive Director and chairman of our Board, and the elder brother of Mr. YC Luk, an Executive Director. Mr. KL Luk is the elder son of Madam Leung, our Controlling Shareholder, and the brother-in-law of Ms. Woo Siu Wai, our company secretary. As at the Latest Practicable Date, Mr. KL Luk held approximately 50% of the shares in KML Holdings, our Controlling Shareholder.

**Mr. Luk Yin Cheung** (陸彥彰), aged 38, is an Executive Director. Mr. YC Luk is responsible for overseeing the operation support of our Group, including sourcing and project administration of our Group. Mr. YC Luk has been a director of KML Technology and KML Engineering since February 2012 and November 2015 respectively. Mr. YC Luk is also a member of the Risk Management Committee.

Mr. YC Luk joined our Group in June 2006 as a sales executive. In the past 10 years, Mr. YC Luk has gained vast experience in providing training on occupation safety, purchasing, inventory and logistics management in the E&M engineering industry.

Prior to joining our Group, Mr. YC Luk worked as a sales executive from December 2003 to May 2004 at Logistic Industrial. From May 2005 to February 2006, he had been a sales trainee and an indoor sales representative at RS Components Limited, a company primarily engaged in electronic components trading.

Mr. YC Luk graduated with a degree of Bachelor of Business Administration from The University College of the Cariboo, Canada, in December 2002. He was awarded the Postgraduate Diploma in Marketing by The University of Hong Kong School of Professional and Continuing Education in association with the Chartered Institute of Marketing, Hong Kong, in March 2007. He was elected an affiliate member of The Chartered Institute of Logistics and Transport in Hong Kong in May 2016. To promote the occupational safety of our Group, Mr. YC Luk also was awarded a Diploma in Occupational Health and Safety by the Li Ka Shing Institute of Professional and Continuing Education, The Open University of Hong Kong in January 2017.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. YC Luk is a son of Mr. KM Luk, our founder, Executive Director and chairman of our Board, and the younger brother of Mr. KL Luk, an Executive Director. Mr. YC Luk is the younger son of Madam Leung, our Controlling Shareholder, and the spouse of Ms. Woo Siu Wai, our company secretary. As at the Latest Practicable Date, Mr. YC Luk held approximately 50% of the shares in KML Holdings, our Controlling Shareholder.

### Independent Non-Executive Directors

**Mr. Lau On Kwok** (劉安國), aged 51, was appointed as an Independent Non-executive Director on 20 September 2017. Mr. Lau is the chairman of the Audit Committee and a member of the Remuneration Committee.

Mr. Lau has extensive experience in the fields of financial management, corporate governance and direct investment. Mr. Lau started his career from April 1991 at Kwan Wong Tan & Fong, an accounting firm which subsequently merged with Deloitte Touche & Tohmatsu in 1997. He was an assistant accountant when he left this firm in February 1993. He was employed by Deloitte Touche & Tohmatsu from January 1993 to April 1994, where his last position was audit semi-senior. He worked as a senior project accountant at Noble China Group from April 1994 to August 1995. Mr. Lau worked at China Assets Investment Management Limited from September 1995 to December 2010 where his last position was executive director. He was also the company secretary and a member of investment committee of China Assets (Holdings) Limited, a company listed on the Stock Exchange (stock code: 170) from April 2004 to December 2010. He was a director of Shandong Lukang Pharmaceutical Company Limited, the shares of which are listed on the Shanghai Stock Exchange (stock code: 600789), from May 2007 to April 2012. From May 2009 to January 2011, Mr. Lau was an independent non-executive director of Sheng Yuan Holdings Limited, a company listed on the Stock Exchange (stock code: 0851). He was employed by Sheng Yuan Asset Management Limited from January 2011 to August 2014, where his last position was executive director. He also assumed the duties of the managing director of Sheng Yuan Investment Advisors Limited from January 2011 to December 2013. Mr. Lau has been the company secretary and financial controller at Winshine Science Company Limited, a company listed on the Stock Exchange (stock code: 209), since November 2014.

Mr. Lau obtained a degree of Bachelor of Arts in accounting and financial analysis from University of Newcastle upon Tyne in June 1990 and a degree of Master of Science in financial management from University of London in December 1998. He also obtained a Diploma on Practices in Chinese Laws and Regulations affecting Foreign Business jointly awarded by Southwest University of Political Science and Law and the Hong Kong Management Association in December 1999.

Mr. Lau has been an associate member of the Hong Kong Institute of Certified Public Accountants since July 1995 and a fellow of The Association of Chartered Certified Accountants, the United Kingdom, since May 2000.

**Dr. Tse Chi Kong** (謝智剛), aged 52, was appointed as an Independent Non-executive Director on 20 September 2017. Dr. Tse is the chairman of the Remuneration Committee, a member of each of the Audit Committee and the Nomination Committee.

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## DIRECTORS AND SENIOR MANAGEMENT

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From September 1991 to April 2005, Dr. Tse worked as a lecturer, assistant professor, associate professor and professor in the department of electronic and information engineering (“**EIE Department**”) of the Hong Kong Polytechnic University, Hong Kong. Dr. Tse was the head of EIE Department from August 2005 to December 2012. Since May 2005, He has also been the chair professor of electronic engineering in the EIE Department. Dr. Tse has been appointed as a member of the research projects assessment panel of Innovation and Technology Fund, a fund administered by the Innovation and Technology Commission of the Government of Hong Kong, for a term from January 2017 to December 2018. He was re-appointed as a member of the Quality Education Fund Steering Committee, which advises the government of Hong Kong on the policies and procedures governing the operation of the Quality Education Fund, in January 2017 for a term of two years. Dr. Tse is currently a member of the council of the Confucius Institute of Hong Kong, an institute under the faculty of humanities of the Hong Kong Polytechnic University, Hong Kong and a member of the board of governors of the Hong Kong Sinfonietta.

Dr. Tse obtained a degree of Bachelor of Engineering in March 1988 and a degree of Doctor of Philosophy from The University of Melbourne, Australia, in October 1991.

Dr. Tse has been elected to the grade of fellow of the Institute of Electrical and Electronic Engineers, Inc., New York, since 2006. Dr. Tse has been a Chartered Professional Engineer with Engineers Australia since February 1994 and a Fellow of Engineers Australia, since September 2009.

**Mr. Law Wing Chi Stephen** (羅永志), aged 47, was appointed as an Independent Non-executive Director on 20 September 2017. Mr. Law is the chairman of the Risk Management Committee, and a member of each of the Audit Committee and the Nomination Committee.

Mr. Law has extensive experience in financial management and professional accounting. He started his career as a professional accountant in July 1993 at Deloitte Touche & Tohmatsu, where he was a senior accountant when he left in November 1996. From December 1996 to February 1998, he was a credit manager in Seapower Financial Services Group Limited, a company engaged in securities and futures brokerage, foreign exchange and bullion trading and personal financing services, responsible for overall management of the credit department. He served as a finance manager at Noble Enterprise Holdings Limited, a television programme production company, from March 1998 to February 2000, where he was mainly responsible for overseeing accounting and financial matters. From June 2000 to December 2000, he was an assistant manager at the project administration department of New World Infrastructure Limited. He was employed as a finance manager by Chinese Domain Name Corporation Limited, a company licensed by the China Internet Network Information Center to market and register domain names with Chinese characters, from December 2000 to October 2001. From October 2001 to January 2011, he was the chief finance officer of Diamondlite Limited, a large costume jewellery manufacturer in the PRC. Mr. Law has been an executive director and company secretary of Kai Yuan Holdings Limited, a company listed on the Stock Exchange (stock code: 1215), since May 2011 and February 2014 respectively and is also currently their chief financial officer.

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## DIRECTORS AND SENIOR MANAGEMENT

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Mr. Law obtained a degree of Bachelor of Arts in Accountancy from the City University of Hong Kong, Hong Kong, in November 1993. Mr. Law has been an associate member of the Hong Kong Institute of Certified Public Accountants since April 1997.

As at the Latest Practicable Date, save for the interests held by Mr. KM Luk, Mr. KL Luk and Mr. YC Luk in our Shares which are disclosed in the section headed “Substantial Shareholders” in this prospectus and the subsection headed “C. Further information about Directors, substantial Shareholders and experts – 1. Disclosure of interests – (a) Interests of Directors and chief executive in shares, underlying shares and debentures of our Company and its associated corporations” in Appendix IV to this prospectus, none of our Directors had any interest in our Shares within the meaning of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, to the best of the knowledge, information and belief of our Directors having made all reasonable enquiries, there are no other matters relating to the appointments of our Directors that need to be brought to the attention of our Shareholders, nor is there any other information relating to our Directors that is required to be disclosed pursuant to Rule 17.50(2) of the GEM Listing Rules.

### SENIOR MANAGEMENT

**Mr. Hui Wah Pui** (許華培), aged 59, is a director of KML Engineering and is responsible for providing general advice relating to formulation of solutions, technical and commercial feasibility, and planning and implementation of our projects. Mr. Hui joined our Group in October 1983 as an engineer of KML Engineering and was promoted to engineering manager in 1986 and division manager in 1999. He subsequently joined KML Transtech Limited in August 2000, as the president until July 2002. He re-joined KML Engineering in August 2002 as a senior manager and has been appointed as a director of KML Engineering since October 2009.

Mr. Hui has more than 30 years of experience in the field of railway and transportation technology.

Mr. Hui obtained a Higher Certificate in Electrical Engineering (Distinction) (Part-time Day Release) from the Hong Kong Polytechnic, (currently known as The Hong Kong Polytechnic University) Hong Kong, in November 1979.

Mr. Hui was admitted as a member of the Institution of Engineering and Technology, the United Kingdom, and registered as a Chartered Engineer by the Engineering Council, the United Kingdom, in July 2001. He was admitted as member of the Hong Kong Institution of Engineers, Hong Kong, in May 2010 and is currently admitted to the discipline in Electrical and Control, Automation & Instrumentation. He was registered as a Registered Professional Engineer in October 2016 by the Hong Kong Engineers Registration Board under the Engineers Registration Ordinance (Chapter 409 of the Laws of Hong Kong).

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## DIRECTORS AND SENIOR MANAGEMENT

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**Ms. Wai Hang Ying Helen** (衛杏英), aged 42, is an associate director of KML Engineering. Ms. Wai joined our Group in December 1997 and has been responsible for overall administration, human resources and risk management of our Group. Ms. Wai joined our Group in December 1997 as administrative assistant and has been a director of KML Engineering since October 2009.

Before joining our Group, Ms. Wai worked as a secretary in U-Save (H.K.) Limited from July 1996 to April 1997 and was responsible for office general administrative and secretarial works. From April 1997 to October 1997, she was an administrative assistant in National Mutual Insurance Company Limited, an insurance company, where she was responsible for customer service.

Ms. Wai obtained a degree of Bachelor of Arts in public and social administration in December 1996 and a Degree of Master of Arts in professional accounting and information systems in November 2003, both from City University of Hong Kong, Hong Kong. She was also awarded the Graduate Diploma of Financial Services by Deakin University, Australia, in October 2009. Ms. Wai was admitted as a fellow Certified Insurance Professional by the Australian and New Zealand Institute of Insurance and Finance in August 2009.

**Mr. Tung Tsz On** (董子安), aged 48, is the chief engineer of our Group. Mr. Tung is responsible for research and development, planning and formulation and supervising the implementation of our projects with provision of day-to-day technical and expert advice to our Group. Mr. Tung is one of the authorised signatories of KML Engineering for its qualification as a Registered Minor Works Contractor for Type A and Type C of Class II & III under the Buildings Ordinance since September 2011.

Mr. Tung joined our Group in February 2003 as a system engineer and was promoted to the position of chief engineer in April 2010. Mr. Tung has more than 10 years of experience in design and management of E&M engineering projects covering a variety of systems such as automatic control system, car park system, security system and point of sales system etc. He has expertise in handling maintenance work for electronic systems, as well as participating in development and implementation of automatic fare collection systems.

Mr. Tung obtained an Advanced Diploma in network engineering granted by the Hong Kong Productivity Council in December 2000.

**Ms. Law Shuk Ming** (羅淑明), aged 46, is our senior accounting officer, being responsible for day-to-day accounting and financial reporting of our Group. Ms. Law joined our Group in May 1995 as an accounts clerk, and was subsequently promoted to senior accounts clerk, assistant accounting officer, accounting officer and senior accounting officer in April 1999, April 2007, May 2011 and April 2013, respectively.

Ms. Law has more than 20 years of experience in accounts and finance related works. Before joining our Group, Ms. Law worked as a junior accounts clerk in Barber Ship Management Limited, a company primarily engaged in ship management, from February 1993 to April 1995, responsible for providing accounting and clerical support to the accounting department.

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## DIRECTORS AND SENIOR MANAGEMENT

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Ms. Law obtained a degree of Bachelor of Business Administration from Capstone University, the United States, in November 2007. Ms. Law completed the Accounting Technician Examination by Hong Kong Institute of Accredited Accounting Technicians in December 2005.

### COMPANY SECRETARY

**Ms. Woo Siu Wai** (胡劭卉), aged 37, is our company secretary, responsible for company secretarial matters, human resources and administrative duties. Ms. Woo joined our Group in April 2011 as an administration officer, and was subsequently promoted to associate administration manager and administration manager in April 2013 and October 2016 respectively.

Before joining our Group, Ms. Woo worked at Success Light Investment Limited from February 2004, and last held the position of company secretarial assistant in the finance department before her departure in April 2011.

Ms. Woo obtained a degree of Bachelor of Arts from the faculty of social sciences of the University of Victoria, Canada, in October 2003, and a degree of Master of Science in Professional Accounting and Corporate Governance from City University of Hong Kong, Hong Kong, in November 2008. Ms. Woo was admitted as an associate of the Hong Kong Institute of Chartered Secretaries and an associate of the Institute of Chartered Secretaries and Administrators in August 2010.

Ms. Woo is the spouse of Mr. YC Luk, our Executive Director, the daughter-in-law of Mr. KM Luk, our Controlling Shareholder and Executive Director, the daughter-in-law of Madam Leung, our Controlling Shareholder, and the sister-in-law of Mr. KL Luk, our Executive Director.

### COMPLIANCE OFFICER

**Mr. Luk Yin Cheung** (陸彥彰), aged 38, has been appointed as the compliance officer of our Company. His biography is set out in the subsection headed “Board of Directors – Executive Directors” in this section.

### BOARD COMMITTEES

#### Audit Committee

Our Company established the Audit Committee with written terms of reference in compliance with Rule 5.28 of the GEM Listing Rules and the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The Audit Committee has three members, namely Mr. Lau On Kwok, Dr. Tse Chi Kong and Mr. Law Wing Chi Stephen, all being our Independent Non-executive Directors. Mr. Lau On Kwok, who possesses the appropriate professional qualifications, has been appointed as the chairman of the Audit Committee. The primary duties of the Audit Committee include, among other things, making



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## DIRECTORS AND SENIOR MANAGEMENT

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recommendations to our Board on the appointment, reappointment and removal of external auditor, reviewing our Group's financial information, overseeing our Group's financial reporting system, risk management and internal control systems.

### **Remuneration Committee**

Our Company established the Remuneration Committee with written terms of reference in compliance with Rule 5.34 of the GEM Listing Rules and the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The Remuneration Committee has three members, namely Dr. Tse Chi Kong, Mr. Luk Kam Ming and Mr. Lau On Kwok. Dr. Tse Chi Kong has been appointed as the chairman of the Remuneration Committee. The primary duties of the Remuneration Committee include, among other things, making recommendations to our Board on our Group's policy and structure for all Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing our Group's remuneration policy and on the remuneration packages of individual Executive Directors and senior management.

### **Nomination Committee**

Our Company established the Nomination Committee with written terms of reference in compliance with the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules. The Nomination Committee has three members, namely, Mr. KM Luk, Dr. Tse Chi Kong and Mr. Law Wing Chi Stephen. Mr. KM Luk has been appointed as the chairman of the Nomination Committee. The primary duties of the Nomination Committee include, among other things, reviewing the structure, size and composition of our Board, assessing the independence of the Independent Non-executive Directors, making recommendations to our Board on matters relating to the appointment of Directors and succession planning for our Directors.

### **Risk Management Committee**

Our Company has established the Risk Management Committee with written terms of reference pursuant to provision D.2 of the Corporate Governance Code. The Risk Management Committee consists of three Executive Directors, namely Mr. Chan Chak Lun Philip, Mr. KL Luk and Mr. YC Luk and an Independent Non-executive Director, namely, Mr. Law Wing Chi Stephen. Mr. Law Wing Chi Stephen serves as the chairman of the Risk Management Committee. The primary duties of the Risk Management Committee are to (i) advise our Board on risk-related issues; (ii) oversee the risk management framework to identify and deal with the risks faced by our Group such as business and financial risks; (iii) review reports on risks and breaches of risk policies; and (iv) review the effectiveness of our Company's risk control and/or mitigation plans.

### **Corporate governance function**

For the purpose of performing the corporate governance functions in accordance with provision D.3 of the Corporate Governance Code, our Board has adopted written terms of reference in accordance with provision D.2 of the Corporate Governance Code which provide for, among others, (i) developing and reviewing our Group's policies and practices

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## DIRECTORS AND SENIOR MANAGEMENT

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on corporate governance and making recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of our Directors and senior management; (iii) reviewing and monitoring our Group's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and our Directors; and (v) reviewing our Company's compliance with the Corporate Governance Code and disclosure in the annual reports of our Company.

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The compensation packages of our Executive Directors and senior management comprise basic salaries and commissions based on business performance (applicable to Executive Directors only) and discretionary bonuses determined by our Group. They are also entitled to medical insurance provided by our Group. Our Group determines the compensation packages of our Executive Directors and senior management with reference to, among other things, their qualifications, experience, duties and responsibilities with our Group, prevailing market rates and performance of our Group. After Listing, the Remuneration Committee will review annually and make recommendations to our Board on the overall remuneration policy and structure relating to all Directors and senior management with reference to the factors mentioned above.

Details of our Directors' remuneration are set out in note 7 to the Accountants' Report as set out in Appendix I to this prospectus.

The aggregate amount of remuneration (including fees, salaries, contributions to pension schemes, discretionary bonuses and other allowances and other benefits in kind) paid to our Group's five highest paid individuals, including our Directors, for each of the two years ended 31 March 2017 were approximately HK\$6.5 million and HK\$5.3 million, respectively.

No payment was made by our Group to our Directors or the five highest paid individuals as an inducement to join or upon joining our Group or as a compensation for loss of office during the Track Record Period. Further, none of our Directors has waived or agreed to waive any remuneration during the same period.

Under the arrangements currently in force and pursuant to our Directors' service agreements and letters of appointment, the aggregate remuneration (including commission and discretionary bonus) payable to our Directors for the financial year ending 31 March 2018 is estimated to be approximately HK\$3.8 million. For more particulars of the Director's service agreements and letters of appointment of our Directors, please refer to the subsection headed "C. Further information about Directors, substantial Shareholders and experts – 2. Particulars of Directors' service agreements" in Appendix IV to this prospectus.

Save as disclosed above, in the subsection headed "C. Further information about Directors, substantial Shareholders and experts – 3. Remuneration of Directors" in Appendix IV to this prospectus and in notes 7 to the Accountants' Report as set out in Appendix I to this prospectus, no other payments have been made or are payable in respect of the Track Record Period by any of member of our Group to any of our Directors.



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## DIRECTORS AND SENIOR MANAGEMENT

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### LEADERSHIP SUCCESSION PLAN OF OUR COMPANY

Our Company has established a succession plan to provide continuity in leadership and to fill vacancies arising in key management positions. Our Chairman and other members of senior management will meet regularly to discuss human resources issues including the succession plan, and our Nomination Committee will review the succession plan every financial year. Mr. KM Luk has advised our Company that he has no plan or desire to step down in the next few years and that he intends to continue to be involved in the overall strategic planning and development of our Group and to oversee the financial management and planning of our Group in the next few years. Pursuant to the current succession plan, in the event that Mr. KM Luk becomes unable to perform his duties or in due course steps down from his directorship, it is considered by the Board that each of the other Executive Directors, namely Mr. Chan Chak Lun Philip, Mr. KL Luk and Mr. YC Luk, would be capable of taking on Mr. KM Luk's current role and continue to be responsible for overseeing the daily operations and overall general management of our Group, the business development and operation support of our Group respectively to ensure continued and smooth operation of our Group's business.

As disclosed in the section headed "Directors and Senior Management" of this prospectus, Mr. Chan Chak Lun Philip has been appointed as a technical director and one of the authorised signatories of KML Engineering since September 2011, in compliance with the requirement as provided under the Building (Minor Works) Regulation whereby a registered minor works contractor must have at least one person as its authorised signatory and at least one director as its technical director. For details, please refer to the section headed "Regulatory Overview – Building (Minor Works) Regulation (Chapter 123N of the Laws of Hong Kong)" in this prospectus. Pursuant to the current succession plan of our Group, in the event that Mr. Chan Chak Lun Philip becomes unable to perform his duties or in due course steps down from the position as a technical director of KML Engineering, each of the other authorised signatories of KML Engineering (namely, Mr. KL Luk, Mr. Tung Tsz On (being the chief engineer of our Group) and a senior manager of KML Engineering) who has the requisite academic qualification and experience would be capable of taking on the relevant role.

### SHARE OPTION SCHEME

Our Company has conditionally approved and adopted the Share Option Scheme. The principal terms of the Share Option Scheme are summarised in the subsection headed "D. Share Option Scheme" in Appendix IV to this prospectus.

### COMPLIANCE ADVISER

We have appointed Kingsway Capital as our compliance adviser pursuant to Rule 6A.19 of the GEM Listing Rules. Pursuant to Rule 6A.23 of the GEM Listing Rules, we will consult with and seek advice from our compliance adviser in the following circumstances:

- (a) before the publication of any regulatory announcement, circular or financial report;

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## DIRECTORS AND SENIOR MANAGEMENT

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- (b) where a transaction, which might be a notifiable or connected transaction, is contemplated including share issues and share repurchases;
- (c) where we propose to use the proceeds of the Share Offer in a manner different from that detailed in this prospectus or where our business activities, developments or results deviate from any forecast, estimate, or other information in this prospectus; and
- (d) where the Stock Exchange makes an inquiry of our Company regarding unusual movements in the price or trading volume of the securities of our Company, the possible development of a false market in the securities of our Company, any inside information which needs to be disclosed under Part XIVA of the SFO or any other matters.

The term of the appointment shall commence on the Listing Date and is expected to end on the date on which our Company distributes our annual report in respect of our financial results for the second full financial year commencing after the Listing Date. Our Company may terminate the appointment of our compliance adviser by giving a 30 days' prior written notice to the compliance adviser. Our Company will exercise such a right in compliance with Rule 6A.26 of the GEM Listing Rules.

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## SHARE CAPITAL

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### SHARE CAPITAL

Without taking into account any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme or any Shares which may be allotted and issued or repurchased pursuant to the general mandates to issue and repurchase Shares, the share capital of our Company immediately following the Capitalisation Issue and the Share Offer will be as follows:

		<b>Issued share capital at nominal value</b>
<i>Authorised share capital</i>		
3,800,000,000	Shares of HK\$0.01 each	HK\$38,000,000
<i>Assuming the Offer Size Adjustment Option is not exercised, Shares in issue or to be issued, fully paid or credited as fully paid:</i>		
10,000	Shares in issue as at the date of this prospectus	HK\$100
299,990,000	Shares to be issued under the Capitalisation Issue	HK\$2,999,900
<u>100,000,000</u>	Shares to be issued under the Share Offer	<u>HK\$1,000,000</u>
<i>Total</i>		
<u>400,000,000</u>		<u>HK\$4,000,000</u>
<i>Assuming the Offer Size Adjustment Option is exercised in full, Shares in issue or to be issued, fully paid or credited as fully paid:</i>		
10,000	Shares in issue as at the date of this prospectus	HK\$100
299,990,000	Shares to be issued under the Capitalisation Issue	HK\$2,999,900
100,000,000	Shares to be issued under the Share Offer	HK\$1,000,000
15,000,000	Shares to be issued upon the exercise of the Offer Size Adjustment Option in full	HK\$150,000
<u>415,000,000</u>		<u>HK\$4,150,000</u>
<i>Total</i>		

### MINIMUM PUBLIC FLOAT

The minimum level of public float to be maintained by our Company at all times after Listing under the GEM Listing Rules is 25% of its share capital in issue from time to time.

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## **SHARE CAPITAL**

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### **RANKING**

The Offer Shares will rank pari passu in all respects with all our Shares now in issue or as mentioned in this prospectus, and, in particular, will qualify in full for all dividends or other distributions declared, made or paid on our Shares after the date of this prospectus, save for entitlements under the Capitalisation Issue.

### **SHARE OPTION SCHEME**

We have conditionally adopted the Share Option Scheme. For details, please see the subsection headed “D. Share Option Scheme” in Appendix IV to this prospectus.

### **GENERAL MANDATE TO ISSUE SHARES**

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to allot and issue Shares, particulars of which are set out in the subsection headed “A. Further information about our Company and our Subsidiaries – 5. Written resolutions of our Shareholders passed on 20 September 2017” in Appendix IV to this prospectus.

### **GENERAL MANDATE TO REPURCHASE SHARES**

Subject to the Share Offer becoming unconditional, our Directors have been granted a general mandate to repurchase Shares, particulars of which are set out in the subsection headed “A. Further information about our Company and our Subsidiaries – 5. Written resolutions of our Shareholders passed on 20 September 2017” and “A. Further Information about our Company and our subsidiaries – 6. Repurchase of our Shares” in Appendix IV to this prospectus.

### **CIRCUMSTANCES UNDER WHICH GENERAL MEETING AND CLASS MEETING ARE REQUIRED**

As a matter of the Companies Law, an exempted company is not required by law to hold any general meeting or class meeting. The holding of general meetings or class meetings is prescribed for under the Articles of Association of a company. Accordingly, our Company will hold general meetings as prescribed for under the Articles, a summary of which is set out in the section headed “Summary of the constitution of our Company and Cayman Islands company law” in Appendix III to this prospectus.

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## SUBSTANTIAL SHAREHOLDERS

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### SUBSTANTIAL SHAREHOLDERS

So far as our Directors are aware, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option), the following persons/entities will have interests or short positions in our Shares or underlying Shares which would fall to be disclosed to us and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the issued voting shares of any other member of our Group:

Name	Capacity/ Nature of Interest	Interests in Shares immediately prior to the completion of the Capitalisation Issue and the Share Offer		Interests in Shares immediately following the completion of the Capitalisation Issue and the Share Offer*	
		Number of Shares	Approximate percentage of shareholding interest in our Company	Number of Shares	Approximate percentage of shareholding interest in our Company
KML Holdings	Beneficial owner (Note 1)	4,600	46%	138,000,000 (L)	34.5%
Mr. KL Luk	Interest in controlled corporation (Notes 1, 3)	4,600	46%	138,000,000 (L)	34.5%
Mr. YC Luk	Interest in controlled corporation (Notes 1, 3)	4,600	46%	138,000,000 (L)	34.5%
Mr. KM Luk	Beneficial owner; interest of spouse (Note 2)	5,400	54%	162,000,000 (L)	40.5%
Madam Leung	Beneficial owner; interest of Spouse (Note 2)	5,400	54%	162,000,000 (L)	40.5%

\* (without taking into account any Shares which may be allotted and issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option)

Notes:

- Each of Mr. KL Luk and Mr. YC Luk owns one common share in KML Holdings, representing 50% of the issued share capital of KML Holdings carrying voting rights. Mr. KL Luk and Mr YC Luk also own approximately 50% and approximately 50%, respectively, of the issued preferred shares in KML Holdings which do not carry voting rights but only rights to dividends. Immediately prior to the completion of the Capitalisation Issue and the Share Offer, KML Holdings holds 4,600 Shares. Immediately after completion of the Capitalisation Issue and the Share Offer, KML Holdings will hold 138,000,000 Shares.

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## SUBSTANTIAL SHAREHOLDERS

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2. Mr. KM Luk is the spouse of Madam Leung. By virtue of the SFO, Mr. KM Luk is deemed to be interested in all the Shares in which Madam Leung is interested or deemed to be interested under the SFO, and vice versa. Immediately prior to the completion of the Capitalisation Issue and the Share Offer, Mr. KM Luk and Madam Leung hold 3,500 and 1,900 Shares respectively. Immediately after completion of the Capitalisation Issue and the Share Offer, Mr. KM Luk and Madam Leung will hold 105,000,000 and 57,000,000 Shares respectively.
3. Mr. KL Luk and Mr. YC Luk are the sons of Mr. KM Luk and Madam Leung.
4. The Letter “L” denotes the entity/person’s long position in our Shares.

Save as disclosed above, our Directors are not aware of any other persons who will, immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option), have interests or short positions in our Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly, interested in 10% or more of the issued voting shares of any other members of our Group. Our Directors are not aware of any arrangement which may at a subsequent date result in a change of control of our Company.

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## FINANCIAL INFORMATION

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*You should read the following discussion and analysis in conjunction with our combined financial information and notes thereto set forth in the Accountant's Report included as Appendix I and our selected historical combined financial information and operating data included elsewhere in this prospectus. Our combined financial information has been prepared in accordance with HKFRS. Potential investors should read the whole of the accountants' report set out in Appendix I to this prospectus and not rely merely on the information contained in this section.*

*The following discussion and analysis contains forward-looking statements that reflect our current views with respect to future events and our financial performance. These statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate under the circumstances. However, whether actual outcomes and developments will meet our expectations and predictions depends on a number of risks and uncertainties over which we do not have control. Please refer to the sections headed "Risk Factors" and "Forward-Looking Statements" for discussions of those risks and uncertainties.*

*Unless the context otherwise requires, financial information described in this section is described on a combined basis.*

### OVERVIEW

We have been providing E&M engineering solutions and services, with a primary focus on Transportation Mission Critical System Solutions, in Hong Kong for over 40 years. We mainly undertake Transportation Mission Critical System Solutions projects that are related to the design, supply, installation, fabrication and/or maintenance of automatic fare collection system at railway stations, electronic payment and ticketing system, road and tunnel toll collection system, traffic control and surveillance system and railway signaling communication and control system. In addition, we also provide other E&M engineering solutions and services including security and access control systems, railway station E&M engineering services and architectural works, rolling stock refurbishment and renovation works as well as trackside and depot E&M engineering works.

During the Track Record Period, our Group has undertaken over 200 projects covering the provision/supply various types of (i) E&M engineering solutions and services, (ii) E&M engineering design and fabrication services, (iii) E&M engineering maintenance services, and (iv) sale of parts and components. We have established long-term business relationship with transportation companies, such as MTRC, the Hong Kong Government (such as EMSD) and other engineering companies.

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## FINANCIAL INFORMATION

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### **BASIS OF PRESENTATION**

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2017 under the Companies Law.

In preparation of the Listing, the companies comprising our Group underwent the Reorganisation. Prior to the completion of the Reorganisation, the companies now comprising our Group were ultimately controlled by the Controlling Shareholders, namely Mr. KM Luk, Mr. YC Luk, Mr. KL Luk, Madam Leung and KML Holdings (collectively referred to as the Controlling Shareholders). Mr. YC Luk and Mr. KL Luk are sons of Mr. KM Luk and Madam Leung. Madam Leung is the spouse of Mr. KM Luk. KML Holdings is 50% and 50% owned by Mr. YC Luk and Mr. KL Luk respectively. Each of the Controlling Shareholders has reiterated their agreement in writing that, in respect of the arrival and/or execution of all decisions, including but not limited to financial, management and operational matters of our Group's subsidiaries, they have always been acting in concert.

Pursuant to the Reorganisation detailed above, our Company has become the holding company of the companies now comprising our Group on 6 September 2017. As the Company and its subsidiaries have been under the common control of the Controlling Shareholders throughout the Track Record Period and before and after the Reorganisation, as a result, our Group is regarded as a continuing entity.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Track Record Period have been prepared to present the results and cash flows of the companies comprising our Group as if the current group structure had been in existence throughout the Track Record Period or since their respective dates of incorporation, where there is a shorter period. The combined statements of financial position of our Group as at 31 March 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising our Group as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

The historical financial information is presented in HK\$, which is also the functional currency of our Company and its principal subsidiaries.

The financial statements have been prepared in accordance with HKFRS. It should be noted that accounting estimates and assumptions are used in the preparation of the financial statements. Although these estimates are based on our management's best knowledge and judgment of current facts and circumstances, actual results may differ from those estimates. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial information are disclosed in note 3 to the Accountants' Report.

Further details on the basis of presentation are set out in the note 1 to the Accountants' Report.



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## FINANCIAL INFORMATION

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### KEY FACTORS AFFECTING OUR OPERATING RESULTS AND FINANCIAL CONDITION

#### **Increase of our equipment and raw material costs may adversely affect our Group's operations and financial performance.**

For each of the two years ended 31 March 2017, our equipment and raw material costs amounted to approximately HK\$29.3 million and HK\$30.0 million respectively, representing approximately 29.3% and 26.0% of our costs respectively. The change in equipment and raw material costs may or may not be able to shift to our Group's customers. In the event that the increase in equipment and raw material costs is more than our Group's expectation, our Group's operations and profitability may be adversely affected.

#### **Risks associated with foreign exchange fluctuations.**

We conduct business with customers, suppliers and subcontractors located in Hong Kong, the PRC and overseas. The Group's exposure to currency risk mainly arise from the fluctuation of RMB, EUR, SGD, NTD or US\$. The carrying amounts of the foreign currency denominated monetary assets and liabilities other than the functional currencies of the companies now comprising our Group as at 31 March 2016 and 31 March 2017 were:

	<b>Liabilities</b>		<b>Assets</b>	
	<b>As at 31 March</b>		<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	79	–	2,518	2,461
SGD	–	–	5,711	–
EUR	262	–	373	146
NTD	38	38	789	478
US\$	1,205	480	2,169	1,928

Changes in exchange rates could increase our costs, or affect the Hong Kong dollar equivalent of prices of our exported products and prices of our imported equipment and materials, any of which could adversely affect our results of operations. The value of the RMB is subject to changes in government policies of the PRC and to factors including international economic developments, political conditions and supply and demand for currencies. The value of the RMB in international markets is determined by reference to a basket of currencies as part of a floating exchange rate policy.

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## FINANCIAL INFORMATION

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**Our gross profit margin depends on the tender price of each project, which in turn is based on the estimated costs and time to be involved. If the actual costs deviate significantly due to our miscalculation or other unexpected circumstances, or if we fail to agree on the pricing of work done pursuant to variation orders, our operations and financial results will be adversely impacted.**

Our gross profit margin is dependent on, among other things, our ability to control costs and subject to other risk factors as set out “Risks Factors” Section. We enter into all our projects on a lump sum fixed-price basis. In general, we will perform an estimation of costs before submitting tender or quotations to our customers. We are typically responsible for all of our costs, and our ability to achieve our target profitability on any project is largely dependent on our ability to accurately estimate and control these costs. Cost overruns, whether due to inefficiency, inaccurate estimates or other factors such as delay in work progress due to disputes or incoordination among the parties involved, which are not uncommon for such projects, may result in a lower profit or even a loss on a project. The amount of total costs we incur on a project is affected by a variety of factors, including, among other things, fluctuations in the price of raw materials, variations in labour and equipment costs over the term of a contract, changes in project scope or conditions, disagreements on contract terms or works between the clients and the main contractors and other unforeseen circumstances such as fine and suspension of electricity supply. Such change in cost may cause the revenue and gross profit realised from a contract to be lower than our originally estimated amounts, despite any buffer we may have built into our bids for any increase in labour, materials and project management costs. As such, we may achieve lower-than-expected profits or even incur losses on that project when we meet any delays, cost overruns or mismatch of actual costs and time with our estimates which may have an adverse impact on our operations and financial results.

From time to time, we are also required to vary our work or products as directed by customers, which are not in the original design specifications. We will usually evaluate the amount of variation work required and propose adjustments to the subcontract sum. This process may result in disputes about whether the work performed is beyond the scope of the work, or whether customer is willing to pay the price for the variation work. Even when the customer agrees to pay for the variation work, we may be required to fund the cost of such work for a lengthy period of time until the variation order is approved and paid for by the customer. In addition, any delay caused by the variation work may adversely impact the timely scheduling of other project work and our ability to meet specified contract milestone dates.

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## FINANCIAL INFORMATION

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**We may be exposed to delays and/or defaults on payments from our customers, while remaining subject to satisfying payment obligations to our suppliers, which would materially and adversely affect our cash flows or financial results.**

Our financial position and profitability are dependent on the credit worthiness of our customers. We grant credit periods to our customers based on their payment history, business performance and/or market position. We typically grant our customers an average credit period of 30 to 60 days from the issuance of our invoice. For each of the two years ended 31 March 2017 respectively, our Group had trade receivables turnover days of approximately 69 and 71 days respectively. Moreover, the average credit period of trade payables granted by our suppliers is from 30 to 60 days upon the issue of invoices. For each of the two years ended 31 March 2017, our trade payables turnover days were approximately 44 and 30 days respectively.

Should we experience any delays or difficulties in collecting payments from our customers and/or trade receivables from our debtors, while remaining obligated to satisfy our ongoing payment obligations to our suppliers, we may be required to consider alternative sources of financing and/or delay on our own payment obligations, and our cash flows, financial condition and results of operations may be materially and adversely affected.

### **CRITICAL ACCOUNTING POLICIES & ESTIMATES**

The financial statements of our Group was prepared in accordance with all applicable individual HKFRS, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which requires our Group to adopt accounting policies and make estimates and assumptions that the management believes are appropriate in the circumstances for purpose of giving a true and fair view of the results and financial condition of our Group. However, different policies, estimates and assumptions in critical areas could lead to materially different results. Our Directors have continually assessed these estimates based on their experience and knowledge of current business, the expectations based on available information and other reasonable assumptions, which together form our basis for making judgments about matters that are not apparent from other sources. Since the use of estimates is an integral component of financial reporting progress, the actual result could differ from those estimates. Our Directors believe the following accounting policies involve the most significant judgments and estimates used in the preparation of the financial statements.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from design, supply, installation of systems and implementation of E&M engineering service contracts is based on the stage of completion at the end of each reporting period. The percentage of completion is determined using methods that measure reliably the work performed with reference to the proportion that contract cost incurred for work performed to date relative to the estimated total contract costs.

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## FINANCIAL INFORMATION

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Revenue from provision of maintenance services is recognised when services are rendered.

Revenue from the sale of goods and fabrication and sales of made-to-order products for customers is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### **Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### **Impairment loss on tangible assets**

At the end of each reporting period, our Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

### **Engineering services contracts**

Where the outcome of an engineering service contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period, measured based on the proportion that revenue recognised with reference to surveys of work performed to date relative to the estimated total contract revenue or the proportion that contract cost incurred for work performed to date bear to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of an engineering service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recovered. Contract costs are recognised as expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts billed for work performed but not yet paid by the customer are included in the combined statement of financial position under trade receivables.

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### COMBINED RESULTS OF OPERATION

The table below set out the combined statements of profit or loss and other comprehensive income of our Group for the Track Record Period extracted from the Accountants' Report set out in Appendix I to this prospectus:

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	163,821	171,116
Cost of sales	<u>(99,861)</u>	<u>(115,630)</u>
Gross profit	63,960	55,486
Other income	364	612
Other gain and losses, net	62	(301)
Administrative expenses	(37,825)	(39,179)
Listing expenses	<u>–</u>	<u>(553)</u>
Profit before taxation	26,561	16,065
Income tax expenses	(4,408)	(2,738)
Profit and total comprehensive income for the year attributable to owners of the Company	<u><u>22,153</u></u>	<u><u>13,327</u></u>

### DESCRIPTION OF SELECTED COMPONENTS OF COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### Revenue

Our Group's revenue is derived from (i) E&M engineering solutions and services; (ii) E&M engineering design and fabrication services; (iii) E&M engineering maintenance services; and (iv) sale of parts and components. Revenue derived from these principal activities comprises the following:

During the Track Record Period, our Group's revenue increased from HK\$163.8 million for the year ended 31 March 2016 to HK\$171.1 million for the year ended 31 March 2017, representing revenue growth of 4.5%. The increase in revenue contribution from E&M engineering solutions and services and E&M engineering maintenance services amounted to approximately HK\$17.7 million and HK\$7.3 million respectively, net of decrease in E&M engineering design and fabrication services and sale of parts and components of approximately HK\$16.1 million and HK\$1.6 million respectively.

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The following table sets forth a breakdown of our revenue by our four service types during the Track Record Period:

Service type	Year ended 31 March			
	2016		2017	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
<b>E&amp;M engineering solutions and services</b>	<b>113,629</b>	<b>69.4</b>	<b>131,288</b>	<b>76.7</b>
(a) Transportation Mission Critical System Solutions	68,091	41.6	70,574	41.2
(i) Automatic fare collection system at railway stations	16,033	9.8	12,163	7.1
(ii) Electronic payment and ticketing system	752	0.5	1,593	0.9
(iii) Road and tunnel toll collection system	1,681	1.0	1,924	1.1
(iv) Railway signaling communication and control system	49,624	30.1	54,894	32.1
(b) Other E&M Engineering Solutions and Services	45,538	27.8	60,714	35.5
(i) Security and access control systems	9,224	5.6	3,725	2.2
(ii) Railway station E&M engineering services and architectural works	13,068	8.0	29,364	17.2
(iii) Rolling stock refurbishment and renovation works	9,410	5.7	6,810	4.0
(iv) Trackside and depot E&M engineering works	13,836	8.4	20,815	12.2
<b>E&amp;M engineering design and fabrication services</b>	<b>29,464</b>	<b>18.0</b>	<b>13,388</b>	<b>7.8</b>
<b>E&amp;M engineering maintenance services</b>	<b>15,024</b>	<b>9.2</b>	<b>22,345</b>	<b>13.1</b>
<b>Sale of parts and components</b>	<b>5,704</b>	<b>3.5</b>	<b>4,095</b>	<b>2.4</b>
<b>Total</b>	<b><u>163,821</u></b>	<b><u>100.0</u></b>	<b><u>171,116</u></b>	<b><u>100.0</u></b>

### *E&M engineering solutions and services*

The services we provide for our customers mainly consist of two sub-segments of our E&M engineering solutions and services segment namely Transportation Mission Critical System Solutions and other E&M solutions and services. For details information of our services in relation to Transportation Mission Critical System Solutions and other E&M engineering solutions and services, please see the subsection headed “Business – E&M

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engineering solutions and services” in this prospectus. For each of the two years ended 31 March 2017, the revenue derived from this service type amounted to HK\$113.6 million and HK\$131.3 million respectively, and represented approximately 69.4% and 76.7% of our total revenue respectively. Our E&M engineering solutions and services revenue increased from approximately HK\$113.6 million for the year ended 31 March 2016 to approximately HK\$131.3 million for the year ended 31 March 2017. For the year ended 31 March 2016, our Group was awarded a total of 64 projects, generating income of approximately HK\$20.7 million for awarded project; whereas, for the year ended 31 March 2017, our Group had undertaken 84 projects, generating income of approximately HK\$30.5 million for awarded project.

### *E&M engineering design and fabrication services*

The services provided by our Group refer to fabrication services for the fabrication of made-to-order products. At customers’ requests, we may also design and fabrication other E&M engineering products, systems or solutions, customised to fit their specific needs, including control room consoles, public access kiosks and terminals, relay racks, test rigs, control room technical furniture and industrial enclosures and instrument cabinets, and also the conducting of ergonomic and work place studies. For each of the two years ended 31 March 2017, the revenue derived from this service type amounted to HK\$29.5 million and HK\$13.4 million respectively, and represented approximately 18.0% and 7.8% of our total revenue respectively. The decrease in E&M engineering design and fabrication services was attributable to the decrease in revenue as a result of completion of the projects related to the provision of design and fabrication services based on our customers’ layout and wiring schematic drawing of the racks and the supply of relay racks and change over cubicle rack racks for various Singapore railway lines of approximately HK\$13.0 million with Customer A. These projects were classified as E&M engineering design and fabrication services segment as the project focused on design services and fabrication of customized products.

### *E&M engineering maintenance services*

Our E&M engineering maintenance services offer technical and maintenance support services for existing systems, terminals and equipment, including the replacement of parts/components, equipment upgrading/improvement modification, provision of technical support for both hardware and software, testing and implementation of software, and provision of routine preventive, corrective and workshop maintenance services. For each of the two years ended 31 March 2017, the revenue derived from this service type amounted to HK\$15.0 million and HK\$22.3 million respectively, and represented approximately 9.2% and 13.1% of our total revenue respectively. The increase in revenue in E&M engineering maintenance services was attributable to the project related to the provision of maintenance services for AFC equipment installed at various MTR lines of approximately HK\$8.2 million as compared to the year ended 31 March 2016.



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### *Sale of parts and components*

The sale of parts and components mainly consist of sourcing certain parts and/or components with particular specifications provided by our customers. For each of the two years ended 31 March 2017, the revenue derived from this service type amounted to HK\$5.7 million and HK\$4.1 million respectively, and represented approximately 3.5% and 2.4% of our total revenue respectively.

Our projects can be divided into four types of sectors: (i) railway infrastructure; (ii) airport infrastructure; (iii) highway, tunnel & bridge and (iv) commercial, industrial & public utilities. The following table sets forth a breakdown of our revenue by sectors during the Track Record Period:

	<b>Year ended 31 March</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Railway infrastructure	141,293	86.2	152,555	89.2
Airport infrastructure	1,669	1.0	713	0.4
Highway, tunnel and bridge	2,165	1.4	2,095	1.2
Commercial, industrial and public utilities	<u>18,694</u>	<u>11.4</u>	<u>15,753</u>	<u>9.2</u>
<b>Total</b>	<b><u>163,821</u></b>	<b><u>100.0</u></b>	<b><u>171,116</u></b>	<b><u>100.0</u></b>

During the Track Record Period, the revenue contributed by the railway infrastructure amounted to approximately HK\$141.3 million and HK\$152.6 million respectively, representing 86.2% and 89.2% of our total revenue, which constitute the largest component of our revenue.

The following table sets forth a breakdown of our revenue by geographical locations for the periods indicated:

	<b>Year ended 31 March</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Hong Kong	137,255	83.8	161,996	94.7
Taiwan	4,862	3.0	2,493	1.5
Singapore	12,965	7.9	51	0.0
Canada	8,561	5.2	6,503	3.8
Others	<u>178</u>	<u>0.1</u>	<u>73</u>	<u>0.0</u>
<b>Total</b>	<b><u>163,821</u></b>	<b><u>100.0</u></b>	<b><u>171,116</u></b>	<b><u>100.0</u></b>

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During the Track Record Period, the total revenue generated from Hong Kong and Singapore accounted for approximately 91.7% and 94.7% of our total revenue for the year ended 31 March 2016 and 2017 respectively. The remaining revenue was derived from Taiwan, Canada and others during the Track Record Period.

During the Track Record Period, the proportion of revenue from Hong Kong increased was mainly due to increase in total revenue of approximately HK\$38.3 million of MTRC during the year ended 31 March 2016 and 2017. The proportion of revenue from Singapore decreased was mainly due to the decrease in total of revenue of Customer A during the year ended 31 March 2017.

### Cost of Sales

Cost of sales consists of (i) material and equipment; (ii) direct labour; (iii) subcontracting cost; and (iv) other costs. Material and equipment represents the direct costs for the purchase of various kinds of steel, copper, cables, switchboards and all sorts of electrical and mechanical equipment. Direct labour costs include wages and benefits provided to direct labour involved in our four service types. Subcontracting costs comprise the fees paid and payable to subcontractors we engaged for various works which require certain technical expertise or level of manpower. In general, we engage our subcontractors from our internal list of approved contractors and on a project-by-project basis depending on the complexity of the services provided.

Set forth below are the details of our cost of sales during the Track Record Period:

	<b>Year ended 31 March</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Material and equipment	29,276	29.3	30,019	26.0
Direct labour	41,661	41.7	43,506	37.6
Subcontracting cost	25,529	25.6	37,989	32.9
Others	3,395	3.4	4,116	3.5
	<u>99,861</u>	<u>100.0</u>	<u>115,630</u>	<u>100.0</u>
<b>Total</b>	<b><u>99,861</u></b>	<b><u>100.0</u></b>	<b><u>115,630</u></b>	<b><u>100.0</u></b>

The amount of each of the elements of cost of sales and the composition of cost of sales depend on a variety of factors. The amount of material and equipment costs depends on the volume and price of materials used in E&M engineering solutions and services. Direct staff costs are primarily related to the number of direct workers of our Group. The amount of subcontracting costs depends on the complexity and skills involved in the subcontracting works in our Group's E&M engineering projects.

Cost of sales increased from HK\$99.9 million for the year ended 31 March 2016 to HK\$115.6 million for the year ended 31 March 2017, represented an increase of approximately HK\$15.7 million or by 15.8%. The increase was mainly attributable to the increase in subcontracting costs of approximately HK\$12.5 million. The increase in subcontracting charges was mainly due to the increase in works arising from the new

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contracts, which is consistent with the increase in number of newly awarded projects from 118 for the year ended 31 March 2016 to 141 for the year ended 31 March 2017. The increase in direct labour cost of approximately HK\$1.8 million during the year ended 31 March 2017 as compared to the immediately preceding year was mainly due to the Group hiring more workers to support the growth of the Group's business, which was consistent with the increase in total number of operations employees has also increased from 176 as at 31 March 2016 to 181 as at 31 March 2017.

### *Sensitivity analysis*

The following table demonstrates the sensitivity analysis of the estimated increase/decrease of the profit before tax in relation to the percentage changes to the cost of sales: (i) material and equipment; (ii) direct labour; and (iii) subcontracting costs assuming all other factors remain unchanged, based on the historical fluctuations of the total cost of sales during the Track Record Period.

	<b>Impact on profit before tax</b>	
	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of material and equipment increase/decrease by:		
+30%	(8,783)	(9,006)
+15%	(4,391)	(4,503)
-15%	4,391	4,503
-30%	8,783	9,006
Direct labour cost increase/decrease by:		
+30%	(12,498)	(13,052)
+15%	(6,249)	(6,526)
-15%	6,249	6,526
-30%	12,498	13,052
Subcontracting cost increase/decrease by:		
+30%	(7,659)	(11,397)
+15%	(3,829)	(5,698)
-15%	3,829	5,698
-30%	7,659	11,397

### **Gross profit and gross profit margin**

Gross profit is calculated based on our revenue for the year minus cost of sales for the year. Gross profit margin is calculated based on the gross profit margin for the year divided by our revenue for the year and multiplied by 100%. Our gross profit for each of the two years ended 31 March 2017 amounted to approximately HK\$64.0 million and HK\$55.5 million respectively, representing gross profit margin of 39.0% and 32.4% respectively.

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The following table sets forth a breakdown of the gross profit and gross profit margin during the Track Record Period by service types:

<b>Service type</b>	<b>Year ended 31 March</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	<i>%</i>	<i>HK\$'000</i>	<i>%</i>
	<i>Gross profit</i>	<i>Gross profit margin</i>	<i>Gross profit</i>	<i>Gross profit margin</i>
<b>E&amp;M engineering solutions and services</b>	<b>42,835</b>	<b>37.9</b>	<b>40,082</b>	<b>30.7</b>
(a) Transportation Mission Critical System Solutions	21,451	31.5	20,239	28.7
(i) Automatic fare collection system at railway stations	6,365	39.7	4,676	38.4
(ii) Electronic payment and ticketing system	207	27.5	428	26.9
(iii) Road and tunnel toll collection system	535	31.8	651	33.8
(iv) Railway signaling communication and control system	14,343	28.9	14,483	26.4
(b) Other E&M Engineering Solutions and Services	21,384	47.0	19,843	32.7
(i) Security and access control systems	3,587	38.9	1,359	36.5
(ii) Railway station E&M engineering services and architectural works	5,886	45.0	9,605	32.7
(iii) Rolling stock refurbishment and renovation works	3,904	41.5	2,385	35.0
(iv) Trackside and depot E&M engineering works	8,007	57.9	6,494	31.2
<b>E&amp;M engineering design and fabrication services</b>	<b>14,054</b>	<b>47.7</b>	<b>5,074</b>	<b>37.9</b>
<b>E&amp;M engineering maintenance services</b>	<b>4,649</b>	<b>30.9</b>	<b>8,008</b>	<b>35.8</b>
<b>Sale of parts and components</b>	<b>2,422</b>	<b>42.5</b>	<b>2,322</b>	<b>56.7</b>
<b>Total</b>	<b><u>63,960</u></b>	<b><u>39.0</u></b>	<b><u>55,486</u></b>	<b><u>32.4</u></b>

Our overall gross profit margin decreased from 39.0% for the year ended 31 March 2016 to 32.4% for the year ended 31 March 2017. The decrease was mainly due to the decrease in gross profit margins generated from E&M engineering solutions and services and E&M engineering design and fabrication services.

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For E&M engineering solutions and services, our gross profit margin decreased from approximately 37.9% for the year ended 31 March 2016 to approximately 30.7% for the year ended 31 March 2017. The decrease in gross profit margin was mainly due to (1) high gross profit margin with four projects with MTRC incurred for the year ended 31 March 2016, and (2) additional cost incurred on two projects for the year ended 31 March 2017. Among the four MTR projects with high gross profit margin for the year ended 31 March 2016, two of these projects recorded a high gross profit margin due to the actual costs incurred was lower than the expected costs during the defect liability period. In general, the Group's project managers will estimate the expected costs for the works to be carried out during the defect liability period on a case by case basis. The expected costs are determined based on various factors including the Group's experience, technical requirements and contractual requirements defined by the customers. The amount of expected costs allocated to the defect liability period for the first and second projects with MTRC have taken into account any unexpected and urgent defect rectifications required as set out in the relevant contract. As the Group was ultimately required to make fewer replacements and carry out less repair than expected, the Group has incurred less costs than expected during the defect liability period and hence achieved a higher gross profit margin. For the third project, the Group engaged a subcontractor to carry out certain installation works. Pursuant to the purchase order placed with the subcontractor, the subcontractor shall provide skilled labour to repair any damages free-of-charge during the defect liability period. During the course of the project, the Group disagreed with the subcontractor on certain technical issues in relation to the ways that the installation works should be performed. In the end, the subcontractor agreed to follow the Group's instruction on the condition that the Group shall bear the additional labour cost as well as material cost that might be incurred as a result of such request. Hence, the Group had included a budget cost in the year ended 31 March 2014 in order to cover such additional cost. The actual costs incurred for this project were much lower than the budget cost and the relevant cost accrued in prior year was released in the year ended 31 March 2016. The issue with the subcontractor has been settled and the Group has continued to maintain its business relationship with the subcontractor. For the fourth project, it is related to a trial implementation of an innovative product conceptualized by MTRC. Consequently, MTRC has terminated the project in advance after identifying the concept as impractical while still honoring the contract and paid us the full contract sum. Therefore our actual cost is much lower than the budget cost due to such early termination.

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The following table shows the financial impact on the four projects with MTRC:

<i>HKS'000</i>	Total	2016				Total	2017			
		First project	Second project	Third project	Fourth project		First project	Second project	Third project	Fourth project
Initial budgeted cost recognized for the period	7,417	2,165	1,952	1,534	1,767	277	-	103	-	174
Budgeted gross profit margin	38%	32%	40%	33%	44%	44%	32%	40%	33%	46%
Revenue recognized for the period	11,911	3,193	3,260	2,283	3,175	496	-	173	-	322
Actual cost incurred during the period	1,817	625	429	320	442	62	-	49	-	13
Actual gross profit margin for the period	85%	80%	87%	86%	86%	87%	-	72%	-	96%

For the two projects with additional cost incurred for the year ended 31 March 2017, it was mainly due to (i) project prolongation of a project related to South Island Line and Shatin Central Link and (ii) departure of several software developers of a project related to the supply and installation of SCADA and other systems. The main reason for project prolongation was principally the delay of the South Island Line and Shatin Central Link civil construction, the South Island Line was originally scheduled to open at the end of 2015 and did not open for public service until December 2016 due to filibustering by Hong Kong lawmakers when passing the funds for public sector projects. Due to overall project delay at South Island Line, majority of work originally planned for 2015 was postponed to year 2016 whilst we still need to complete the work already planned in the same period. In other words, site works were heavily piled up in 2016. Work productivity suffered badly in this period due to chaotic site conditions and disruptive work planning. Skilled labour were in short supply and labour cost rapidly escalated due to the surge of labour demand by all contractors at the same time from a limited skilled labour source available in the market. As such, extra costs were incurred in the year ended 31 March 2017. While the Shatin Central Link was also behind schedule due to archaeological finds at the future To Kwa Wan Station, the total cost of the project was increased due to the ineffective deployment and idling of site workers for such delay of work progress. For the project on supplying and installing SCADA and other systems for our customer, the replacement of several resigned software developers resulted in abortive software coding work and delay in its completion; several project team members have resigned over the working period for various personal reasons and qualified construction workers were in shortage, additional cost to hire qualified workers was incurred for this project. It caused the gross profit margin of this project dropped significantly in the year ended 31 March 2017.

For E&M engineering design and fabrication services, the gross profit margin decreased from approximately 47.7% for the year ended 31 March 2016 to approximately 37.9% for the year ended 31 March 2017. The decrease on the gross profit margin was mainly due to the completion of projects related to supply of relay racks with Customer A during the year ended 31 March 2016. As Customer A had a tight delivery schedule, the Group received a relatively premium pricing including an additional acceleration fee from such customer during the year ended 31 March 2016.

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The increase in gross profit margin for E&M engineering maintenance services was mainly due to one project related to the provision of maintenance services for AFC equipment and access control system equipment. For this maintenance project, our Group spent for substantial amount of cost at early stage mainly for (i) initial set up cost for maintenance workshop at premises, and (ii) purchase of spare parts and off duty training for newly recruited technician during 31 March 2016. The gross profit margin of this project for the year ended 31 March 2017 was increased.

### OTHER INCOME AND GAIN AND LOSSES, NET

#### Other income

	Year ended 31 March	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	165	165
Government subsidies	107	–
Reversal of over-accrued payables in prior years	18	403
Sundry income	74	44
	<u>364</u>	<u>612</u>

#### Other gain and losses, net

	Year ended 31 March	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain (loss) on disposal of property, plant and equipment	4	(219)
Exchange gain (loss)	58	(82)
	<u>62</u>	<u>(301)</u>

Bank interest income for the years ended 31 March 2016 and 2017 mainly represented interest received from bank deposits. Government subsidies represent subsidies received from the Hong Kong Government for our Group's participation in the Youth Employment and Training Programme, which is initiated by the Labour Department of Hong Kong during the year ended 31 March 2016. The reversal of over-accrued payables in prior year's payables accrued in prior years. Our Group accrued the payable amounts based on the goods purchased or services provided by the suppliers. The payable amounts were based on pre-agreed quotations between our Group and suppliers. The amounts were reversed as the suppliers did not issue invoices and request for payment for more than seven years and our Group did not follow up with the suppliers as our Group considers the amounts were immaterial as a whole. Therefore, in the opinion of the Directors, the possibility of being demanded for payments is remote and hence the amounts were reversed and recognised as other income. The other income increased from approximately HK\$0.4 million for the year

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ended 31 March 2016 to approximately HK\$0.6 million for the year ended 31 March 2017. Such increase was mainly due to the increase in the reversal of over-accrued payables related to prior years.

### Administrative expenses

The following table sets out the administrative expenses by nature during the Track Record Period:

	<b>Year ended 31 March</b>			
	<b>2016</b>		<b>2017</b>	
	<i>HK\$'000</i>	%	<i>HK\$'000</i>	%
Staff costs	27,373	72.4	28,710	73.3
Rental	4,037	10.7	4,376	11.2
Legal and professional fees	359	0.9	301	0.8
Depreciation expenses	1,406	3.7	1,093	2.8
Transportation vehicle	912	2.4	1,023	2.6
Utility expenses	671	1.8	590	1.5
Repair and maintenance	802	2.1	657	1.7
Others	<u>2,265</u>	<u>6.0</u>	<u>2,429</u>	<u>6.2</u>
<b>Total</b>	<u><u>37,825</u></u>	<u><u>100.0</u></u>	<u><u>39,179</u></u>	<u><u>100.0</u></u>

The administrative expenses mainly include staff cost, rental, legal and professional fees, depreciation expenses, transportation vehicle, utility expenses, repair and maintenance, and other administrative expenses. The administrative expenses increased by HK\$1.4 million from HK\$37.8 million for the year ended 31 March 2016 to HK\$39.2 million for the year ended 31 March 2017.

The largest component of the administrative expenses was staff costs for each of the two years ended 31 March 2017. The expenses increased from HK\$27.4 million for the year ended 31 March 2016 to HK\$28.7 million for the year ended 31 March 2017, representing 4.9% growth. Such amount of increase was mainly attributable to salary increment and increase in number of administrative staff from 31 as at 31 March 2016 to 35 as at 31 March 2017.

Rental expenses remained stable for each of the two years ended 31 March 2017, and amounted to approximately HK\$4.0 million and HK\$4.4 million respectively.

Legal and professional fees maintained stable at approximately HK\$0.4 million and HK\$0.3 million for the year ended 31 March 2016 and 2017 respectively.



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The depreciation expenses were mainly attributable to leasehold land and buildings and motor vehicles, which were depreciated on a straight-line basis. The depreciation expenses for each of the two years ended 31 March 2017 were amounted to HK\$1.4 million and HK\$1.1 million respectively. The depreciation expenses remained stable during the Track Record Period

Other administrative expenses mainly represented management fee, insurance and travelling expenses.

### **Income tax expenses**

Income tax represents income tax paid or payable by us, at the applicable tax rates in accordance with relevant laws and regulations in each tax jurisdiction our Group operates. Our operations in Hong Kong are subject to statutory profit tax rate of 16.5%. Our operation in the Taiwan is subject to an enterprise income tax of 17.0%.

Our Group's effective tax rate, calculated as our income tax for the corresponding year divided by our profit before taxation for the year, was approximately 16.6% and 17.0% for the year ended 31 March 2016 and 2017 respectively. The effective tax rates were relatively stable during Track Record Period.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

During Track Record Period, our primary uses of cash are for funding the operations of our projects, maintenance works, capital expenditure and other general working capital use. We have financed our operations mainly by cash flow generated from our operations. We regularly monitor our liquidity requirements to ensure that we maintain sufficient cash resources for our working capital and operations. During the Track Record Period and up to the Latest Practicable Date, we did not experience any difficulties in settling our obligations in the normal course of business which would have had a material impact to our business, financial condition or results of operations.

After completion of the Share Offer, we expect our sources of funds will be a combination of operating cash flows, external financing and net proceeds from the Share Offer.

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### Cash flows

The following table summarises selected cash flows data from our combined statements of cash flows for the Track Record Period:

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash and cash equivalents at beginning of year	55,521	54,558
Net cash generated from operating activities	6,662	9,358
Net cash (used in)/generated from investing activities	(2,625)	4,703
Net cash used in financing activities	(5,000)	(10,000)
Cash and cash equivalent at the end of year	54,558	58,619

### Operating activities

For the year ended 31 March 2016, our net cash generated from operating activities was approximately HK\$6.7 million, primarily as a result of the combined effects of (i) approximately HK\$27.8 million operating cash flows before movements in working capital; (ii) the decrease in inventories of approximately HK\$0.1 million; (iii) the decrease in deposits, prepayments and other receivables of approximately HK\$0.7 million; (iv) the decrease in amounts due from a related company of approximately of HK\$0.8 million, (v) the increase in other payables and accrued charges of approximately of HK\$0.9 million. This was partially offset by (i) the changes in amounts due from/to customers for contract works, net of approximately HK\$7.6 million; (ii) the increase in retention receivables of approximately HK\$1.3 million; (iii) the increase in trade receivables of approximately HK\$8.8 million; (iv) the decrease in trade payables of approximately HK\$3.6 million; and (v) the income tax paid of approximately HK\$2.3 million.

For the year ended 31 March 2017, our net cash generated from operating activities was approximately HK\$9.4 million, primarily as a result of the combined effects of (i) approximately HK\$17.2 million operating cash flows before movements in working capital; (ii) the decrease in retention receivables of approximately HK\$0.6 million; (iii) the decrease in trade receivables of approximately HK\$4.0 million; and (iv) the increase in other payables and accrued charges of approximately HK\$2.2 million. This was partially offset by (i) the changes in amounts due from/to customers for contract works, net of approximately HK\$3.8 million; (ii) the increase in deposits, prepayments and other receivables of approximately HK\$3.1 million; (iii) the decrease in trade payables of approximately HK\$1.4 million; and (iv) the income tax paid of approximately HK\$6.4 million.

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### **Investing activities**

For the year ended 31 March 2016, our net cash used in investing activities was approximately HK\$2.6 million. The net cash used was mainly attributable cash outflow for (i) the purchase of property, plant and equipment of approximately HK\$1.2 million; and (ii) the placement of time deposits with original maturity date over three months of approximately HK\$10.6 million.

For the year ended 31 March 2017, our net cash generated from investing activities was approximately HK\$4.7 million. The net cash used was mainly attributable cash inflow for (i) the withdrawal of time deposits with original maturity date over three months of approximately HK\$2.5 million; and (ii) the withdrawal of pledged bank deposit of approximately HK\$2.8 million. This was partially offset by the purchase of property, plant and equipment of approximately HK\$1.2 million.

### **Financing activities**

For the year ended 31 March 2016, our net cash used in financing activities was approximately HK\$5.0 million, mainly attributable to the dividend paid of approximately HK\$5.0 million.

For the year ended 31 March 2017, our net cash used in financing activities was approximately HK\$10.0 million, mainly attributable to the dividend paid of approximately HK\$10.0 million.

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### NET CURRENT ASSETS

The following table sets forth the breakdown of our Group's current assets and liabilities as at 31 March 2016 and 2017:

	<b>As at 31 March</b>		<b>As at 31</b>
	<b>2016</b>	<b>2017</b>	<b>July</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			<i>(unaudited)</i>
<b>Current assets</b>			
Inventories	545	535	534
Trade receivables	35,470	31,478	32,841
Retention held by customers for contract works	7,867	5,262	9,935
Others receivables, deposits and prepayments	1,228	4,071	14,044
Amount due from customers for contract works	25,510	32,243	39,336
Amount due from a director	400	–	–
Tax receivable	–	–	–
Pledged bank deposits	2,841	–	–
Time deposits with original maturity over three months	2,501	–	–
Bank balances and cash	<u>54,558</u>	<u>58,619</u>	<u>43,858</u>
	130,920	132,208	140,548
<b>Current liabilities</b>			
Trade payables	10,156	8,793	13,176
Other payables and accrued charges	8,371	10,545	9,499
Amounts due to customers for contract works	16,296	19,257	19,930
Tax payable	<u>6,959</u>	<u>3,289</u>	<u>130</u>
	<u>41,782</u>	<u>41,884</u>	<u>42,735</u>
<b>Net current assets</b>	<u>89,138</u>	<u>90,324</u>	<u>97,813</u>

Our current assets primarily consisted of inventories, trade receivables, retention held by customers from contract works, others receivables, deposits and prepayments, amount due from customers for contract works, amount due from a director, pledged bank deposits, time deposits with original maturity over three months, bank balances and cash. Our current liabilities primarily consisted of trade payables, amounts due to customers for contract works, other payables and accrued charges and tax payable. Our net current assets has increased slightly from approximately HK\$89.1 million as at 31 March 2016 to approximately HK\$90.3 million as at 31 March 2017. Our net current assets increase to approximately HK\$90.3 million as at 31 March 2017 mainly due to (i) the increase in amount due from customers for contract works of approximately HK\$6.7 million as at 31 March 2017; (ii) the increase in bank balances and cash of approximately HK\$4.1 million as at 31 March 2017. Such increase was partially offset by (i) the increase in other payables and accrued charges of approximately HK\$2.2 million; and (ii) the increase in amounts due to customers for contract works of HK\$3.0 million.

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The net current assets further increased to approximately HK\$97.8 million as at 31 July 2017, mainly due to i) increase in retention held by customers for contract works of approximately HK\$4.7 million as compared to 31 March 2017; ii) increase in amount due from customers for contract works of approximately HK\$7.1 million as compared to 31 March 2017; iii) increase in other receivables, deposits and prepayments of approximately HK\$10.0 million as compared to 31 March 2017 balance and partially off-set by the decrease in bank balances and cash of approximately HK\$14.8 million as at 31 July 2017.

### DESCRIPTION OF SELECTED COMPONENTS OF COMBINED STATEMENTS OF FINANCIAL POSITION

#### Property, Plant and Equipment

The following table sets out the carrying values of our property, plant and equipment as at 31 March 2016 and 2017:

	Computer equipment <i>HK\$'000</i>	Leasehold improvement, furniture and fixture <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Motor vehicles and cruiser <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 31 March 2016	<u>765</u>	<u>518</u>	<u>423</u>	<u>424</u>	<u>2,130</u>
As at 31 March 2017	<u>659</u>	<u>568</u>	<u>428</u>	<u>731</u>	<u>2,386</u>

Our Group's fixed assets are computer equipment, leasehold improvement, furniture and fixture, plant and machinery and motor vehicles and cruiser. The total property, plant and equipment as at 31 March 2016 and 31 March 2017 amounted to approximately HK\$2.1 million and HK\$2.4 million respectively. A majority of the fixed assets is computer equipment, which accounted for approximately 35.9% and 27.6% of the total fixed assets as at 31 March 2016 and 31 March 2017 respectively. The increase in balance was primarily due to the additional motor vehicles of approximately HK\$0.3 million and cruiser of approximately HK\$0.4 million during the year ended 31 March 2017.

#### Trade receivables

The following table presents the breakdown of trade receivables as at the dates indicated:

	As at 31 March	
	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables	35,470	31,478

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Our trade receivables primarily consist of amount receivables from customers for construction and maintenance contracts, sales of customised products and trading of materials during the Track Record Period. The balance of trade receivables decreased from approximately HK\$35.5 million as at 31 March 2016 to HK\$31.5 million as at 31 March 2017. The decrease in our trade receivables balance was primarily due to our Group's credit policy as we closely monitored and followed up for overdue balances. As at the Latest Practicable Date, approximately HK\$31.2 million, representing 99% of our trade receivables balance as at 31 March 2017 had been settled.

The following table sets forth the ageing analysis of our net trade receivables presented based on the invoice date, as at the dates indicated:

	<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	17,390	20,650
31 to 60 days	13,094	6,240
61 to 90 days	3,907	4,138
Over 90 days	1,079	450
	35,470	31,478

Our trade receivable turnover days remained relatively stable at approximately 69 days and 71 days for each of the two years ended 31 March 2017 respectively. The slightly higher turnover days was in line in the increase in revenue during the year ended 31 March 2017.

### **Retention held by customers for contract works**

The following table presents the breakdown of non-current and current portion of the retention held by customers for contract works as at the dates indicated:

	<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Non-current assets</b>		
Retention held by customers for contract work	4,088	6,085
<b>Current assets</b>		
Retention held by customers for contract work	7,867	5,262

Retention held by customers for contract works represent the retention monies required by our customers to secure our Group due performance of the contracts. In general, the amount of retention money depends on negotiation between the parties, which is at the range of approximately 5% to 10% of the total original contract value or a monetary cap. The terms and conditions in relation to the release of retention money also vary from contract to

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contract, which may be subject to the expiry of the defect liability or a pre-agreed time period, which generally ranges from 12 to 24 months from the date of completion of the respective construction projects.

We have established relationship with customers who possess good credit standing and proven payment record. Before submitting a tender/quotation to any potential customer, we would first assess the credit worthiness and reputation of that customer. Our Group periodically monitor and review the credit conditions of our major customers as well as the ageing of our trade receivable and all overdue trade receivables are being followed up. In the event that evidence of impairment on trade receivables arises, such as a customer is experiencing significant financial difficulty or will likely enter into bankruptcy, we may provide allowance for the amounts that are considered not recoverable. The Directors consider that there has not been a significant change in credit quality of the retention receivables and there was no recent history of default and the balances are considered fully recoverable.

As at 31 March 2016 and 31 March 2017, the amount of retention receivables expected to be recovered after more than twelve months was approximately HK\$4.1 million and approximately HK\$6.1 million respectively. Retention held by customers for contract works which were expected to be recovered within twelve months decreased from approximately HK\$7.9 million as at 31 March 2016 to approximately HK\$5.3 million as at 31 March 2017. As at 31 March 2016 and 31 March 2017, retention held by customers for contract works of approximately HK\$4.1 million and HK\$6.1 million respectively are expected to be recovered beyond one year thereafter. The retention receivables are considered to be released within the normal operating cycle of the Group. At the Latest Practicable Date, approximately HK\$1.7 million, representing 15.7% of the retention receivables as at 31 March 2017 were subsequently settled.

We have established relationships with customers who possess good credit standing and proven payment record. We did not make any provision of doubtful debt in respect of trade receivable and retention receivables during for years ended 31 March 2016 and 2017. We expect all outstanding retention receivables to be released within the expiry of the defect liability period or the time period pre-agreed between our Group and our customers according to the respective contracts and works done. We expect the release dates of the retention receivables as at 31 March 2017 should fall between 2018 and 2019.

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### Other receivables, deposits and prepayments

The following is a breakdown of deposits, prepayments and other receivables as at 31 March 2016 and 2017:

	As at 31 March	
	2016	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Advances to suppliers	438	1,533
Deposits	29	651
Staff advances	298	425
Prepayments	429	677
Other receivables	34	785
	<u>1,228</u>	<u>4,071</u>
Total	<u>1,228</u>	<u>4,071</u>

Our other receivables, deposits and prepayments mainly represent advances to suppliers, deposits, staff advances, prepayments and other receivables. The balance of other receivables, deposits and prepayments increased from approximately HK\$1.2 million as at 31 March 2016 to HK\$4.1 million as at 31 March 2017, mainly due to increase in advances to suppliers of approximately HK\$1.1 million to facilitate our projects for the forthcoming period, increase in deposits of approximately HK\$0.6 million and increase in prepayment of approximately HK\$0.2 million as compared to 31 March 2016. The increase in prepayments is mainly due to various prepayments of professional fees related to the Listing during the year ended 31 March 2017.

### Amounts due from/to customers for contract works

For most of our installation projects, we send progress billings to customers in accordance with the payment schedule as stipulated in our contracts. However, there is often a timing difference between the recognition of revenue and the issuance of our progress billings. Amounts due from customers for contract work represents the surplus derived when the contract costs incurred to date plus recognized profits less losses exceed progress billings, while amounts due to contract customers represents the surplus derived when the progress billings exceed contract costs incurred to date plus recognized profits less losses.



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	<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Contracts in progress at the end of the reporting period:		
Actual costs incurred plus recognised profits less recognised losses	252,607	211,051
Less: Progress billings	<u>(243,393)</u>	<u>(198,065)</u>
	<u>9,214</u>	<u>12,986</u>
Amounts due from customers for contract work	25,510	32,243
Amounts due to customers for contract work	<u>(16,296)</u>	<u>(19,257)</u>
	<u>9,214</u>	<u>12,986</u>

The amounts due to/from contract customers are affected by the extent and value of services we have provided close to the end of each reporting period for each project and the timing difference between our revenue recognition and our progress billing, and thus vary from period to period.

The amounts due from customers for contract work increased from HK\$25.5 million as at 31 March 2016 to HK\$32.2 million as at 31 March 2017, which was mainly attributable to sizeable project installations during the year ended 31 March 2017 without corresponding progress billing made as the project milestone had not yet been reached by the end of the financial year ended 31 March 2017.

### **Amount due from a director**

The amount due from a director is non-trade nature, unsecured, interest-free and repayable on demand. As at 31 March 2016, the amount due from a director is HK\$0.4 million and the balance has been settled during the year ended 31 March 2017.

### **Pledged bank deposits**

As at 31 March 2016, our Group pledged approximately HK\$2.8 million to secure a banking facility granted to our Group, carried fixed interest rate of 0.6% per annum. The pledge was released during year ended 31 March 2017 as a result of cancellation of the banking facility.

### **Time deposits with original maturity over three months, bank balances and cash**

As at 31 March 2016, time deposits with original maturity over three months comprise bank deposits of fixed interest rates ranged from 4.0% to 4.2% per annum. The balance amounted to approximately HK\$2.5 million.

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### Bank balances and cash

Our bank balances and cash comprise cash held and short term bank deposits with an original maturity of three months or less. Bank balances and cash amounted to approximately HK\$54.6 million as at 31 March 2016 and increased to HK\$58.6 million as at 31 March 2017. The increase in bank balances and cash was primarily due to increase in cash generated from operations.

### Trade payables

The following table presents the breakdown of trade payables as at the dates indicated:

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Trade payables	10,156	8,793

The trade and bills payables are generally affected by including, but not limited to, the amounts of work performed by our subcontractors, materials provided by our suppliers, timing of payment invoices received from our subcontractors and/or suppliers, and credit periods granted by our subcontractors and/or suppliers. The credit period granted by our subcontractor is normally 30 to 60 days. Retention payables to sub-contractors of contract work are interest-free and payable by our Group after the completion of maintenance period of the relevant contracts or in accordance with the terms specified in the relevant contracts, ranges from one to two years from the completion date of the respective construction contracts.

The following table set forth the ageing analysis of our trade payables as at the period indicated:

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Within 30 days	2,516	2,303
31 – 60 days	424	1,378
61 – 90 days	200	85
Over 90 days	<u>7,016</u>	<u>5,027</u>
	<u>10,156</u>	<u>8,793</u>

As at 31 March 2016 and 2017, approximately HK\$4.9 million of our trade payables was in dispute with counterparties. No reversal of this payable in dispute was made during the two years ended 31 March 2017. From March 2010 to November 2012, KML Engineering placed purchase orders for certain ticket issuing modules from a supplier (an independent third party of our Group) at a total sum of approximately HK\$2.5 million. Due to the fact that the quality of the products supplied by the relevant supplier was

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unsatisfactory to us, which led us to incur costs in the amount of approximately HK\$2.8 million to repair the relevant machines we delivered to our customer, we did not agree to the trade payables for the two invoices issued by the relevant supplier in January 2016 in the total sum of approximately HK\$1.0 million for the relevant products.

From January 2011 to June 2012, KML Engineering placed purchase orders from the same supplier for certain products including issuing module and token collection box in the total sum of approximately HK\$5.6 million. Due to the fact that the quality of the products supplied by the relevant supplier was unsatisfactory to us, we had to incur costs in the amount of HK\$4.6 million to repair the relevant machines we delivered to our customer. As at the Latest Practicable Date, we have not yet received the invoice for the outstanding contract value totalling approximately HK\$3.8 million.

KML Engineering and the said supplier had, through their respective legal advisers, stated their respective position and reserved their legal rights, and no legal proceedings have been taken out by either party as at the Latest Practicable Date. The relevant trade payables and costs had been accounted for during the relevant financial periods, and our Directors consider such potential claims would not have material adverse effect on our business, financial condition or results of operations of our Group. We have ceased sourcing further products or services from the relevant supplier since late 2012.

Our trade payables mainly represented amounts payable to our suppliers for construction and maintenance contracts, sales of customised products and trading of materials during the Track Record Period. The balance decreased from HK\$10.2 million as at 31 March 2016 to HK\$8.8 million as at 31 March 2017. The reduction on trade payables during the year ended 31 March 2017 was mainly due to our repayment of outstanding balances in a more timely basis. As at the Latest Practicable Date, approximately HK\$3.7 million of our trade payables balance as at 31 March 2017 had been settled.

The following table sets forth our average trade payables turnover days for the periods indicated:

	<b>For the year ended</b>	
	<b>31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>Days</i>	<i>Days</i>
Trade payables turnover days ( <i>Note</i> )	44	30

*Note:* Trade payables turnover days equals average balance of trade payables divided by cost of sales for the relevant year/period multiplied by the number of days in the relevant year. Average balance is calculated as the sum of the beginning balance and ending balance for the relevant year divided by two

Our trade payables turnover days was 44 days and 30 days for the two years ended 31 March 2017 respectively, which is within the credit period.

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### Other payables and accrued charges

The following table presents the breakdown of other payables and accrued charges as at the dates indicated:

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Accrued staff costs	3,658	4,083
Provision for annual leave and long service payments	2,957	3,206
Retention payables	999	1,861
Accrued management service fees	–	508
Others	757	887
	<u>8,371</u>	<u>10,545</u>
Total	<u>8,371</u>	<u>10,545</u>

Our other payables and accrued charges mainly consisted of accrued staff costs, provision for annual leave and long service payment, retention payables, accrued management service fees and other payables. The balance amounted to approximately HK\$8.4 million as at 31 March 2016 and approximately HK\$10.5 million as at 31 March 2017. The increase in balance was mainly due to (i) increase in accrued staff costs of approximately HK\$0.4 million; and (ii) increase in retention payables of approximately HK\$0.9 million, which is in line with the increase in subcontracting fees incurred during the year.

Retention payables mainly represent the amounts we withhold from progress payments to our sub-contractors in the range of 5% to 10% of the respective payment amount. Such retention money is released to our sub-contractors upon completion of the defect liability period in accordance with the terms and conditions of the relevant sub-contract. Therefore, a significant portion of retention payables remained outstanding as at each balance sheet date. In line with the progress of our construction projects and the increase in our retention receivables, our retention payables increased from approximately HK\$1.0 million as at 31 March 2016 to approximately HK\$1.9 million as at 31 March 2017. As at the Latest Practicable Date, HK\$0.4 million of the retention payables was subsequently settled.

### INDEBTEDNESS

As at the close of business 31 August 2017, being the latest practicable date prior to the printing of the prospectus for the purpose of this indebtedness statement, our Group had no outstanding mortgages or charges, borrowings or indebtedness including bank overdrafts and liabilities under acceptances or acceptance credits or hire purchase commitments.

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As at 31 August 2017, the unutilised banking facilities readily available to the Group are indicated as follow:

	<b>As at 31 August 2017 HK\$000</b>
Unutilised banking facilities	<u>18,400</u>

### OPERATING LEASE

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

As at 31 March 2016 and 2017 and 31 August 2017, the Group had commitment for future minimum lease payments under non-cancellable operating lease with KML Ltd. and K.M.L Luk & Engineers Limited and other independent third parties which fall due as follows:

	<b>As at 31 March 2016</b>	<b>2017</b>	<b>As at 31 August 2017</b>
Within one year	4,063	5,202	3,606
In the second to fifth years inclusive	<u>4,089</u>	<u>918</u>	<u>378</u>
	<u>8,152</u>	<u>6,200</u>	<u>3,984</u>

### CONTINGENT LIABILITIES

At the end of each of the Track Record Period, and 31 August 2017 our Group did not have any material contingent liabilities, guarantees, or foreign exchange liabilities.

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## FINANCIAL INFORMATION

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### SUMMARY OF KEY FINANCIAL RATIOS

		As at/For the year ended	
		31 March	
	<i>Notes</i>	2016	2017
Gross profit margin	1	39.0%	32.4%
Net profit margin	2	13.5%	7.8%
Current ratio (times)	3	3.13	3.16
Quick ratio (times)	4	3.12	3.14
Gearing ratio	5	N/A	N/A
Net debt to equity	6	N/A	N/A
Return on equity	7	23.1%	13.4%
Return on total assets	8	16.1%	9.4%
Interest coverage ratio (times)	9	N/A	N/A

*Notes:*

1. Gross profit margin equals gross profit for the year divided by revenue for the year.
2. Net profit margin equals net profit for the year divided by revenue for the year.
3. Current ratio is calculated by current assets over current liabilities as at the end of the respective year.
4. Quick ratio is calculated by current assets (excluding inventory) over current liabilities as at the end of the respective year.
5. Gearing ratio is calculated by total debt over total equity as at the end of the respective year. Total debt includes all interest-bearing loans and amount due to a shareholder.
6. Net debt to equity is calculated by net debt over total equity as at the end of the respective year. Net debt includes all interest-bearing loans and amount due to a shareholder, net of cash and cash equivalent.
7. Return on equity is calculated by profit for the year over total equity as at the end of the respective year.
8. Return on total assets is calculated by profit for the year over total assets at the end of the respective year.
9. Interest coverage ratio is calculated by profit for the year before interest and tax over interest expense for the year.

### Gross profit margin

Our gross profit margin were approximately 39.0% and 32.4% for the year ended 31 March 2016 and 2017. For further information in relation to our gross profit margin, please refer to the subsection headed “Description of selected components of combined statements of profit or loss and other comprehensive income – Gross profit margin and gross profit margin ratio” in this section.

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### **Net profit margin**

Our net profit margin decreased from approximately 13.5% for the year ended 31 March 2016 to approximately 7.8% for the year ended 31 March 2017. The decrease was primarily attributable to decrease in gross profit margin and increase in administrative expenses of approximately HK\$1.4 million.

### **Current ratio**

Our current ratio maintained at a relatively stable level at 3.13 times and 3.16 times as at 31 March 2016 and 2017.

### **Quick ratio**

Our quick ratio maintained at a relatively stable level at 3.12 times and 3.14 times as at 31 March 2016 and 2017.

### **Gearing ratio**

The ratio was not applicable for the year ended 31 March 2016 and 2017 as no borrowing was incurred.

### **Net debt to equity**

The ratio was not applicable for the year ended 31 March 2016 and 2017 as no borrowing was incurred.

### **Return on equity**

Our return on equity decreased to approximately 13.4% for the year ended 31 March 2017 from approximately 23.1% for the year ended 31 March 2016, which was mainly due to the decrease in profit from HK\$22.2 million for the year ended 31 March 2016 to HK\$13.3 million for the year ended 31 March 2017.

### **Return on total assets**

Our return on total assets decreased to approximately 9.4% for the year ended 31 March 2017 from approximately 16.1% for the year ended 31 March 2016, which was mainly due to the combined effect of i) decrease in profit from HK\$22.2 million for the year ended 31 March 2016 to HK\$13.3 million for the year ended 31 March 2017; and ii) the increase in total assets from HK\$137.9 million as at 31 March 2016 to HK\$141.4 million as at 31 March 2017.

### **Interest coverage ratio**

The ratio was not applicable for the year ended 31 March 2016 and 2017 as no interest was incurred.

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### FINANCIAL RISK MANAGEMENT

We are exposed to market risk, interest rate risk, credit risk and liquidity risk. Further details on our financial risk management policies and practices are set out in Note 28 to the financial information in the Accountants' Report.

### CAPITAL EXPENDITURES

Our Group's capital expenditures primarily consisted of additions to property, plant and equipment. The following table sets forth details of our capital expenditures during the Track Record Period:

	For the year ended	
	31 March	
	2016	2017
	HK\$'000	HK\$'000
Plant and machinery	316	262
Motor vehicles and cruiser	–	697
Computer equipment	284	234
Leasehold improvement furniture and fixtures	555	375

During the Track Record Period, our Group incurred capital expenditures of HK\$1.2 million and HK\$1.6 million for the two years ended 31 March 2016 and 2017, respectively. Majority of the capital expenditures was used to acquire motor vehicles to support the expansion of our Group's business and increased projects and maintenance works.

### DIRECTORS' OPINION ON THE SUFFICIENCY OF OUR WORKING CAPITAL

Taking into account the financial resources available to us, including internally generated funds, available banking facility, and the estimated net proceeds from the Share Offer, our Directors are of the opinion that we have sufficient working capital required for our operations for at least the next 12 months from the date of this prospectus.

### OFF-BALANCE-SHEET COMMITMENTS AND ARRANGEMENTS

As at the Latest Practicable Date, our Group had not entered into any material off-balance-sheet commitments and arrangements.

### LISTING EXPENSES

Our Group expects that the total listing expenses (including underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and other expenses relating to the Share Offer), which is non-recurring in nature, will amount to approximately HK\$24.0 million (assuming (i) an Offer Price of HK\$0.60 per Offer Share (which is the midpoint of the Offer Price range); and (ii) the Offer Size Adjustment Option is not exercised at all), of which approximately: (x) HK\$8.1 million is directly attributable



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## FINANCIAL INFORMATION

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to the issue of Offer Shares as part of the Listing and will be accounted for as a deduction from equity upon the Listing; and (y) approximately HK\$0.6 million is chargeable as operating expenses to combined statements of profit and loss for the year ended 31 March 2016 and 31 March 2017. Out of this amount, approximately HK\$15.3 million is expected to be charged to combined statements of profit and loss for the year ending 31 March 2018.

Such listing expenses are a current estimate for reference only. The actual amounts to be recognised to the profit and loss of our Group or to be capitalised are subject to adjustments based on audit and changes in variables and assumptions.

### SUBSEQUENT EVENTS

For significant events that took place subsequent to 31 March 2017, please refer to Note 31 to the Accountants' Report.

### DIVIDENDS

During each of the two years ended 31 March 2017, KML Engineering, our principal subsidiary, declared and paid interim dividends of HK\$5.0 million and HK\$10.0 million respectively to its shareholders. Further, on 20 September 2017, our Company declared dividends of HK\$25.0 million to our Shareholders which will be paid on 30 September 2017, which would be settled in cash through internal resources generated from distribution of dividends by our subsidiaries from their respective accumulated profits as of 31 March 2017. Shareholders after the Share Offer will not be entitled to such dividends declared, and the foregoing should not be viewed as a reference or basis to determine the level of dividends that may be declared or paid by us in the future. Dividend payment will have no adverse impact on financial position and result of operation.

Our Group does not currently have a fixed dividend policy and does not have a pre-determined dividend payout ratio. Dividends may be paid out by way of cash or by other means that we consider appropriate. Declaration and payment of any dividends would require the recommendation of our Board and will be at their discretion. In addition, any final dividend for a financial year will be subject to Shareholders' approval. A decision to declare or to pay any dividend in the future, and the amount of any dividends, depends on a number of factors, including our results of operations, financial condition, the payment by our subsidiaries of cash dividends to us; and other factors our Board may deem relevant. There will be no assurance that our Company will be able to declare or distribute any dividend in the amount set out in any plan of our Board or at all. The dividend distribution record in the past may not be used as a reference or basis to determine the level of dividends that may be declared or paid by our Board in the future.

### DISTRIBUTABLE RESERVES

Our Company was incorporated on Cayman Islands and is an investment holding company. There were no reserves available for distribution to the Shareholders as of the Latest Practicable Date.

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## FINANCIAL INFORMATION

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### UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The unaudited pro forma adjusted consolidated net tangible of our Group has been prepared, for the purpose of illustrating the effect of the Share Offer as if it had taken place on 31 March 2017. Please see Appendix II to this prospectus for details.

### RELATED PARTY TRANSACTIONS

As at 31 March 2016 and 2017, Mr. KM Luk and Madam Leung have provided personal guarantees supported by bank deposits to secure a banking facility line granted to our Group. The relevant bank with banking facility granted to our Group has agreed in principle that the above personal guarantees will be released and replaced by corporate guarantees to be issued by the Group upon Listing.

With respect to the related parties transactions set out in Note 24 of the Accountants' Report, our Directors believe that such transactions were conducted on normal commercial terms and such terms were no less favorable to our Group than terms available to Independent Third Parties and were fair and reasonable and in the interests of our Shareholders as a whole.

### DISCLOSURE REQUIRED UNDER THE GEM LISTING RULES

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances which, had our Group been required to comply with Rules 17.15 to 17.21 of the GEM Listing Rules, would have given rise to a disclosure requirement under Rules 17.15 to 17.21 of the GEM Listing Rules.

### PROPERTY INTERESTS

Our Directors have confirmed that as at the Latest Practicable Date, there were no circumstances that would give rise to a disclosure requirement under Rules 8.01 to 8.36 of the GEM Listing Rules. As at the Latest Practicable Date, our property interests do not form part of our property activities and no single property interest that forms part of our non-property activities has a carrying amount of 15% or more of our total assets.

### MATERIAL ADVERSE CHANGE

Our Group's financial performance for the year ending 31 March 2018 will be significantly affected by, among other things, the incurrence of Listing expenses of approximately HK\$24.0 million and additional depreciation of approximately HK\$0.3 million arising from investment of the proceeds from the Share Offer or fixed assets. Saved as disclosed above, our Directors have confirmed that they have performed sufficient due diligence to ensure that as at the Latest Practicable Date and up the date of this prospectus, there has been no material adverse change in the financial and trading position or prospects of our Group since 31 March 2017, being the date to which the latest audited financial statements of our Group were made up. Our Directors consider that all information necessary for the investing public to make an informed judgment as to the business activities and financial position of our Group has been included in this prospectus.

## FUTURE PLANS AND USE OF PROCEEDS

### FUTURE PLANS AND BUSINESS STRATEGIES

Please refer to the subsection headed “Business – Our business strategies” in this prospectus for a detailed description of our Group’s business objectives and strategies.

### USE OF PROCEEDS

Assuming an Offer Price of HK\$0.60 per Offer Share (being the mid-point of the stated range of the Offer Price of between HK\$0.48 and HK\$0.72 per Offer Share), we estimate that we will receive net proceeds of approximately HK\$36.0 million from the Share Offer after deducting the underwriting commissions and other estimated expenses in connection with the Share Offer payable by our Company. We intend to use the net proceeds from the Share Offer for the following purposes and in the amounts set out below, subject to changes in light of our evolving business needs and changing market conditions:

- approximately 49.9%, or HK\$18.0 million, will be used for expanding and enhancing our E&M engineering technical capabilities, by:
  - (i) increasing our productivity through the purchase of new machineries and equipment.

The following table sets out further information regarding the (1) types and quantity (existing and expected) of machineries and equipment currently owned and to be purchased, (2) their respective purchase costs, (3) estimated useful life, (4) actual average utilisation rates during the Track Record Period, (5) estimated average utilisation rate for the year ending 31 March 2018 and also (6) reasons for investment and intended utilisation:

Type of machinery/ equipment	Quantity as at Latest Practicable Date	Quantity to be purchased prior to 30 September 2019	Purchase cost <i>(Note 1)</i>  (HK\$'000)	Estimated useful life <i>(Note 1)</i>  (years)	Actual average utilisation rate <i>(Note 2)</i> for the year ended 31 March		Estimated average utilisation rate for the year ending 31 March 2018	Reasons for investment and intended utilisation
					2016	2017		
Laser cutting machine	1	1	820	8	80%	80%	90%	The new laser cutting machine would be able to handle a higher volume of materials and also a wider range of different materials used in our daily operations.
Folding machine	1	1	725	8	50%	50%	60%	Our existing folding machine is near the end of its estimated useful life and is in need of replacement.
Three-dimensional printer	1	1	2,000	6	80%	80%	80%	In the course of providing E&M engineering maintenance services, our project teams often face challenges in the purchase of obsolete or high minimum-order-quantity spare parts from other third party suppliers in order to carry out preventive and corrective maintenance services. With the use of, among others, an industrial-grade three-dimensional printer, most of such spare parts or components (both plastic and metal) can be custom-made by our Group. We believe that this will enhance our operational efficiency and also allow us to provide a wider range of services to customers who face similar challenges.

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## FUTURE PLANS AND USE OF PROCEEDS

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The laser cutting machine, folding machine and three-dimensional printer to be purchased with the proceeds are expected to be applied to, among others, the following projects:–

*Existing projects*

- provision of turnstile for a company engaged in the business of ferry services in Hong Kong;
- refurbishment works on Guangzhou-Kowloon Through Train;
- supply and installation of “Stop-and-go” e-Payment System at Hong Kong Government tolled tunnels and roads;

*Potential projects*

- provision of services in relation to AFC systems for various railway stations in Taipei; and
- provision of turnstile for pier(s) in Hong Kong.

*Notes:*

1. For the historical purchase cost and estimated useful life of such machinery/equipment currently owned by the Group, please refer to the subsection headed “Business – Machinery and equipment” in this prospectus.
2. Calculation of utilisation rates for each of the two years ended 31 March 2017 is based on the number of days that the machinery and equipment were in operation during the respective period which is then divided by the number of business days in the relevant financial year.

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## FUTURE PLANS AND USE OF PROCEEDS

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The following table sets out further information regarding the (1) types and quantity of machineries and equipment to be purchased, (2) their respective purchase costs, (3) estimated useful life, (4) estimated average utilisation rate for the year ending 31 March 2018 and (5) reasons for investment and intended utilisation:

Type of machinery/ equipment	Quantity to be purchased prior to 30 September 2019	Purchase cost  (HK\$'000)	Estimated useful life  (years)	Estimated average utilisation rate <sup>(Note)</sup> for the year ending 31 March 2018	Reasons for investment and intended utilisation
Laser welding machine (with a robotic arm)	2	1,150	8	70%	The majority of our Group's existing welding works require skilled labour to perform and there is a higher margin for human error or inconsistency. We would be able to increase our operational efficiency and enhance our work accuracy through the use of a laser welding machine.
Three-dimensional scanner	1	200	8	30%	In the course of providing E&M engineering maintenance services, our project teams often face challenges in the purchase of obsolete or high minimum-order-quantity spare parts from other third party suppliers in order to carry out preventive and corrective maintenance services. With the use of, among others, a three-dimensional scanner and CAD/CAM machine centre, most of such spare parts or components (both plastic and metal) can be custom-made by our Group. We believe that this will enhance our operational efficiency and also allow us to provide a wider range of services to customers who face similar challenges.
CAD/CAM machine centre	1	2,000	5	70%	

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## FUTURE PLANS AND USE OF PROCEEDS

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Type of machinery/ equipment	Quantity to be purchased prior to 30 September 2019	Purchase cost  (HK\$'000)	Estimated useful life  (years)	Estimated average utilisation rate <sup>(Note)</sup> for the year ending 31 March 2018	Reasons for investment and intended utilisation
Automatic soldering machine for printed circuit boards ("PCBs" or a "PCB")	1	500	5	70%	Custom made PCBs are components used in our Group's system integrated E&M engineering projects. Historically, we have relied on third party manufacturers for the assembly of PCBs. By investing in a PCB automatic soldering machine, we will have the ability to assemble the PCBs and hence increase our Group's operational flexibility and efficiency.

The laser welding machine, three-dimensional scanner, CAD/CAM machine centre and the automatic soldering machine for PCBs to be purchased with the proceeds are expected to be applied to, among others, the following projects:–

### *Existing projects*

- provision of turnstile for a company engaged in the business of ferry services in Hong Kong;
- refurbishment works on Guangzhou-Kowloon Through Train;
- supply and installation of "Stop-and-go" e-Payment System at Hong Kong Government tolled tunnels and roads;

### *Potential projects*

- provision of services in relation to AFC systems for various railway stations in Taipei; and
- provision of turnstile for pier(s) in Hong Kong.

*Note:* The estimated utilisation rates serve as a presentation for illustration purposes only.

(ii) improving our material handling and field service capacity by:

- (a) renting additional space and storage facilities with approximately HK\$1.3 million, which are expected to be approximately 5,000 sqf in size in aggregate, to cater for the additional space required for

## FUTURE PLANS AND USE OF PROCEEDS

machinery installation and operation and to accommodate the new machinery and equipment to be purchased. The expected duration of the lease for such additional space and storage facilities is two years; and

- (b) acquiring additional machinery and/or equipment for material handling and field service.

The following table sets out further details regarding our plan to expand our material handling and field service capacity, including (1) the types and quantity (existing and expected) of machinery and equipment currently owned and to be purchased, (2) their respective purchase costs, (3) their actual average utilisation rates during the Track Record Period, (4) estimated average utilisation rate for the year ending 31 March 2018 and also (5) reasons for the Group's need for such investment and intended utilisation:

Type of machinery/ equipment	Quantity as at Latest Practicable Date	Quantity to be purchased prior to 30 September 2019	Purchase cost <sup>(Note 1)</sup>  (HK\$'000)	Actual average utilisation rate <sup>(Note 2)</sup> for the year ended		Estimated average utilisation rate <sup>(Note 3)</sup> for the year ending 31 March 2018	Reasons for investment and intended utilisation
				31 March 2016	2017		
Aerial platform	2	2	300 <sup>(Note 4)</sup>	100%	100%	100%	Due to the increasing standards on work safety and environmental protection, in order to (i) comply with relevant standards imposed by relevant governmental authorities and (ii) maintain our competitiveness and operational flexibility, we will require aerial platforms (together with silent generators) for our high level works and for use at work sites without power sources nearby.  The aerial platforms to be purchased with the proceeds are expected to be applied to all of the Group's existing and potential E&M engineering installation projects involving high level works.

## FUTURE PLANS AND USE OF PROCEEDS

Type of machinery/ equipment	Quantity as at Latest Practicable Date	Quantity to be purchased prior to 30 September 2019	Purchase cost <sup>(Note 1)</sup>  (HK\$'000)	Actual average utilisation rate <sup>(Note 2)</sup> for the year ended		Estimated average utilisation rate <sup>(Note 3)</sup> for the year ending 31 March 2018	Reasons for investment and intended utilisation
				31 March 2016	2017		
Seven-seater wagons	3	3	1,500	100%	100%	100%	Given that the actual average utilisation rate of our vehicles was approximately 100% during the Track Record Period, we believe that the acquisition of additional vehicles will increase our travelling efficiency and allow our project teams to transport additional spare parts and equipment for use in our operations.  The seven-seater wagons to be purchased with the proceeds are expected to be used in the Group's existing and potential E&M engineering maintenance projects which require round-the-clock field services.
Miscellaneous testing equipment	60	5	317	60%	60%	60%	The majority of our Group's testing and commissioning equipment with respect to high voltage works are nearing the end of their estimated useful lives. Hence, in order to maintain our quality standards and our Group's competitiveness, we intend to procure various testing and commissioning equipment to replace current equipment and/or further enhance our services.  All of the Group's existing and potential projects are expected to utilise the miscellaneous testing equipment to be purchased with the proceeds.

*Notes:*

- For the historical purchase cost of such machinery/equipment currently owned by the Group, please refer to the subsection headed "Business – Machinery and equipment" in this prospectus.
- Calculation of utilisation rates for each of the two years ended 31 March 2017 is based on the number of days that the machinery and equipment were in operation during the respective period which is then divided by the number of business days in the relevant financial year.
- The estimated utilisation rates serve as a presentation for illustration purposes only.
- The purchase cost as set out in the table represents the aggregate purchase cost for the two aerial platforms and two silent generators (as referred to in the table below), as the two types of machinery are expected to be purchased together as a set.



## FUTURE PLANS AND USE OF PROCEEDS

The following table sets out further information regarding the (1) types and quantity of machineries and equipment to be purchased, (2) their respective purchase costs, (3) estimated average utilisation rate for the year ending 31 March 2018 and (4) reasons for investment and intended utilisation:

Type of machinery/equipment	Quantity to be purchased prior to 30 September 2019	Purchase cost (HK\$'000)	Estimated average utilization rate <sup>(Note 1)</sup> for the year ending 31 March 2018	Reasons for investment and intended utilisation
Overhead crane	1	520	50%	<p>As there is limited space in our Group's workshop, the acquisition and installation of an overhead crane would allow more efficient operations by allowing our employees to lift bulky materials with ease and enhance effective space usage.</p> <p>All of the Group's existing and potential projects involving material handling at our Group's workshop are expected to utilise the overhead crane to be purchased with the proceeds.</p>
Silent generator	2	300 <sup>(Note 2)</sup>	50%	<p>Due to the increasing standards on work safety and environmental protection, in order to (i) comply with relevant standards imposed by relevant governmental authorities and (ii) maintain our competitiveness and operational flexibility, we will require silent generators for our aerial platforms for high level works and for use at work sites without power sources nearby.</p> <p>The silent generators to be purchased with the proceeds are expected to be applied to all of the Group's existing and potential installation projects involving high level works.</p>
Lorry	1	650	100%	<p>Given that the actual average utilisation rate of our vehicles was approximately 100% during the Track Record Period, we believe that the acquisition of additional vehicles will increase our travelling efficiency and allow our project teams to transport additional spare parts and equipment for use in our operations. The acquisition of an additional lorry will also increase our operational efficiency and decrease our transportation service expenses (in relation to material/equipment delivery and collection).</p> <p>All of the Group's existing and potential projects are expected to utilise the lorry to be purchased with the proceeds.</p>

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## FUTURE PLANS AND USE OF PROCEEDS

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Type of machinery/equipment	Quantity to be purchased prior to 30 September 2019	Purchase cost (HK\$'000)	Estimated average utilization rate <sup>(Note 1)</sup> for the year ending 31 March 2018	Reasons for investment and intended utilisation
Fibre cable testing equipment	4	470	60%	<p>We anticipate that E&amp;M engineering systems in railways will rely increasingly on optical fibre networks to transfer relevant system data in the future. Therefore, in order to maintain our competitiveness in the railway sector, we intend to acquire additional fibre cable termination and testing equipment to enhance our services in relation to existing and new works.</p> <p>The fibre cable testing equipment to be purchased with the proceeds are expected to be applied to, among others, the following projects:-</p> <p><i>Existing projects</i></p> <ul style="list-style-type: none"> <li>● optical fibre backbones for communication-based train control signaling systems at various MTR lines;</li> <li>● provision of optical data network;</li> </ul> <p><i>Potential projects</i></p> <ul style="list-style-type: none"> <li>● all projects involving fibre networks.</li> </ul>

*Notes:*

1. The estimated utilisation rates serve as a presentation for illustration purposes only.
2. The purchase cost as set out in the table represents the aggregate purchase cost for the two aerial platforms and two silent generators (as referred to in the table below), as the two types of machinery are expected to be purchased together as a set.

(iii) purchasing and implementing information technology solutions with approximately HK\$2.9 million, including setting up of a hybrid cloud computing environment, which we believe will enhance our operational efficiency. In particular, this:

- (a) will facilitate the carrying out of our Group's E&M engineering maintenance services, as the condition of our Group's equipment installed on-site can be remotely monitored and serviced when necessary;
- (b) will, based on data collected on the condition of our Group's equipment, allow our staff to plan ahead and provide the necessary preventive maintenance, which will ultimately reduce the number of maintenance service calls;

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## FUTURE PLANS AND USE OF PROCEEDS

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- (c) allow our staff to access our Group's database and intranet (including, for example, relevant project documents and reports and material reference prices) securely and with ease, whether in the field (e.g. in railway stations) or overseas, and also at all hours during the day; and
- (iv) retaining our talents and also enhancing the risk mitigation measures of our Group through the enhancement of our insurance coverage and employee remuneration packages, including the:
  - (a) upgrading of employees' medical insurance plans with approximately HK\$0.9 million – the coverage of which will be more enhanced than the existing employees' medical insurance plans, and which will cover life benefits, hospitalisation and surgical benefits, emergency assistance benefits, supplementary major medical benefits and out-patient benefits, with global coverage, and is applicable to both Directors and employees;
  - (b) purchasing of the Group's professional indemnity insurance plan with approximately HK\$0.9 million – the professional indemnity insurance will cover any legal liability to pay compensation and any costs and expenses awarded against the Group, including liability for breach of confidentiality, contractual liability, defamation claims, infringement of intellectual property rights, joint venture liability, claims arising from loss of documents and claims brought under any consumer protection, competition, fair trading or any equivalent legislation;
  - (c) purchasing of the Group's product liability insurance plan with approximately HK\$30,000 – aiming to protect our Group's business against claims from third parties for personal injury or property damage caused by products manufactured, distributed, retailed, sold or supplied through our business; and
  - (d) providing funds for an employees' performance bonus scheme with approximately HK\$0.8 million – all permanent employees will be entitled to participate in the performance bonus scheme after completion of their respective probation periods. Factors taken into consideration for determination of the relevant performance bonus will include the Group's financial performance, employees' individual performance (based on reviews), employees' work attendance rates, and other factors taken into account by the Directors and senior management as they deem to be appropriate.

The Group has historically aimed and continues to aim to build up and maintain a good reputation in the E&M engineering industry in order to attract and retain customers and talents (including the management) of the Group. The Company considers that the purchase of professional indemnity and product liability insurance plans for the Group would lower its exposure to reputational and financial risks. Therefore, the Company believes that

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## FUTURE PLANS AND USE OF PROCEEDS

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such measures (in conjunction with the upgrading of employees' medical insurance plans and offering of an employees' performance bonus scheme) form part of the Group's continual efforts in enhancing its risk mitigation measures for the purpose of maintaining its industry reputation and retaining its customers and talents through the enhancement of our insurance coverage and employee remuneration packages.

- approximately 25.7%, or HK\$9.3 million, will be used for deepening our penetration of the Hong Kong E&M engineering industry by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts, through:
  - (i) expanding our office space and work area in Hong Kong with approximately HK\$1.3 million, including the setting up of a marketing office (which will include a virtual demonstration area) and a research and development work area. The Company intends to set up the new office space and work area in the Hong Kong Science Park or Cyberport, which will be approximately 1,000 sqf to 1,200 sqf in size, and will be equipped with general office utilities, workshop tools and equipment, and other research and development software and technical solutions. The estimated capital expenditure for the set up of our new office space and work area is approximately HK\$0.16 million, while the annual operating expenditure is estimated to be approximately HK\$0.56 million;
  - (ii) increasing our marketing efforts and business exposure, including:
    - (a) recruiting three additional marketing staff with approximately HK\$1.9 million; and
    - (b) participating in exhibitions, conferences and symposiums in Hong Kong and Southeast Asia with approximately HK\$1.5 million;
  - (iii) enhancement of our research and development capabilities, including:
    - (a) recruitment of three additional research and development staff with approximately HK\$2.2 million, who are expected to (x) have degrees in electronic or mechatronics engineering, (y) possess experience in circuit design, micro-controller firmware or mechatronics device development, and (z) be proficient in software-tools commonly used in the industry. The estimated annual additional staff cost will be approximately HK\$1.08 million; and
    - (b) investment in relevant software and technical solutions at an aggregate cost of approximately HK\$2.4 million, such as:
      - a virtual reality system, which will serve as training equipment for new employees to familiarise themselves with different types of our MTR automatic fare collection gates (without affecting train

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## FUTURE PLANS AND USE OF PROCEEDS

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operation given that the training takes place offsite). It will also allow our design team to simulate the products in a virtual environment and visualise them at life-size scales in order to, for example, carry out further design adjustments prior to its assembly;

- license plate recognition software and software development solutions, which will allow our Group to provide E&M engineering solutions and services in relation to parking systems in car parks;
  - human face recognition software, which can be integrated with and further enhance our security and access control systems;
  - three-dimensional design software, which enables our design team to create three-dimensional drawings and designs for our products; and
  - three-dimensional rendering and animation software, which will allow our design team to convert three-dimensional models into two-dimensional images with three-dimensional photorealistic effects or non-photorealistic rendering on a computer.
- approximately 16.7%, or HK\$6.0 million, will be used for strengthening our Group's financial capabilities to undertake larger-scale E&M engineering projects in the future through the provision or replacement of performance guarantees for our E&M engineering projects; and
  - the remaining amount of approximately HK\$2.8 million, representing not more than 10% of the net proceeds, will be used to provide funding for our working capital and other general corporate purposes.

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## FUTURE PLANS AND USE OF PROCEEDS

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Our Directors intend to apply the net proceeds from the Share Offer for the aforementioned purposes in the expected time frame set out below:

	From the Latest Practicable Date to 30 September 2017 <i>HK\$ million</i>	For the six months ending 31 March 2018 <i>HK\$ million</i>	For the six months ending 30 September 2018 <i>HK\$ million</i>	For the six months ending 31 March 2019 <i>HK\$ million</i>	For the six months ending 30 September 2019 <i>HK\$ million</i>	Total <i>HK\$ million</i>
Deepen our penetration of the Hong Kong E&M engineering industry with special focus on the Transportation Mission Critical System Solutions market by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts	–	1.4	4.8	1.3	1.7	9.3
Expand and enhance our E&M engineering technical capabilities	–	5.4	4.5	6.1	1.9	18.0
Strengthen our financial capabilities to undertake larger-scale E&M engineering projects in the future	5.0	–	–	1.0	–	6.0
<b>Subtotal</b>	<u>5.0</u>	<u>6.9</u>	<u>9.3</u>	<u>8.4</u>	<u>3.6</u>	<u>33.2</u>
General working capital						<u>2.8</u>
						<u><u>36.0</u></u>

*Note:* Amounts included in the table above have been subject to rounding adjustments. Accordingly, figures shown as totals may not be an arithmetic aggregation of the figures preceding them.

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## FUTURE PLANS AND USE OF PROCEEDS

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### IMPLEMENTATION PLANS

We will endeavour to achieve the following milestone events during the period from the Listing Date to 30 September 2019, and their respective scheduled completion times are based on certain bases and assumptions set out in the subsection headed “– Bases and key assumptions” in this section.

#### From the Latest Practicable Date to 30 September 2017

##### Business strategy

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

##### Implementation plan

- Replace performance guarantees for existing projects with a total estimated contract sum of approximately HK\$5.0 million

#### For the six months ending 31 March 2018

##### Business strategy

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

##### Implementation plan

- Expand our office space in Hong Kong, including setting up of a marketing office (which will include a virtual demonstration area) and a research and development work area
- Increase our marketing efforts and business exposure, including recruitment of three additional marketing staff, and participation in exhibitions, conferences and symposiums in Hong Kong and Southeast Asia
- Enhance our research and development capabilities through the recruitment of three additional research and development staff

Expand and enhance our E&M engineering technical capabilities

- Increase our material handling and field service capacity by (i) expanding our material handling and storage facilities, (ii) purchasing an overhead crane for use in our workshop and store, (iii) purchasing two aerial platforms and silent generators; and (iv) purchasing fibre cable testing equipment
- Increase our production capacity by purchasing new machineries and equipment, including (i) a three-dimensional scanner, (ii) a CAD/CAM machine center, and (iii) an automatic soldering machine

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## FUTURE PLANS AND USE OF PROCEEDS

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### **Business strategy**

### **Implementation plan**

- Purchase and implementation of information technology solutions, including setting up a hybrid cloud computing environment
- Enhance our insurance coverage and employee remuneration packages, including upgrading employees' medical insurance plans and establishing a performance bonus scheme

### **For the six months ending 30 September 2018**

### **Business strategy**

### **Implementation plan**

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

- Payment of rental expenses for our expanded office space in Hong Kong, including a marketing office (which will include a virtual demonstration area) and a research and development work area
- Increase our marketing efforts and business exposure through participation in exhibitions, conferences and symposiums in Hong Kong and Southeast Asia
- Payment of staff costs for three additional research and development staff and continue to enhance our research and development capabilities by investing in relevant software and technical solutions, such as a virtual reality system, licence plate recognition software and software development solutions, human face recognition software, three-dimensional design software and three-dimensional rendering and animation software

Expand and enhance our E&M engineering technical capabilities

- Increase our material handling and field service capacity by (i) expanding our material handling and storage facilities, (ii) purchasing two aerial platforms and silent generators, (iii) purchasing vehicles to facilitate round-the-clock field services, and (iv) purchasing fibre cable testing equipment
- Increase our production capacity by purchasing a three-dimensional printer



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## FUTURE PLANS AND USE OF PROCEEDS

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### **Business strategy**

### **Implementation plan**

- Continue to integrate our information technology solutions, and upgrade our information technology hardware such as computers and tablets
- Enhance our insurance coverage and employee remuneration packages, including the purchasing of the Group's professional indemnity insurance and product liability insurance, the making of periodic payments for employees' upgraded medical insurance plans and maintaining a performance bonus scheme

### **For the six months ending 31 March 2019**

### **Business strategy**

### **Implementation plan**

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

- Payment of rental expenses for our expanded office space in Hong Kong, including a marketing office (which will include a virtual demonstration area) and a research and development work area
- Increase our marketing efforts and business exposure
- Payment of staff costs for three additional research and development staff

Expand and enhance our E&M engineering technical capabilities

- Increase our material handling and field service capacity by (i) expanding our material handling and storage facilities, (ii) purchasing vehicles to facilitate round-the-clock field services, (iii) purchasing a lorry, and (iv) purchasing fibre cable testing equipment
- Increase our production capacity by purchasing new machineries and equipment, namely: (i) a laser cutting machine; (ii) two laser welding machines (with robotic arms), and (iii) a folding machine
- Continue to integrate our information technology solutions, and upgrade our information technology hardware such as computers and tablets

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## FUTURE PLANS AND USE OF PROCEEDS

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### **Business strategy**

### **Implementation plan**

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

- Enhance our insurance coverage and employee remuneration packages, including the making of periodic payments for the Group's professional indemnity insurance and product liability insurance, and employees' upgraded medical insurance plans and maintaining a performance bonus scheme
- Provide performance guarantees for new projects

### **For the six months ending 30 September 2019**

### **Business strategy**

### **Implementation plan**

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

- Payment of rental expenses for our expanded office space in Hong Kong, including a marketing office (which will include a virtual demonstration area) and a research and development work area
- Increase our marketing efforts and business exposure through participation in exhibitions, conferences and symposiums in Hong Kong and Southeast Asia
- Payment of staff costs for three additional research and development staff

Expand and enhance our E&M engineering technical capabilities

- Increase our material handling and field service capacity by (i) expanding our material handling and storage facilities, and (ii) purchasing vehicles to facilitate round-the-clock field services
- Continue to integrate our information technology solutions, and upgrade our information technology hardware such as computers and tablets

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## FUTURE PLANS AND USE OF PROCEEDS

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### **Business strategy**

### **Implementation plan**

- Enhance our insurance coverage and employee remuneration packages, including the making of periodic payments for the Group's professional indemnity insurance and product liability insurance, and employees' upgarded medical insurance plans and maintaining a performance bonus scheme

For further details on the Group's existing or potential projects that will utilise the machinery and equipment to be purchased using the proceeds, please refer to the subsection headed "Future Plans and Use of Proceeds – Use of proceeds" in this prospectus.

The above allocation of the proceeds will be adjusted on a pro rata basis in the event that the Offer Price is fixed at a higher or lower level compared to the midpoint of the proposed Offer Price range.

To the extent that the net proceeds are not immediately applied to the above purposes and to the extent permitted by applicable laws and regulations, we intend to deposit the net proceeds into short-term demand deposits and/or money market instruments. We will make an appropriate announcement if there is any change to the above proposed use of proceeds.

### **BASES AND KEY ASSUMPTIONS**

We have adopted the following principal assumptions in the preparation of our Group's future plans up to 30 September 2019:

- there will be no material adverse change in the existing political, legal, fiscal, market or economic conditions in Hong Kong or any other places in which any member of our group carries on or will carry on business;
- there will be no material changes in the bases or rates of taxation and duties in Hong Kong or in any other places in which any member of our Group operates or will operate or is incorporated;
- the Share Offer and the Listing will be completed in accordance with and as described in the section headed "Structure of the Share Offer" in this prospectus;
- our Group will be able to retain key employments in our senior management as well as our professional staff;
- our Group will be able to successfully recruit suitable staff as and when necessary;
- our Group will not be materially and adversely affected by any risk factors as set out in the section headed "Risk Factors" in this prospectus;

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## FUTURE PLANS AND USE OF PROCEEDS

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- our Group will have sufficient financial resources to meet our planned capital expenditure and business development requirements during the period to which our future plans relate;
- there will be no material differences in the funding requirements for each of our Group's future plans as described in this prospectus from the amount as estimated by our Directors;
- there will be no change in the effectiveness of any licences, permits and qualifications obtained by us;
- there will be no material change in the existing laws, policies or industry or regulatory treatment relating to us, in the political, economic or market conditions in the markets in which we operate;
- there will be no disasters, natural or otherwise, which would materially disrupt our business or operations or cause substantial loss, damage or destruction to its properties or facilities; and
- we will be able to continue our operations in substantially the same manner as we have been operating during the Track Record Period and we will also be able to carry out our implementation plans without material disruptions.

### REASONS FOR THE LISTING

#### Financial considerations

As at 30 June 2017, the Group had cash and cash equivalent of approximately HK\$54 million. As discussed in the subsection headed "Financial Information – Dividends" in this prospectus, on 20 September 2017, the Company declared dividends of HK\$25 million to our Shareholders which will be paid on 30 September 2017, which would be settled in cash through internal resources. After paying out the said special dividend, the Group would have cash and cash equivalent of approximately HK\$29 million.

As disclosed in the paragraphs headed "Regulatory Overview – Undertaking public work contracts – Requirements for admission and retention on the Specialist List" in this prospectus, in order for our Group to be retained on the Specialist List for the award of public work contracts, our Group is required to meet certain financial criteria, including, among other things, maintaining a minimal level of working capital at the higher of (i) HK\$570,000 and (ii) 10% of the combined annual value of uncompleted works on outstanding contracts. The value of uncompleted works on outstanding contracts submitted to the WBDB in September 2015 and September 2016 amounted to approximately HK\$239 million and HK\$253 million respectively. Taking into account of the above-mentioned financial criteria, it is our policy to keep our level of working capital not less than 10% of the annual value of uncompleted works.

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## FUTURE PLANS AND USE OF PROCEEDS

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In addition, our Group's administrative expenses (comprising mostly staff costs and rental), being fixed costs in general, amounted to approximately HK\$38 million for each of the years ended 31 March 2017. Accordingly, it is also our policy to maintain a minimum cash balance equivalent to six months' administrative expenses (approximately HK\$20.0 million for the year ended 31 March 2017).

Furthermore, as disclosed in the subsection headed "Future Plans and Use of Proceeds – Use of proceeds" in this prospectus, we intend to (i) expand and enhance our E&M engineering technical capabilities, and (ii) deepen our penetration of the Hong Kong E&M engineering industry by strengthening our research and development capabilities and increasing our brand awareness through marketing efforts, and hence the Directors believe that the Listing would assist us in achieving these business investment/expansion strategies.

### **Benefits from the Listing**

Our Directors believe that the Listing is beneficial to our Company and its Shareholders as a whole for the following reasons:

- our Directors believe that the Listing will facilitate the implementation of our business strategies. As stated in the subsection headed "Business – Our business strategies" in this prospectus, we plan to deepen our penetration of the Hong Kong E&M engineering industry, to expand and enhance our E&M engineering technical capability, as well as to strengthen our Group's financial capabilities to undertake more new and larger-scale E&M engineering projects;
- many of our customers, including main contractors in Hong Kong, and also our overseas competitors, have their respective parent company, group companies or itself publicly listed on the Stock Exchange or other exchanges. Our Directors believe that the Listing would enhance our standing with our existing and prospective customers and increase our level of competitiveness with our competitors;
- currently, our Group operates mainly by internal funding generated from its profits. Our Directors consider that as a group of private companies, it would be difficult for our Company, without a listing status, to obtain bank borrowings without guarantees or other forms of security or support provided by our Controlling Shareholders. It is anticipated that any bank borrowings to our Group would require our Controlling Shareholders to provide personal guarantees and other forms of security if our Company were not listed as was the case during the Track Record Period when our bank borrowings were secured by personal guarantees as provided by our Controlling Shareholders; and
- the Listing would provide a fund-raising platform for our Company, enabling us to raise the capital required to finance our future growth and expansion without reliance on our Controlling Shareholders to do so. Such platform would allow our Company to gain direct access to the capital market for equity and/or debt financing to fund its existing operations and future expansions, which could be instrumental to our expansion and improving our operating and financial performance for maximum Shareholder return.

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## UNDERWRITING

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### **PUBLIC OFFER UNDERWRITERS**

Kingsway Financial Services Group Limited  
Opus Capital Limited

### **UNDERWRITING**

This prospectus is published solely in connection with the Share Offer. The Public Offer is fully underwritten by the Public Offer Underwriters on a conditional basis. The Placing is expected to be fully underwritten by the Placing Underwriters subject to the terms and conditions of the Placing Underwriting Agreement. If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, the Share Offer will not proceed and will lapse.

The Share Offer comprises the Public Offer of initially 10,000,000 Public Offer Shares and the Placing of initially 90,000,000 Placing Shares, subject, in each case, to reallocation on the basis as described in the section headed “Structure of the Share Offer” in this prospectus as well as to the Offer Size Adjustment Option in the case of the Placing.

### **UNDERWRITING ARRANGEMENTS AND EXPENSES**

#### **Public Offer**

##### *Public Offer Underwriting Agreement*

Pursuant to the Public Offer Underwriting Agreement, we are offering the Public Offer Shares for subscription on the terms and conditions set out in this prospectus and the Application Forms relating thereto.

Subject to (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares to be issued as mentioned in this prospectus pursuant to the Share Offer (including any additional Shares that may be issued pursuant to the exercise of the Offer Size Adjustment Option) and (ii) certain other conditions set out in the Public Offer Underwriting Agreement, the Public Offer Underwriters have agreed severally, and not jointly, to subscribe or procure subscribers for their respective applicable proportions of the Public Offer Shares being offered which are not taken up under the Public Offer on the terms and conditions set out in this prospectus and the Application Forms relating thereto.

The Public Offer Underwriting Agreement is conditional on and subject to, among others, the Placing Underwriting Agreement having been executed and becoming unconditional and not having been terminated in accordance with its terms or otherwise.

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## UNDERWRITING

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### *Grounds for termination*

The obligations of the Public Offer Underwriters to subscribe or procure subscribers for the Public Offer Shares under the Public Offer Underwriting Agreement are subject to termination, if, at any time prior to 8:00 a.m. on the Listing Date:

- (i) there develops, occurs, exists or comes into effect:
  - (a) any event, or series of events, in the nature of force majeure (including, without limitation, any acts of government, declaration of a national or international emergency or war, calamity, crisis, epidemic, pandemic, outbreak or escalations of disease, economic sanctions, strikes, labour disputes, lock-outs, fire, explosion, flooding, earthquake, civil commotion, riots, public disorder, acts of war, outbreak or escalation of hostilities (whether or not war is declared), acts of God or acts of terrorism (whether or not responsibility has been claimed) in or affecting Hong Kong, the Cayman Islands, the BVI, or any other jurisdiction relevant to any member of the Group (the “**Relevant Jurisdictions**”);
  - (b) any change or development involving a prospective change, or any event or series of events likely to result in any change or development involving a prospective change, in local, national, regional or international financial, economic, political, military, industrial, fiscal, regulatory, currency, credit or market conditions, equity securities or other financial markets (including, without limitation, conditions in the stock and bond markets, money and foreign exchange markets, the interbank markets and credit markets), in or affecting any of the Relevant Jurisdictions;
  - (c) any moratorium, suspension or restriction (including, without limitation, any imposition of or requirement for any minimum or maximum price limit or price range) in or on trading in securities generally on the Stock Exchange;
  - (d) any general moratorium on commercial banking activities in any Relevant Jurisdictions, declared by the relevant authorities, or any disruption in commercial banking or foreign exchange trading or securities settlement or clearance services, procedures or matters in those places or jurisdictions;
  - (e) any new law or regulation or any change or development involving a prospective change in existing laws or regulations or any change or development involving a prospective change in the interpretation or application thereof by any governmental authority in or affecting any of the Relevant Jurisdictions;
  - (f) the imposition of economic sanctions, in whatever form, directly or indirectly, by, or for, any of the Relevant Jurisdictions;

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## UNDERWRITING

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- (g) a change or development involving a prospective change or amendment in taxation or exchange control, currency exchange rates or foreign investment regulations (including, without limitation, a devaluation of the Hong Kong dollar or Renminbi against any foreign currencies, a change in the system under which the value of the Hong Kong dollar is linked to that of the United States dollar or the Renminbi is linked to any foreign currency or currencies), or the implementation of any exchange control, in any of the Relevant Jurisdictions adversely affecting an investment in the Shares;
- (h) any potential litigation or disputes which would affect the operation, financial condition or reputation of the Group;
- (i) any Director is being charged with an indictable offence or prohibited by operation of law or otherwise disqualified from taking part in the management of a company;
- (j) the chairman of the Board or any of the Executive Directors vacating his or her office;
- (k) any governmental authority or a political body or organisation in any Relevant Jurisdiction is commencing any investigation or other action, or announcing an intention to investigate or take other action, against any Director;
- (l) any contravention by any member of our Group of the GEM Listing Rules or applicable laws;
- (m) any prohibition on our Company for whatever reason from allotting or selling the Offer Shares pursuant to the terms of the Share Offer;
- (n) any non-compliance of this prospectus (or any other documents used in connection with the Share Offer) or any aspect of the Share Offer with the GEM Listing Rules or any other applicable laws;
- (o) any order or petition for the winding-up of any member of our Group or any composition or arrangement made by any member of our Group with its creditors or a scheme of arrangement entered into by any member of our Group or any resolution for the winding-up of any member of our Group or the appointment of a provisional liquidator, receiver or manager over all or part of the material assets or undertaking of any member of our Group or anything analogous thereto occurring in respect of any member of our Group; or
- (p) any change or prospective change, or a materialisation of, any of the risks set out in the section headed “Risk Factors” in this prospectus,



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## UNDERWRITING

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which, individually or in the aggregate, in the reasonable opinion of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) (1) has or will or may have a material adverse effect on the assets, liabilities, business, general affairs, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole, (2) has or will have or may have a material adverse effect on the success of the Share Offer or the level of applications under the Public Offer or the level of interest under the Placing, or (3) makes or will make or is likely to make it inadvisable or inexpedient or impracticable for the Share Offer to proceed or to proceed with the Share Offer in accordance with its terms or preventing the processing of applications and/or payments pursuant to the Share Offer or pursuant to the underwriting thereof; or

- (ii) there has come to the notice of the Sole Sponsor and the Joint Bookrunners:
  - (a) that any offer document (including any supplement or amendment thereto) was, when it was issued, or has become, untrue, incorrect, inaccurate or misleading in any material respect, or that any estimate, forecast, expression of opinion, intention or expectation contained in any of such documents is not fair and honest and based on reasonable assumptions;
  - (b) that any matter has arisen or has been discovered which would, had it arisen or been discovered immediately before the date of this prospectus, constitute a material omission from this prospectus or any offer document issued or used by or on behalf of our Company in connection with the Share Offer (including any supplement or amendment thereto);
  - (c) the issue of or the requirement to issue by our Company any supplementary prospectus (or to any other documents used in connection with the Share Offer) pursuant to the Companies Ordinance, the Companies (Winding Up and Miscellaneous Provisions) Ordinance or the GEM Listing Rules or any requirement or request of the Stock Exchange and/or the SFC in circumstances where the matter to be disclosed is in the reasonable opinion of the Joint Bookrunners, materially adverse to the marketing for or implementation of the Share Offer;
  - (d) any material breach of any of the obligations or undertakings imposed upon any party to the Underwriting Agreements (other than upon any of the Sole Sponsor, the Joint Bookrunners, the Joint Lead Managers or the Underwriters);
  - (e) any event, act or omission which gives or is likely to give rise to any material liability of any of our Company, the Controlling Shareholders and the Executive Directors (collectively, the “**Warrantors**”) pursuant to the indemnities given by any of them under the Public Offer Underwriting Agreement;

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## UNDERWRITING

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- (f) any material adverse change or development or any prospective material adverse change or development in the assets, liabilities, business, general affairs, management, prospects, shareholders' equity, profits, losses, results of operations, position or condition, financial or otherwise, or performance of our Group as a whole and the effect of which is, in the reasonable opinion of the Joint Bookrunners, so adverse in a material respect as to make it impracticable or inadvisable to proceed with the Share Offer;
- (g) any material breach of, or any event rendering untrue or incorrect in any material respect, any of the warranties given by any of the Warrantors in the Public Offer Underwriting Agreement;
- (h) that the approval by the Stock Exchange of the listing of, and permission to deal in, the Shares in issue and to be issued pursuant to the Share Offer is refused or not granted, other than subject to customary conditions, on or before the date of the listing, or if granted, the approval is subsequently withdrawn, qualified (other than by customary conditions) or withheld;
- (i) that our Company withdraws this prospectus (and/or any other document issued or used in connection with the Share Offer) or the Share Offer;
- (j) any person (other than any of the Underwriters) has withdrawn or sought to withdraw its consent to being named in any of the offer documents or to the issue of any of the offer documents.

### **Undertakings to the Stock Exchange pursuant to the GEM Listing Rules**

#### *(A) Undertakings by our Company*

We have undertaken to the Stock Exchange that, except in certain circumstances prescribed by Rule 17.29 of the GEM Listing Rules or pursuant to the Share Offer, no further shares or securities convertible into equity securities of our Company (whether or not of a class already listed) may be issued or form the subject of any agreement to such an issue within six months from the Listing Date (whether or not such issue of shares or securities will be completed within six months from the Listing Date).

#### *(B) Undertakings by the Controlling Shareholders*

Pursuant to Rule 13.16A(1) of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and our Company, except pursuant to the Share Offer and save as permitted under the GEM Listing Rules, that he or it shall not and shall procure that the registered holder(s) of the Shares, any nominees or trustee holding the Shares in trust for us (as the case may be) shall not:

- (i) in the period commencing on the date by reference (the “**Reference Date**”) to which disclosure of his or its shareholdings is made in this prospectus and ending on the date (the “**End Date**”) which is six months from Listing Date, dispose of, nor enter into any agreement to dispose of or otherwise create any options, rights,

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## UNDERWRITING

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interests or encumbrances in respect of (but save pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as security for a bona fide commercial loan) any of our Shares or securities of our Company owned by him or it or the relevant registered holder(s), nominee or trustee (including any interest in any shares in any company controlled by him or it which is, directly or indirectly, the beneficial owner of any of our Shares or securities of our Company) (the “**Relevant Securities**”); and

- (ii) in the period of six months commencing from the End Date, dispose of, nor enter into any agreement to dispose of, or otherwise create any options, rights, interests or encumbrances in respect of (but save pursuant to a pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong), as security for a bona fide commercial loan) any of the Relevant Securities if, immediately following such disposal or upon the exercise or enforcement of such options, rights, interests or encumbrances, he or it would cease to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company.

Pursuant to Rule 13.19 of the GEM Listing Rules, each of the Controlling Shareholders has undertaken to the Stock Exchange and our Company that, within the period commencing on the Reference Date and ending on the date which is 12 months from the Listing Date, each of the Controlling Shareholder shall:

- (i) in the event that he or it pledges or charges any Shares beneficially owned by him or it in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) pursuant to Rule 13.18(1) of the GEM Listing Rules, immediately inform our Company of the details of such pledge or charge (including the number and class of securities so pledged or charged, the purpose for which the pledge or charge is made and any other relevant details); and
- (ii) in the event that he or it receives indications, either verbal or written, from the pledgee or chargee that any of the pledged or charged securities of our Company have been or will be disposed of, immediately inform our Company of such indications.

Pursuant to Rule 13.20 of the GEM Listing Rules, in the event that our Company has been informed of any matter under Rule 13.19 of the GEM Listing Rules as described above, our Company shall forthwith publish an announcement giving details of the same in accordance with the requirements of Rule 17.43 of the GEM Listing Rules.

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## UNDERWRITING

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### Undertakings pursuant to the Public Offer Underwriting Agreement

*(A) Undertakings by our Company*

We have also undertaken to each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, except pursuant to the Public Offer, at any time from the date of the Public Offer Underwriting Agreement until expiry of six months from the Listing Date (the “**First Six-Month Period**”), we shall not, and shall procure that each other member of our Group shall not, without the prior written consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules:

- (i) allot, issue, sell, accept subscription for, offer to allot, issue or sell, contract or agree to allot, issue or sell, grant or sell any option, warrant, contract or right to subscribe for or purchase, either directly or indirectly, conditionally or unconditionally, any Shares or any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares; or
- (ii) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Shares, any other equity securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for, or represent the right to receive, or any warrants or other rights to purchase, any Shares); or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or
- (iv) offer to, or agree to, or contract to, or announce any intention to effect any transaction specified in paragraph (i) or (ii) above,

in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or such other equity securities of our Company, or in cash or otherwise (whether or not the issue of the Shares or such other securities will be completed within the First Six-Month Period), provided that the foregoing restrictions shall not apply to the issue of Shares by our Company pursuant to the Reorganisation and the Share Offer (including pursuant to the exercise of the Offer Size Adjustment Option).

In the event that, during the period of six months commencing on the date on which the First Six-Month Period expires (the “**Second Six-Month Period**”), our Company enters into any of the transactions specified in paragraphs (i), (ii) or (iii) above or offers to or agrees to or announces any intention to effect any such transaction, our Company shall take all reasonable steps to ensure that such transaction, agreement or, as the case may be, announcement will not create a disorderly or false market in the securities of our Company.

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## UNDERWRITING

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*(B) Undertakings by the Controlling Shareholders*

Each of the Controlling Shareholders has undertaken to us, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, except pursuant to the Share Offer and/ or the Offer Size Adjustment Option, without the prior consent of the Joint Bookrunners (for themselves and on behalf of the Public Offer Underwriters) and unless in compliance with the requirements of the GEM Listing Rules, each of the Controlling Shareholders will not, and will procure that his/its affiliates and associates (as defined in the GEM Listing Rules) or any company controlled by him/it or any nominee or trustee holding in trust for him/it will not, at any time during the First Six-Month Period:

- (i) offer, sell, pledge, mortgage, charge, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant or agree to grant any option, right or warrant to purchase or subscribe for, make any short sale, lend, or otherwise transfer or dispose of (nor enter into any agreement to transfer or dispose of or otherwise create any options, rights, interests or encumbrance in respect of), either directly or indirectly, conditionally or unconditionally, any of the Shares or other securities of our Company or any interest in any of the foregoing (including, without limitation, any securities which are convertible into or exchangeable or exercisable for or that represent the right to receive, or any warrants or other rights to purchase, any Shares or securities or interest therein) beneficially owned by him/it (the “**Lock-up Securities**”); or
- (ii) enter into any swap or other arrangement that transfers, before the expiry of the Second Six-Month Period to another, in whole or in part, any of the economic consequences of ownership of the Lock-up Securities; or
- (iii) enter into any transaction with the same economic effect as any transaction specified in paragraph (i) or (ii) above; or
- (iv) offer to, or agree to, or contract to, or announce any intention to effect any transaction specified in paragraph (i), (ii) or (iii) above,

in each case, whether any of the transactions specified in paragraph (i), (ii) or (iii) above is to be settled by delivery of Shares or any other securities of our Company, or in cash or otherwise (whether or not the issue of such share capital or other securities will be completed within the First Six-Month Period).

During the Second Six-Month Period, each of the Controlling Shareholders will not, and will procure that his/its affiliates and associates (as defined in the GEM Listing Rules) or any company controlled by him/it or any nominee or trustee holding in trust for him/it will not, enter into any of the transactions in paragraph (i), (ii) or (iii) above or offer to, or agree to, or contract to, or announce any intention to effect any such transaction if, immediately following any sale, transfer or disposal or upon the exercise or enforcement of any option, right, interest or encumbrance pursuant to such transaction, any of the Controlling Shareholders ceases to be a controlling shareholder (as defined in the GEM Listing Rules) of our Company.

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## UNDERWRITING

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Until the expiry of the Second Six-Month Period, in the event that each of the Controlling Shareholders enters into any transactions specified in paragraph (i), (ii) or (iii) above or offers to, or agrees to, or contracts to, or announce any intention to effect any such transactions, he or it will take all reasonable steps to ensure that he/it will not create a disorderly or false market in the securities of our Company.

Each of the Controlling Shareholders has further undertaken to us, the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that he/it will, at any time within the period commencing on the date of the Public Offer Underwriting Agreement and ending on the date which is 12 months after the Listing Date:

- (i) upon any pledge or charge in favour of an authorised institution (as defined in the Banking Ordinance (Chapter 155 of the Laws of Hong Kong)) of any Shares or other securities of our Company beneficially owned by him/it for a bona fide commercial loan, immediately inform our Company and the Joint Bookrunners in writing of such pledge or charge together with the number of Shares or other securities of our Company which are so pledged or charged; and
- (ii) upon any indication received by it, either verbal or written, from any pledgee or chargee that any of the pledged or charged Shares or other equity securities of our Company will be disposed of, immediately inform our Company and the Joint Bookrunners in writing of such indications.

We agree and undertake to each of the Sole Sponsor, the Joint Bookrunners and the Public Offer Underwriters that, upon receiving such information in writing from any of the Controlling Shareholders, we shall, as soon as possible, notify the Stock Exchange and make a public announcement in relation to such information in accordance with the GEM Listing Rules.

### **Placing**

#### *Placing Underwriting Agreement*

In connection with the Placing, our Controlling Shareholders and our Company expect to enter into the Placing Underwriting Agreement with the Joint Bookrunners and the Placing Underwriters on or about the Price Determination Date. Under the Placing Underwriting Agreement, the Placing Underwriters would, subject to certain conditions set out therein, agree severally, and not jointly, to subscribe for, or procure subscribers for, their respective applicable proportions of the Placing Shares initially being offered pursuant to the Placing. Potential investors are reminded that in the event that the Placing Underwriting Agreement is not entered into, the Share Offer will not proceed. Please refer to the subsection headed “Structure of the Share Offer – The Placing” in this prospectus for further details.

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## UNDERWRITING

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### *Offer Size Adjustment Option*

Our Company is expected to grant to the Placing Underwriters the Offer Size Adjustment Option, exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters), whereby our Company may be required to allot and issue up to 15,000,000 additional Shares, representing up to 15% of the number of Offer Shares initially available under the Share Offer, at the Offer Price solely to cover over-allocations in the Placing, if any. Please refer to the paragraph headed “Structure of the Share Offer – Offer Size Adjustment Option” in this prospectus for further details.

### **Commission and Expenses**

The Underwriters will receive an underwriting commission of 5% of the aggregate Offer Price of all the Offer Shares (including any Offer Shares to be sold pursuant to the exercise of the Offer Size Adjustment Option), out of which they will pay any sub-underwriting commissions and other fees.

For unsubscribed Public Offer Shares reallocated to the Placing, our Company will pay an underwriting commission at the rate applicable to the Placing and such commission will be paid to the Joint Bookrunners and the relevant Placing Underwriters (but not the Public Offer Underwriters).

The aggregate underwriting commissions and fees together with the Stock Exchange listing fees, the SFC transaction levy and the Stock Exchange trading fee, legal and other professional fees and printing and all other expenses relating to the Share Offer are estimated to be approximately HK\$24.0 million (assuming (i) an Offer Price of HK\$0.60 per Offer Share (which is the midpoint of the Offer Price range); and (ii) the Offer Size Adjustment Option is not exercised at all) and will be paid by our Company.

### *Underwriters’ Interests in our Company*

Save for their respective obligations under the Underwriting Agreement, as of the Latest Practicable Date, none of the Underwriters was interested, legally or beneficially, directly or indirectly, in any Shares or any securities of any member of the Group or had any right or option (whether legally enforceable or not) to subscribe for or purchase, or to nominate persons to subscribe for or purchase, any Shares or any securities of any member of the Group.

Following the completion of the Share Offer, the Underwriters and their respective affiliated companies may hold a certain portion of the Shares as a result of fulfilling their respective obligations under the Underwriting Agreements.

### **Indemnity**

We and the Controlling Shareholders have agreed to indemnify the Sole Sponsor, the Joint Bookrunners and the Underwriters for certain losses which they may suffer or incur, including losses arising from their performance of their obligations under the Underwriting Agreements.

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## UNDERWRITING

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### **INDEPENDENCE OF THE SOLE SPONSOR**

The Sole Sponsor satisfies the independence criteria applicable to sponsors set out in Rule 6A.07 of the GEM Listing Rules.



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## STRUCTURE OF THE SHARE OFFER

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### THE SHARE OFFER

This prospectus is published in connection with the Share Offer. Kingsway Capital Limited is the Sole Sponsor. Kingsway Financial Services Group Limited and Opus Capital Limited are the Joint Bookrunners and the Underwriters. Kingsway Financial Services Group Limited, Opus Capital Limited and Sanfull Securities Limited are the Joint Lead Managers.

The listing of the Shares on the Stock Exchange is sponsored by the Sole Sponsor. The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for the listing of, and permission to deal in, the Shares in issue and to be issued as mentioned in this prospectus.

100,000,000 Offer Shares will initially be made available under the Share Offer comprising:

- (i) the Public Offer of 10,000,000 Shares (subject to reallocation) in Hong Kong as described in the subsection headed “The Public Offer” below; and
- (ii) the Placing of initially 90,000,000 Shares (subject to reallocation and the Offer Size Adjustment Option) to professional and institutional investors as described in the subsection headed “The Placing” below.

Investors may either:

- (i) apply for Public Offer Shares under the Public Offer; or
- (ii) apply for or indicate an interest for Placing Shares under the Placing,

but may not do both.

The Offer Shares will represent approximately 25% of the total Shares in issue immediately following the completion of the Share Offer, assuming the Offer Size Adjustment Option is not exercised. If the Offer Size Adjustment Option is exercised in full, the Offer Shares will represent approximately 27.7% of the total Shares in issue immediately following the completion of the Share Offer and the exercise of the Offer Size Adjustment Option as set out in the subsection headed “The Placing – Offer Size Adjustment Option” below.

References in this prospectus to applications, Application Forms, application monies or the procedure for applications relate solely to the Public Offer.

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## STRUCTURE OF THE SHARE OFFER

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### THE PUBLIC OFFER

#### Number of Offer Shares initially offered

We are initially offering 10,000,000 Shares for subscription by the public in Hong Kong at the Offer Price, representing 10% of the total number of Offer Shares initially available under the Share Offer. The number of Shares initially offered under the Public Offer, subject to any reallocation of Offer Shares between the Placing and the Public Offer, will represent approximately 2.5% of the total Shares in issue immediately following the completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised).

The Public Offer is open to members of the public in Hong Kong as well as to institutional and professional investors. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealing in shares and other securities and corporate entities that regularly invest in shares and other securities.

Completion of the Public Offer is subject to the conditions set out in the subsection headed “Conditions of the Share Offer” below.

#### Allocation

Allocation of Offer Shares to investors under the Public Offer will be based solely on the level of valid applications received under the Public Offer. The basis of allocation may vary, depending on the number of Public Offer Shares validly applied for by applicants. Such allocation could, where appropriate, consist of balloting, which could mean that some applicants may receive a higher allocation than others who have applied for the same number of Public Offer Shares, and those applicants who are not successful in the ballot may not receive any Public Offer Shares.

#### Reallocation

The allocation of Offer Shares between the Public Offer and the Placing is subject to reallocation on the following basis:

- (i) if the number of the Offer Shares validly applied for under the Public Offer represents 15 times or more but less than 50 times the number of the Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 30,000,000 Offer Shares, representing 30% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option);
- (ii) if the number of the Offer Shares validly applied for under the Public Offer represents 50 times or more but less than 100 times the number of the Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total

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## STRUCTURE OF THE SHARE OFFER

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number of the Offer Shares available under the Public Offer will be increased to 40,000,000 Offer Shares, representing 40% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option); and

- (iii) if the number of the Offer Shares validly applied for under the Public Offer represents 100 times or more the number of the Offer Shares initially available for subscription under the Public Offer, then Offer Shares will be reallocated to the Public Offer from the Placing, so that the total number of the Offer Shares available under the Public Offer will be increased to 50,000,000 Offer Shares, representing 50% of the number of the Offer Shares initially available under the Share Offer (before any exercise of the Offer Size Adjustment Option).

In all cases, the number of Offer Shares allocated to the Placing will be correspondingly reduced.

In addition, if the Public Offer Shares are under-subscribed, the Joint Bookrunners have the authority to reallocate all or any of the unsubscribed Public Offer Shares to the Placing.

### **Applications**

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow it to identify the relevant applications under the Public Offer.

References in this prospectus to applications, Application Forms, application monies or to the procedure for application relate solely to the Public Offer.

### **THE PLACING**

#### **Number of Offer Shares initially offered**

The Placing will consist of an offering of initially 90,000,000 Shares, representing 90% of the total number of Offer Shares initially available under the Share Offer. The number of Shares initially offered under the Placing, subject to any reallocation of Offer Shares between the Placing and the Public Offer, will represent approximately 22.5% of the total Shares in issue immediately following the completion of the Share Offer (assuming the Offer Size Adjustment Option is not exercised).

#### **Allocation**

The Placing will include selective marketing of the Placing Shares to professional, institutional and/or other investors anticipated to have a sizeable demand for the Placing Shares. Professional investors generally include brokers, dealers, companies (including fund managers) whose ordinary business involves dealings in shares and other securities and corporate entities which regularly invest in shares and other securities. Allocation of the Placing Shares pursuant to the Placing will be effected in accordance with the

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## STRUCTURE OF THE SHARE OFFER

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“book-building” process described in the subsection headed “Pricing and allocation” below and based on a number of factors, including the level and timing of demand, the total size of the relevant investor’s invested assets or equity assets in the relevant sector and whether or not it is expected that the relevant investor is likely to buy further Offer Shares, and/or hold or sell its Offer Shares, after the Listing. Such allocation is intended to result in a distribution of the Offer Shares on a basis which would lead to the establishment of a solid professional and institutional shareholder base to the benefit of our Group and the Shareholders as a whole.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may require any investor who has been offered the Placing Shares under the Placing and who has made an application under the Public Offer to provide sufficient information to the Joint Bookrunners so as to allow them to identify the relevant applications under the Public Offer and to ensure that they are excluded from any allocation of Offer Shares under the Public Offer.

### **Reallocation**

The total number of Offer Shares to be issued or sold pursuant to the Placing may change as a result of the claw back arrangement described in the subsection headed “The Public Offer – Reallocation” above, the exercise of the Offer Size Adjustment Option in whole or in part and/or any reallocation of unsubscribed Offer Shares originally included in the Public Offer.

### **Offer Size Adjustment Option**

Our Company proposes to grant the Offer Size Adjustment Option to the Placing Underwriters, exercisable by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters) at any time during the period from the date of the Placing Underwriting Agreement to the business day immediately before the date of the announcement of the results of allocations and the basis of allocation of the Public Offer Shares, to require our Company to allot and issue up to an aggregate of 15,000,000 additional Placing Shares, representing 15% of the number of the Offer Shares initially being offered under the Share Offer, on the same terms as those applicable to the Share Offer. The Offer Size Adjustment Option will not be used for price stabilisation purposes in the secondary market after listing of the Shares on the Stock Exchange and is not subject to the Securities and Futures (Price Stabilizing) Rules (Chapter 571W of the Laws of Hong Kong). Any such additional Shares may be issued to cover any excess demand in the Placing and in the event that the Offer Size Adjustment Option is exercised with the consent of our Company, the Joint Bookrunners may decide to whom and proportions in which the additional Shares will be allotted. If the Offer Size Adjustment Option is exercised in full, the additional 15,000,000 Shares and the Offer Shares will represent approximately 3.6% and 24.1% respectively of our Company’s enlarged share capital immediately after completion of the Share Offer and the exercise of the Offer Size Adjustment Option.

Our Company will disclose in the announcement of the results of allocations and the basis of allocation of the Public Offer Shares whether, and to what extent, the Offer Size Adjustment Option has been exercised. In the event that the Offer Size Adjustment Option

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## STRUCTURE OF THE SHARE OFFER

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has not been exercised by the Joint Bookrunners (for themselves and on behalf of the Placing Underwriters), our Company will confirm in such announcement that the Offer Size Adjustment Option has lapsed and cannot be exercised at any future date.

### PRICING AND ALLOCATION

Pricing for the Offer Shares for the purpose of the Share Offer will be fixed on the Price Determination Date, which is expected to be on or about Monday, 9 October 2017 and, in any event, not later than Thursday, 12 October 2017, by agreement among the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company.

The Offer Price will not be more than HK\$0.72 per Offer Share and is expected to be not less than HK\$0.48 per Offer Share, unless otherwise announced, as further explained below. Applicants under the Public Offer must pay, on application, the maximum Offer Price of HK\$0.72 per Offer Share plus brokerage of 1.0%, SFC transaction levy of 0.0027% and Stock Exchange trading fee of 0.005%, amounting to a total of HK\$3,636.28 for one Board Lot of 5,000 Shares. **Prospective investors should be aware that the Offer Price to be determined on the Price Determination Date may be, but is not expected to be, lower than the minimum Offer Price stated in this prospectus.**

The Placing Underwriters will be soliciting from prospective investors indications of interest in acquiring Offer Shares in the Placing. Prospective professional and institutional investors will be required to specify the number of Offer Shares under the Placing they would be prepared to acquire either at different prices or at a particular price. This process, known as “book-building”, is expected to continue up to, and to cease on or about, the last day for lodging applications under the Public Offer.

The Joint Bookrunners (for themselves and on behalf of the Underwriters) may, where it deems appropriate, based on the level of interest expressed by prospective investors during the book-building process in respect of the Placing, and with the consent of our Company, reduce the number of Offer Shares offered in the Share Offer and/or the indicative Offer Price range below that stated in this prospectus at any time on or prior to the morning of the last day for lodging applications under the Public Offer. In such a case, our Company will, as soon as practicable following the decision to make such reduction, and in any event not later than the morning of the last day for lodging applications under the Public Offer, cause to be published on the websites of our Company and the Stock Exchange at [www.kml.com.hk](http://www.kml.com.hk) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, notices of the reduction. Upon the issue of such a notice, the revised number of Offer Shares and/or the Offer Price range will be final and conclusive and the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will be fixed within such revised Offer Price range.

Applicants should have regard to the possibility that any announcement of a reduction in the number of Offer Shares being offered in the Share Offer and/or the indicative Offer Price range may not be made until the last day for lodging applications under the Public Offer. Such notice will also include confirmation or revision, as appropriate, of the Share Offer statistics as currently set out in this prospectus, and any other financial information which may change as a result of any such reduction. In the absence of any such notice so

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## **STRUCTURE OF THE SHARE OFFER**

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published, the number of Offer Shares will not be reduced and/or the Offer Price, if agreed upon by the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company, will under no circumstances be set outside the Offer Price range as stated in this prospectus.

The final Offer Price, the level of applications in the Public Offer, the basis of allocations of the Offer Shares and the results of allocations in the Public Offer are expected to be made available through a variety of channels in the manner described in the subsection headed “How to Apply for Public Offer Shares – 11. Publication of results” in this prospectus.

### **UNDERWRITING**

The Share Offer is fully underwritten by the Underwriters under the terms and conditions of the Public Offer Underwriting Agreement and is conditional upon the Placing Underwriting Agreement being signed and becoming unconditional.

We expect to enter into the Placing Underwriting Agreement relating to the Placing on or around the Price Determination Date.

These underwriting arrangements, including the Underwriting Agreements, are summarized in the section headed “Underwriting” in this prospectus.

### **CONDITIONS OF THE SHARE OFFER**

Acceptance of all applications for Offer Shares will be conditional on, among others:

- (i) the Stock Exchange granting approval for the listing of, and permission to deal in, the Shares in issue and to be issued as described in this prospectus;
- (ii) the Offer Price having been agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company;
- (iii) the execution and delivery of the Placing Underwriting Agreement on or about the Price Determination Date; and
- (iv) the obligations of the Underwriters under the Underwriting Agreement becoming unconditional and not having been terminated in accordance with the terms of the agreement.

If, for any reason, the Offer Price is not agreed between the Joint Bookrunners (for themselves and on behalf of the Underwriters) and our Company on or before Thursday, 12 October 2017, the Share Offer will not proceed and will lapse.

The consummation of each of the Public Offer and the Placing is conditional upon, among other things, the other offering becoming unconditional and not having been terminated in accordance with its terms.

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## STRUCTURE OF THE SHARE OFFER

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If the above conditions are not fulfilled or waived prior to the dates and times specified, the Share Offer will lapse and the Stock Exchange will be notified immediately. Notice of the lapse of the Share Offer will be published on the websites of our Company and the Stock Exchange at [www.kml.com.hk](http://www.kml.com.hk) and [www.hkexnews.hk](http://www.hkexnews.hk), respectively, on the next day following such lapse. In such a situation, all application monies will be returned, without interest, on the terms set out in the section headed “How to Apply for Public Offer Shares” in this prospectus. In the meantime, all application monies will be held in separate bank account(s) with the receiving bank or other bank(s) in Hong Kong licensed under the Banking Ordinance (Chapter 155 of the Laws of Hong Kong).

Share certificates for the Offer Shares will only become valid at 8:00 a.m. on Monday, 16 October 2017, provided that the Share Offer has become unconditional in all respects at or before that time.

### DEALINGS IN THE SHARES

Assuming that the Share Offer becomes unconditional at or before 8:00 a.m. in Hong Kong on Monday, 16 October 2017, it is expected that dealings in our Shares on the Stock Exchange will commence at 9:00 a.m. on Monday, 16 October 2017.

The Shares will be traded in Board Lots of 5,000 Shares each and the stock code of the Shares will be 8065.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 1. HOW TO APPLY

If you apply for the Public Offer Shares, then you may not apply for or indicate an interest for the Placing Shares.

To apply for the Public Offer Shares, you may:

- use a **WHITE** or **YELLOW** Application Form;
- apply online via **HK eIPO White Form** service at [www.hkeipo.hk](http://www.hkeipo.hk); or
- electronically cause HKSCC Nominees to apply on your behalf.

None of you or your joint applicant(s) may make more than one application, except where you are a nominee and provide the required information in your application.

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents may reject or accept any application in full or in part for any reason at their discretion.

### 2. WHO CAN APPLY FOR THE PUBLIC OFFER SHARES

You can apply for the Public Offer Shares on a **WHITE** or **YELLOW** Application Form if you (or the person(s) for whose benefit you are applying):

- are 18 years of age or older;
- have a Hong Kong address;
- are outside the United States, and are not a United States Person (as defined in Regulation S); and
- are not a legal or natural person of the PRC.

If you apply online through the **HK eIPO White Form** service, in addition to the above, you must also:

- have a valid Hong Kong identity card number; and
- provide a valid e-mail address and a contact telephone number.

If you are a firm, the application must be in the individual members' names. If you are a body corporate, the Application Form must be signed by a duly authorised officer, who must state his or her representative capacity, and stamped with your corporation's chop.

If an application is made by a person under a power of attorney, the Joint Bookrunners may accept or reject it at their discretion, and on any conditions they think fit, including evidence of the attorney's authority.



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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The number of joint applicants may not exceed four and they may not apply by means of **HK eIPO White Form** service for the Public Offer Shares.

Unless permitted by the GEM Listing Rules, you cannot apply for any Public Offer Shares if you:

- are an existing beneficial owner of Shares and/or any of our subsidiaries;
- are a Director or chief executive officer of our Company and/or any of our subsidiaries;
- are an associate of any of the above;
- are a connected person of our Company or will become a connected person of our Company immediately upon completion of the Share Offer; and/or
- have been allocated or have applied for any Placing Shares or otherwise participate in the Placing.

### 3. APPLYING FOR PUBLIC OFFER SHARES

#### Which Application Channel to Use

For Public Offer Shares to be issued in your own name, use a **WHITE** Application Form or apply online through [www.hkeipo.hk](http://www.hkeipo.hk).

For Public Offer Shares to be issued in the name of HKSCC Nominees and deposited directly into CCASS to be credited to your or a designated CCASS Participant's stock account, use a **YELLOW** Application Form or electronically instruct HKSCC via CCASS to cause HKSCC Nominees to apply for you.

#### Where to Collect the Application Forms and prospectuses

You can collect a **WHITE** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 29 September 2017 until 12:00 noon on Friday, 6 October 2017 from:

- (i) any of the following offices of the Joint Bookrunners:

Kingsway Financial Services Group Limited	7th Floor Tower One, Lippo Centre 89 Queensway Hong Kong
Opus Capital Limited	18th Floor, Fung House 19-20 Connaught Road Central Central Hong Kong

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (ii) any of the following branches of the receiving bank for the Public Offer:

**DBS Bank (Hong Kong) Limited**

<b>District</b>	<b>Branch Name</b>	<b>Address</b>
Hong Kong Island	North Point Branch	G/F, 391 King's Road, North Point
Kowloon	San Po Kong – SME Banking Centre	Units 01 & 02, G/F, Winning Centre, 29 Tai Yau Street, San Po Kong
	Yaumatei Branch	G/F & 1/F, 131-137 Woo Sung Street, Yau Ma Tei
New Territories	Kwai Chung Branch	G/F, 1001 Kwai Chung Road, Kwai Chung

You can collect a **YELLOW** Application Form and a prospectus during normal business hours from 9:00 a.m. on Friday, 29 September 2017 until 12:00 noon on Friday, 6 October 2017 from:

- (i) the Depository Counter of HKSCC at 1/F, One & Two Exchange Square, 8 Connaught Place, Central, Hong Kong; or
- (ii) your stockbroker.

### **Time for Lodging Application Forms**

Your completed **WHITE** or **YELLOW** Application Form, together with a cheque or a banker's cashier order attached and marked payable to "Ting Hong Nominees Limited – KML Tech Public Offer" for the payment, should be deposited in the special collection boxes provided at any of the branches of the receiving bank listed above, at the following times:

**Friday, 29 September 2017 – 9:00 a.m. to 5:00 p.m.**  
**Saturday, 30 September 2017 – 9:00 a.m. to 1:00 p.m.**  
**Tuesday, 3 October 2017 – 9:00 a.m. to 5:00 p.m.**  
**Wednesday, 4 October 2017 – 9:00 a.m. to 5:00 p.m.**  
**Friday, 6 October 2017 – 9:00 a.m. to 12:00 noon**

The application lists will be open from 11:45 a.m. to 12:00 noon on Friday, 6 October 2017, the last application day or such later time as described in the subsection headed "10. Effect of bad weather on the opening of the applications lists" in this section.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 4. TERMS AND CONDITIONS OF AN APPLICATION

Follow the detailed instructions in the Application Form carefully; otherwise, your application may be rejected.

By submitting an Application Form or applying through the **HK eIPO White Form** service, among other things, you:

- undertake to execute all relevant documents and instruct and authorise our Company and/or the Joint Bookrunners (or their agents or nominees) as agents of our Company, to execute any documents for you and to do on your behalf all things necessary to register any Public Offer Shares allocated to you in your name or in the name of HKSCC Nominees as required by the Articles;
- agree to comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles;
- confirm that you have read the terms and conditions and application procedures set out in this prospectus and in the Application Form and agree to be bound by them;
- confirm that you have received and read this prospectus and have only relied on the information and representations contained in this prospectus in making your application and will not rely on any other information or representations except those in any supplement to this prospectus;
- confirm that you are aware of the restrictions on the Share Offer in this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not in this prospectus (and any supplement to it);
- undertake and confirm that you or the person(s) for whose benefit you have made the application have not applied for or taken up, or indicated an interest for, and will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing nor participated in the Placing;
- agree to disclose to our Company, the Hong Kong Share Registrar, receiving bank, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents any personal data which they may require about you and the person(s) for whose benefit you have made the application;
- if the laws of any place outside Hong Kong apply to your application, agree and warrant that you have complied with all such laws and none of our Company, the Joint Bookrunners and the Underwriters nor any of their respective officers or advisers will breach any law outside Hong Kong as a result of the acceptance of

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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your offer to purchase, or any action arising from your rights and obligations under the terms and conditions contained in this prospectus and the Application Form;

- agree that once your application has been accepted, you may not rescind it because of an innocent misrepresentation;
- agree that your application will be governed by the laws of Hong Kong;
- represent, warrant and undertake that (i) you understand that the Public Offer Shares have not been and will not be registered under the U.S. Securities Act; and (ii) you and any person for whose benefit you are applying for the Public Offer Shares are outside the United States (as defined in Regulation S) or are a person described in paragraph (h)(3) of Rule 902 of Regulation S;
- warrant that the information you have provided is true and accurate;
- agree to accept the Public Offer Shares applied for, or any lesser number allocated to you under the application;
- authorise our Company to place your name(s) or the name of the HKSCC Nominees, on our Company's register of members as the holder(s) of any Public Offer Shares allocated to you, and our Company and/or its agents to send any share certificate(s) and/or any e-Auto Refund payment instructions and/or any refund cheque(s) to you or the first-named applicant for joint application by ordinary post at your own risk to the address stated on the application, unless you have chosen to collect the share certificate(s) and/or refund cheque(s) in person;
- declare and represent that this is the only application made and the only application intended by you to be made to benefit you or the person for whose benefit you are applying;
- understand that our Company and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted for making a false declaration;
- (if the application is made for your own benefit) warrant that no other application has been or will be made for your benefit on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider by you or by any one as your agent or by any other person; and
- (if you are making the application as an agent for the benefit of another person) warrant that (i) no other application has been or will be made by you as agent for or for the benefit of that person or by that person or by any other person as agent for that person on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form**

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Service Provider; and (ii) you have due authority to sign the Application Form or give **electronic application instructions** on behalf of that other person as their agent.

### **Additional Instructions for YELLOW Application Form**

You may refer to the **YELLOW** Application Form for details.

## **5. APPLYING THROUGH HK EIPO WHITE FORM SERVICE**

### **General**

Individuals who meet the criteria in the subsection headed “2. Who can apply for the Public Offer Shares” in this section, may apply through the **HK eIPO White Form** service for the Public Offer Shares to be allotted and registered in their own names through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk).

Detailed instructions for application through the **HK eIPO White Form** service are on the designated website. If you do not follow the instructions, your application may be rejected and may not be submitted to our Company. If you apply through the designated website, you authorise the **HK eIPO White Form** Service Provider to apply on the terms and conditions in this prospectus, as supplemented and amended by the terms and conditions of the **HK eIPO White Form** service.

### **Time for Submitting Applications under the HK eIPO White Form Service**

You may submit your application online to the **HK eIPO White Form** Service Provider through the designated website at [www.hkeipo.hk](http://www.hkeipo.hk) (24 hours daily, except on the last application day) from 9:00 a.m. on Friday, 29 September 2017 until 11:30 a.m. on Friday, 6 October 2017 and the latest time for completing full payment of application monies in respect of such applications will be 12:00 noon on Friday, 6 October 2017 or such later time as described in the subsection headed “10. Effect of bad weather on the opening of the application lists” in this section.

### **No Multiple Applications**

If you apply by means of **HK eIPO White Form**, once you complete payment in respect of any **electronic application instruction** given by you or for your benefit through the **HK eIPO White Form** service to make an application for Public Offer Shares, an actual application shall be deemed to have been made. For the avoidance of doubt, giving an **electronic application instruction** under **HK eIPO White Form** more than once and obtaining different application reference numbers without effecting full payment in respect of a particular reference number will not constitute an actual application.

If you are suspected of submitting more than one application through the **HK eIPO White Form** service or by any other means, all of your applications are liable to be rejected.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each applicant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

### 6. APPLYING BY GIVING ELECTRONIC APPLICATION INSTRUCTIONS TO HKSCC VIA CCASS

#### General

CCASS Participants may give **electronic application instructions** to apply for the Public Offer Shares and to arrange payment of the monies due on application and payment of refunds under their participant agreements with HKSCC and the General Rules of CCASS and the CCASS Operational Procedures.

If you are a CCASS Investor Participant, you may give these **electronic application instructions** through the CCASS Phone System by calling 2979 7888 or through the CCASS Internet System at <https://ip.ccass.com> (using the procedures in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time).

HKSCC can also input **electronic application instructions** for you if you go to:

**Hong Kong Securities Clearing Company Limited**  
Customer Service Centre  
1/F, One & Two Exchange Square,  
8 Connaught Place, Central,  
Hong Kong

and complete an input request form.

You can also collect a prospectus from this address.

If you are not a **CCASS Investor Participant**, you may instruct your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** via CCASS terminals to apply for the Public Offer Shares on your behalf.

You will be deemed to have authorised HKSCC and/or HKSCC Nominees to transfer the details of your application to our Company, the Joint Bookrunners and the Hong Kong Share Registrar.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Giving Electronic Application Instructions to HKSCC via CCASS

Where you have given **electronic application instructions** to apply for the Public Offer Shares and a **WHITE** Application Form is signed by HKSCC Nominees on your behalf:

- (i) HKSCC Nominees will only be acting as a nominee for you and is not liable for any breach of the terms and conditions of the **WHITE** Application Form or this prospectus;
- (ii) HKSCC Nominees will do the following things on your behalf:
  - agree that the Public Offer Shares to be allotted shall be issued in the name of HKSCC Nominees and deposited directly into CCASS for the credit of the CCASS Participant's stock account on your behalf or your CCASS Investor Participant's stock account;
  - agree to accept the Public Offer Shares applied for or any lesser number allocated;
  - undertake and confirm that you have not applied for or taken up, will not apply for or take up, or indicate an interest for, any Offer Shares under the Placing;
  - (if the electronic application instructions are given for your benefit) declare that only one set of **electronic application instructions** has been given for your benefit;
  - (if you are an agent for another person) declare that you have only given one set of **electronic application instructions** for the other person's benefit and are duly authorised to give those instructions as their agent;
  - confirm that you understand that our Company, our Directors and the Joint Bookrunners will rely on your declarations and representations in deciding whether or not to make any allotment of any of the Public Offer Shares to you and that you may be prosecuted if you make a false declaration;
  - authorise our Company to place HKSCC Nominees' name on our Company's register of members as the holder of the Public Offer Shares allocated to you and to send share certificate(s) and/or refund monies under the arrangements separately agreed between us and HKSCC;
  - confirm that you have read the terms and conditions and application procedures set out in this prospectus and agree to be bound by them;

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- confirm that you have received and/or read a copy of this prospectus and have relied only on the information and representations in this prospectus in causing the application to be made, save as set out in any supplement to this prospectus;
- agree that none of our Company, the Joint Bookrunners, the Underwriters, their respective directors, officers, employees, partners, agents, advisers and any other parties involved in the Share Offer is or will be liable for any information and representations not contained in this prospectus (and any supplement to it);
- agree to disclose your personal data to our Company, our Hong Kong Share Registrar, receiving bank, the Joint Bookrunners, the Underwriters and/or their respective advisers and agents;
- agree (without prejudice to any other rights which you may have) that once HKSCC Nominees' application has been accepted, it cannot be rescinded for innocent misrepresentation;
- agree that any application made by HKSCC Nominees on your behalf is irrevocable before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), such agreement to take effect as a collateral contract with us and to become binding when you give the instructions and such collateral contract to be in consideration of our Company agreeing that it will not offer any Public Offer Shares to any person before the fifth day after the time of the opening of the application lists (excluding any day which is a Saturday, Sunday or public holiday in Hong Kong), except by means of one of the procedures referred to in this prospectus. However, HKSCC Nominees may revoke the application before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong) if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance gives a public notice under that section which excludes or limits that person's responsibility for this prospectus;
- agree that once HKSCC Nominees' application is accepted, neither that application nor your **electronic application instructions** can be revoked, and that acceptance of that application will be evidenced by our Company's announcement of the Public Offer results;
- agree to the arrangements, undertakings and warranties under the participant agreement between you and HKSCC, read with the General Rules of CCASS and the CCASS Operational Procedures, for giving **electronic application instructions** to apply for the Public Offer Shares;



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- agree with our Company, for itself and for the benefit of each Shareholder (and so that our Company will be deemed by its acceptance in whole or in part of the application by HKSCC Nominees to have agreed, for itself and on behalf of each of our Shareholders, with each CCASS Participant giving **electronic application instructions**) to observe and comply with the Companies (Winding Up and Miscellaneous Provisions) Ordinance and the Articles; and
- agree that your application, any acceptance of it and the resulting contract will be governed by the Laws of Hong Kong.

### Effect of Giving Electronic Application Instructions to HKSCC via CCASS

By giving **electronic application instructions** to HKSCC or instructing your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give such instructions to HKSCC, you (and, if you are joint applicants, each of you jointly and severally) are deemed to have done the following things. Neither HKSCC nor HKSCC Nominees shall be liable to our Company or any other person in respect of the things mentioned below:

- instructed and authorised HKSCC to cause HKSCC Nominees (acting as nominee for the relevant CCASS Participants) to apply for the Public Offer Shares on your behalf;
- instructed and authorised HKSCC to arrange payment of the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee by debiting your designated bank account and, in the case of a wholly or partially unsuccessful application and/or if the final Offer Price is less than the maximum Offer Price per Public Offer Share initially paid on application, refund of the application monies (including brokerage, SFC transaction levy and Stock Exchange trading fee) by crediting your designated bank account; and
- instructed and authorised HKSCC to cause HKSCC Nominees to do on your behalf all the things stated in the **WHITE** Application Form and in this prospectus.

### Minimum Purchase Amount and Permitted Numbers

You may give or cause your broker or custodian who is a CCASS Clearing Participant or a CCASS Custodian Participant to give **electronic application instructions** for a minimum of 5,000 Public Offer Shares. Instructions for more than 5,000 Public Offer Shares must be in one of the numbers set out in the table or otherwise permitted in the Application Forms. No application for any other number of Public Offer Shares will be considered and any such application is liable to be rejected.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Time for Inputting Electronic Application Instructions

CCASS Clearing/Custodian Participants can input **electronic application instructions** at the following times on the following dates:

**Friday, 29 September 2017 – 9:00 a.m. to 8:30 p.m.** <sup>(1)</sup>  
**Tuesday, 3 October 2017 – 8:00 a.m. to 8:30 p.m.** <sup>(1)</sup>  
**Wednesday, 4 October 2017 – 8:00 a.m. to 8:30 p.m.** <sup>(1)</sup>  
**Friday, 6 October 2017 – 8:00 a.m.<sup>(1)</sup> to 12:00 noon**

*Note:*

1. These times are subject to change as HKSCC may determine from time to time with prior notification to CCASS Clearing/Custodian Participants.

CCASS Investor Participants can input **electronic application instructions** from 9:00 a.m. on Friday, 29 September 2017 until 12:00 noon on Friday, 6 October 2017 (24 hours daily, except on the last application day).

The latest time for inputting your **electronic application instructions** will be 12:00 noon on Friday, 6 October 2017, the last application day or such later time as described in the subsection headed “10. Effect of bad weather on the opening of the application lists” in this section.

### No Multiple Applications

If you are suspected of having made multiple applications or if more than one application is made for your benefit, the number of Public Offer Shares applied for by HKSCC Nominees will be automatically reduced by the number of Public Offer Shares for which you have given such instructions and/or for which such instructions have been given for your benefit. Any **electronic application instructions** to make an application for the Public Offer Shares given by you or for your benefit to HKSCC shall be deemed to be an actual application for the purposes of considering whether multiple applications have been made.

### Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance

For the avoidance of doubt, our Company and all other parties involved in the preparation of this prospectus acknowledge that each CCASS Participant who gives or causes to give **electronic application instructions** is a person who may be entitled to compensation under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance).

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### Personal Data

The section of the Application Form headed “Personal Data” applies to any personal data held by our Company, the Hong Kong Share Registrar, the receiving bank, the Joint Bookrunners, the Underwriters and any of their respective advisers and agents about you in the same way as it applies to personal data about applicants other than HKSCC Nominees.

### 7. WARNING FOR ELECTRONIC APPLICATIONS

The subscription of the Public Offer Shares by giving **electronic application instructions** to HKSCC is only a facility provided to CCASS Participants. Similarly, the application for Public Offer Shares through **HK eIPO White Form** service is also only a facility provided by **HK eIPO White Form** Service Provider to public investors. Such facilities are subject to capacity limitations and potential service interruptions and you are advised not to wait until the last application day in making your electronic applications. Our Company, our Directors, the Joint Bookrunners, the Joint Lead Managers, the Sole Sponsor and the Underwriters take no responsibility for such applications and provide no assurance that any CCASS Participant or person applying through the **HK eIPO White Form** service will be allotted any Public Offer Shares.

To ensure that CCASS Investor Participants can give their **electronic application instructions**, they are advised not to wait until the last minute to input their instructions to the systems. In the event that CCASS Investor Participants have problems in the connection to CCASS Phone System/CCASS Internet System for submission of **electronic application instructions**, they should either (i) submit a **WHITE** or **YELLOW** Application Form, or (ii) go to HKSCC’s Customer Service Centre to complete an input request form for **electronic application instructions** before 12:00 noon on Friday, 6 October 2017.

### 8. HOW MANY APPLICATIONS CAN YOU MAKE

Multiple applications for the Public Offer Shares are not allowed except by nominees. If you are a nominee, in the box on the Application Form marked “For nominees” you must include:

- an account number; or
- some other identification code,

for each beneficial owner or, in the case of joint beneficial owners, for each joint beneficial owner. If you do not include this information, the application will be treated as being made for your benefit.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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All of your applications will be rejected if more than one application on a **WHITE** or **YELLOW** Application Form or by giving **electronic application instructions** to HKSCC or through **HK eIPO White Form** service, is made for your benefit (including the part of the application made by HKSCC Nominees acting on **electronic application instructions**). If an application is made by an unlisted company and:

- the principal business of that company is dealing in securities; and
- you exercise statutory control over that company,

then the application will be treated as being for your benefit.

“Unlisted company” means a company with no equity securities listed on the Stock Exchange.

“Statutory control” means you:

- control the composition of the board of directors of the company;
- control more than half of the voting power of the company; or
- hold more than half of the issued share capital of the company (not counting any part of it which carries no right to participate beyond a specified amount in a distribution of either profits or capital).

### 9. HOW MUCH ARE THE PUBLIC OFFER SHARES

The **WHITE** and **YELLOW** Application Forms have tables showing the exact amount payable for the Public Offer Shares.

You must pay the maximum Offer Price, brokerage, SFC transaction levy and Stock Exchange trading fee in full upon application for Shares under the terms set out in the Application Forms.

You may submit an application using a **WHITE** or **YELLOW** Application Form or through **HK eIPO White Form** service in respect of a minimum of 5,000 Public Offer Shares. Each application or electronic application instruction in respect of more than 5,000 Public Offer Shares must be in one of the numbers set out in the table or otherwise permitted in the Application Form, or as otherwise specified on the designated website [www.hkeipo.hk](http://www.hkeipo.hk).

If your application is successful, brokerage will be paid to the Exchange Participants, and the SFC transaction levy and Stock Exchange trading fee are paid to the Stock Exchange (in the case of the SFC transaction levy, collected by the Stock Exchange on behalf of the SFC).

For further details on the Offer Price, see the section headed “Structure of the Share Offer – Pricing and allocation” in this prospectus.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 10. EFFECT OF BAD WEATHER ON THE OPENING OF THE APPLICATION LISTS

The application lists will not open if there is:

- a tropical cyclone warning signal number 8 or above; or
- a “black” rainstorm warning,

in force in Hong Kong at any time between 9:00 a.m. and 12:00 noon on Friday, 6 October 2017. Instead they will open between 11:45 a.m. and 12:00 noon on the next Business Day which does not have either of those warnings in Hong Kong in force at any time between 9:00 a.m. and 12:00 noon.

If the application lists do not open and close on Friday, 6 October 2017 or if there is a tropical cyclone warning signal number 8 or above or a “black” rainstorm warning signal in force in Hong Kong that may affect the dates mentioned in the section headed “Expected Timetable” in this prospectus, an announcement will be made in such event.

### 11. PUBLICATION OF RESULTS

Our Company expects to announce the final Offer Price, the level of indication of interest in the Placing, the level of applications in the Public Offer and the basis of allocation of the Public Offer Shares on Friday, 13 October 2017 (a) on our Company’s website at [www.kml.com.hk](http://www.kml.com.hk); and (b) the website of the Stock Exchange at [www.hkexnews.hk](http://www.hkexnews.hk).

The results of allocations and the Hong Kong identity card/passport/Hong Kong business registration numbers of successful applicants under the Public Offer will be available at the times and date and in the manner specified below:

- in the announcement to be posted on our website at [www.kml.com.hk](http://www.kml.com.hk) and the Stock Exchange’s website at [www.hkexnews.hk](http://www.hkexnews.hk) by no later than 9:00 a.m. on Friday, 13 October 2017;
- from the designated results of allocations website at [www.tricor.com.hk/ipo/result](http://www.tricor.com.hk/ipo/result) with a “search by ID” function on a 24-hour basis from 8:00 a.m. on Friday, 13 October 2017 to 12:00 midnight on Thursday, 19 October 2017;
- by telephone enquiry line by calling 3691 8488 between 9:00 a.m. and 6:00 p.m. from Friday, 13 October 2017 to Wednesday, 18 October 2017 on a Business Day; and
- in the special allocation results booklets which will be available for inspection during opening hours from Friday, 13 October 2017 to Monday, 16 October 2017 at all the receiving bank’s designated branches.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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If our Company accepts your offer to purchase (in whole or in part), which we may do by announcing the basis of allocations and/or making available the results of allocations publicly, there will be a binding contract under which you will be required to purchase the Public Offer Shares if the conditions of the Share Offer are satisfied and the Share Offer is not otherwise terminated. Further details are contained in the section headed “Structure of the Share Offer” in this prospectus.

You will not be entitled to exercise any remedy of rescission for innocent misrepresentation at any time after acceptance of your application. This does not affect any other right you may have.

### **12. CIRCUMSTANCES IN WHICH YOU WILL NOT BE ALLOTTED PUBLIC OFFER SHARES**

You should note the following situations in which the Public Offer Shares will not be allotted to you:

**(a) If your application is revoked:**

By completing and submitting an Application Form or giving **electronic application instructions** to HKSCC or to the **HK eIPO White Form** Service Provider, you agree that your application or the application made by HKSCC Nominees on your behalf cannot be revoked on or before the fifth day after the time of the opening of the application lists (excluding for this purpose any day which is a Saturday, Sunday or public holiday in Hong Kong). This agreement will take effect as a collateral contract with our Company.

Your application or the application made by HKSCC Nominees on your behalf may only be revoked on or before such fifth day if a person responsible for this prospectus under Section 40 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance (as applied by Section 342E of the Companies (Winding Up and Miscellaneous Provisions) Ordinance) gives a public notice under that section which excludes or limits that person’s responsibility for this prospectus.

If any supplement to this prospectus is issued, applicants who have already submitted an application will be notified that they are required to confirm their applications. If applicants have been so notified but have not confirmed their applications in accordance with the procedure to be notified, all unconfirmed applications will be deemed revoked.

If your application or the application made by HKSCC Nominees on your behalf has been accepted, it cannot be revoked. For this purpose, acceptance of applications which are not rejected will be constituted by notification in the press of the results of allocation, and where such basis of allocation is subject to certain conditions or provides for allocation by ballot, such acceptance will be subject to the satisfaction of such conditions or results of the ballot respectively.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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**(b) If our Company or our agents exercise their discretion to reject your application:**

Our Company, the Joint Bookrunners, the **HK eIPO White Form** Service Provider and their respective agents and nominees have full discretion to reject or accept any application, or to accept only part of any application, without giving any reasons.

**(c) If the allotment of the Public Offer Shares is void:**

The allotment of the Public Offer Shares will be void if the Stock Exchange does not grant permission to list the Shares either:

- within three weeks from the closing date of the application lists; or
- within a longer period of up to six weeks if the Stock Exchange notifies our Company of that longer period within three weeks of the closing date of the application lists.

**(d) If:**

- you make multiple applications or suspected multiple applications;
- you or the person for whose benefit you are applying have applied for or taken up, or indicated an interest for, or have been or will be placed or allocated (including conditionally and/or provisionally) Public Offer Shares and Placing Shares;
- your Application Form is not completed in accordance with the stated instructions;
- your **electronic application instructions** through the **HK eIPO White Form** service are not completed in accordance with the instructions, terms and conditions on the designated website;
- your payment is not made correctly or the cheque or banker's cashier order paid by you is dishonoured upon its first presentation;
- the Underwriting Agreements do not become unconditional or are terminated;
- our Company or the Joint Bookrunners believe that by accepting your application, it would violate applicable securities or other laws, rules or regulations; or
- your application is for more than 100% of the Public Offer Shares initially offered under the Public Offer.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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### 13. REFUND OF APPLICATION MONIES

If an application is rejected, not accepted or accepted in part only, or if the Offer Price as finally determined is less than the maximum Offer Price of HK\$0.72 per Offer Share (excluding brokerage, SFC transaction levy and Stock Exchange trading fee thereon), or if the conditions of the Public Offer are not fulfilled in accordance with the subsection headed “Structure of the Share Offer – Conditions of the Share Offer” in this prospectus or if any application is revoked, the application monies, or the appropriate portion thereof, together with the related brokerage, SFC transaction levy and Stock Exchange trading fee, will be refunded, without interest or the cheque or banker’s cashier order will not be cleared.

Any refund of your application monies will be made on Friday, 13 October 2017.

### 14. DISPATCH/COLLECTION OF SHARE CERTIFICATES AND REFUND MONIES

You will receive one share certificate for all Public Offer Shares allotted to you under the Public Offer (except pursuant to applications made on **YELLOW** Application Forms or by **electronic application instructions** to HKSCC via CCASS where the share certificates will be deposited into CCASS as described below).

No temporary document of title will be issued in respect of the Shares. No receipt will be issued for sums paid on application. If you apply by **WHITE** or **YELLOW** Application Form, subject to personal collection as mentioned below, the following will be sent to you (or, in the case of joint applicants, to the first-named applicant) by ordinary post, at your own risk, to the address specified on the Application Form:

- share certificate(s) for all the Public Offer Shares allotted to you (for **YELLOW** Application Forms, share certificates will be deposited into CCASS as described below); and
- refund cheque(s) crossed “Account Payee Only” in favour of the applicant (or, in the case of joint applicants, the first-named applicant) for (i) all or the surplus application monies for the Public Offer Shares, wholly or partially unsuccessfully applied for; and/or (ii) the difference between the Offer Price and the maximum Offer Price per Offer Share paid on application in the event that the final Offer Price is less than the maximum Offer Price (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest). Part of the Hong Kong identity card number/passport number, provided by you or the first-named applicant (if you are joint applicants), may be printed on your refund cheque, if any. Your banker may require verification of your Hong Kong identity card number/passport number before encashment of your refund cheque(s). Inaccurate completion of your Hong Kong identity card number/passport number may invalidate or delay encashment of your refund cheque(s).

Subject to arrangement on dispatch/collection of share certificates and refund monies as mentioned below, any refund cheques and share certificates are expected to be posted on or around Friday, 13 October 2017. The right is reserved to retain any share certificate(s) and any surplus application monies pending clearance of cheque(s) or banker’s cashier order(s).



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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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Share certificates will only become valid at 8:00 a.m. on Monday, 16 October 2017 provided that the Share Offer has become unconditional and the right of termination described in the subsection headed “Underwriting – Underwriting arrangement and expenses – Public Offer – Grounds for termination” in this prospectus has not been exercised. Investors who trade Shares prior to the receipt of Share certificates or the Share certificates becoming valid do so at their own risk.

### **Personal Collection**

#### ***(a) If you apply using a WHITE Application Form***

If you apply for 1,000,000 or more Public Offer Shares and have provided all information required by your Application Form, you may collect your refund cheque(s) and/or share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 13 October 2017 or such other date as notified by us in the newspapers.

If you are an individual who is eligible for personal collection, you must not authorise any other person to collect for you. If you are a corporate applicant which is eligible for personal collection, your authorised representative must bear a letter of authorisation from your corporation stamped with your corporation’s chop. Both individuals and authorised representatives must produce, at the time of collection, evidence of identity acceptable to the Hong Kong Share Registrar.

If you do not collect your refund cheque(s) and/or share certificate(s) personally within the time specified for collection, they will be dispatched promptly to the address specified in your Application Form by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your refund cheque(s) and/or share certificate(s) will be sent to the address on the relevant Application Form on Friday, 13 October 2017, by ordinary post and at your own risk.

#### ***(b) If you apply using a YELLOW Application Form***

If you apply for 1,000,000 Public Offer Shares or more, please follow the same instructions as described above. If you have applied for less than 1,000,000 Public Offer Shares, your refund cheque(s) will be sent to the address on the relevant Application Form on Friday, 13 October 2017, by ordinary post and at your own risk.

If you apply by using a **YELLOW** Application Form and your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for credit to your or the designated CCASS Participant’s stock account as stated in your Application Form on Friday, 13 October 2017, or upon contingency, on any other date determined by HKSCC or HKSCC Nominees.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- (i) *If you apply through a designated CCASS participant (other than a CCASS investor participant)*

For Public Offer Shares credited to your designated CCASS participant's stock account (other than CCASS Investor Participant), you can check the number of Public Offer Shares allotted to you with that CCASS participant.

- (ii) *If you are applying as a CCASS investor participant*

We will publish the results of CCASS Investor Participants' applications together with the results of the Public Offer in the manner described in the subsection headed "11. Publication of Results" above. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 October 2017 or any other date as determined by HKSCC or HKSCC Nominees. Immediately after the credit of the Public Offer Shares to your stock account, you can check your new account balance via the CCASS Phone System and CCASS Internet System.

- (c) *If you apply through the HK eIPO White Form service*

If you apply for 1,000,000 Public Offer Shares or more and your application is wholly or partially successful, you may collect your Share certificate(s) from the Hong Kong Share Registrar, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, from 9:00 a.m. to 1:00 p.m. on Friday, 13 October 2017, or such other date as notified by our Company as the date of dispatch/collection of Share certificates/e-Auto Refund payment instructions/refund cheques.

If you do not collect your Share certificate(s) personally within the time specified for collection, they will be sent to the address specified in your application instructions by ordinary post at your own risk.

If you apply for less than 1,000,000 Public Offer Shares, your Share certificate(s) (where applicable) will be sent to the address specified in your application instructions on Friday, 13 October 2017 by ordinary post at your own risk.

If you apply and pay the application monies from a single bank account, any refund monies will be dispatched to that bank account in the form of e-Auto Refund payment instructions. If you apply and pay the application monies from multiple bank accounts, any refund monies will be dispatched to the address as specified in your application instructions in the form of refund cheque(s) by ordinary post at your own risk.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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(d) *If you apply via Electronic Application Instructions to HKSCC*

*Allocation of the Public Offer Shares*

For the purposes of allocating the Public Offer Shares, HKSCC Nominees will not be treated as an applicant. Instead, each CCASS Participant who gives **electronic application instructions** or each person for whose benefit instructions are given will be treated as an applicant.

*Deposit of Share Certificates into CCASS and Refund of Application Monies*

- If your application is wholly or partially successful, your share certificate(s) will be issued in the name of HKSCC Nominees and deposited into CCASS for the credit of your designated CCASS Participant's stock account or your CCASS Investor Participant stock account on Friday, 13 October 2017 or on any other date determined by HKSCC or HKSCC Nominees.
- Our Company expects to publish the application results of CCASS Participants (and where the CCASS Participant is a broker or custodian, our Company will include information relating to the relevant beneficial owner), your Hong Kong identity card number/passport number or other identification code (Hong Kong business registration number for corporations) and the basis of allotment of the Public Offer Shares in the manner specified in the subsection headed "11. Publication of results" above on Friday, 13 October 2017. You should check the announcement published by our Company and report any discrepancies to HKSCC before 5:00 p.m. on Friday, 13 October 2017 or such other date as determined by HKSCC or HKSCC Nominees.
- If you have instructed your broker or custodian to give **electronic application instructions** on your behalf, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you with that broker or custodian.
- If you have applied as a CCASS Investor Participant, you can also check the number of Public Offer Shares allotted to you and the amount of refund monies (if any) payable to you via the CCASS Phone System and the CCASS Internet System (under the procedures contained in HKSCC's "An Operating Guide for Investor Participants" in effect from time to time) on Friday, 13 October 2017. Immediately following the credit of the Public Offer Shares to your stock account and the credit of refund monies to your bank account, HKSCC will also make available to you an activity statement showing the number of Public Offer Shares credited to your CCASS Investor Participant stock account and the amount of refund monies (if any) credited to your designated bank account.

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## HOW TO APPLY FOR PUBLIC OFFER SHARES

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- Refund of your application monies (if any) in respect of wholly and partially unsuccessful applications and/or difference between the Offer Price and the maximum Offer Price per Offer Share initially paid on application (including brokerage, SFC transaction levy and Stock Exchange trading fee but without interest) will be credited to your designated bank account or the designated bank account of your broker or custodian on Friday, 13 October 2017.

### 15. ADMISSION OF THE SHARES INTO CCASS

If the Stock Exchange grants the listing of, and permission to deal in, the Shares and we comply with the stock admission requirements of HKSCC, the Shares will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the date of commencement of dealings in the Shares or any other date HKSCC chooses. Settlement of transactions between Exchange Participants (as defined in the GEM Listing Rules) is required to take place in CCASS on the second Business Day after any trading day.

All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

Investors should seek the advice of their stockbroker or other professional adviser for details of the settlement arrangement as such arrangements may affect their rights and interests.

All necessary arrangements have been made enabling the Shares to be admitted into CCASS.

*The following is the text of a report set out on pages I-1 to I-33, received from the Company's reporting accountants, Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, for the purpose of incorporation in this prospectus.*

**Deloitte.****德勤****ACCOUNTANTS' REPORT ON HISTORICAL FINANCIAL INFORMATION TO THE DIRECTORS OF KML TECHNOLOGY GROUP LIMITED AND KINGSWAY CAPITAL LIMITED****Introduction**

We report on the historical financial information of KML Technology Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages I-3 to I-33, which comprises the combined statements of financial position as at 31 March 2016 and 2017 and the combined statements of profit or loss and other comprehensive income, the combined statements of changes in equity and the combined statements of cash flows for each of the year then ended (the "Relevant Periods") and a summary of significant accounting policies and other explanatory information (together, the "Historical Financial Information"). The Historical Financial Information set out on pages I-3 to I-33 forms an integral part of this report, which has been prepared for inclusion in the prospectus of the Company dated 29 September 2017 (the "Prospectus") in connection with the initial listing of shares of the Company on the Growth Enterprise Market ("GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**Directors' responsibility for the Historical Financial Information**

The directors of the Company are responsible for the preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information, and for such internal control as the directors determine is necessary to enable the preparation of Historical Financial Information that is free from material misstatement, whether due to fraud or error.

**Reporting accountants' responsibility**

Our responsibility is to express an opinion on the Historical Financial Information and to report our opinion to you. We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 200 "Accountants' Reports on Historical Financial Information in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This standard requires that we comply with ethical standards and plan and perform our work to obtain reasonable assurance about whether the Historical Financial Information is free from material misstatement.

Our work involved performing procedures to obtain evidence about the amounts and disclosures in the Historical Financial Information. The procedures selected depend on the reporting accountants' judgement, including the assessment of risks of material misstatement

of the Historical Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the entity's preparation of Historical Financial Information that gives a true and fair view in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information in order to design procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Our work also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Historical Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion the Historical Financial Information gives, for the purposes of the accountants' report, a true and fair view of the Group's financial position as at 31 March 2016 and 2017 and of the Group's financial performance and cash flows for the Relevant Periods in accordance with the basis of preparation and presentation set out in Note 1 to the Historical Financial Information.

### **Report on matters under the Rules Governing the Listing of Securities on the GEM of the Stock Exchange and the Companies (Winding Up and Miscellaneous Provisions) Ordinance**

#### *Adjustments*

The Historical Financial Information is stated after making such adjustments to the Underlying Financial Statements as defined on page I-3 as were considered necessary.

#### *Dividends*

We refer to Note 10 to the Historical Financial Information which states that no dividend have been paid by the Company in respect of the Relevant Periods.

#### *No historical financial statements for the Company*

No financial statements have been prepared for the Company since its date of incorporation.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
29 September 2017

## HISTORICAL FINANCIAL INFORMATION OF THE GROUP

## Preparation of Historical Financial Information

Set out below is the Historical Financial Information which forms an integral part of this accountants' report.

The Historical Financial Information in this report was prepared based on the consolidated financial statements of KML Engineering Limited ("KML Engineering") and the financial statements of KML Technology Limited ("KML Technology") for the Relevant Periods. These financial statements were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA and were audited by us in accordance with Hong Kong Standards on Auditing issued by the HKICPA ("Underlying Financial Statements").

The Historical Financial Information is presented in Hong Kong dollars ("HK\$") and all values are rounded to the nearest thousand (HK\$'000) except when otherwise indicated.

## COMBINED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	Year ended 31 March	
		2016 HK\$'000	2017 HK\$'000
Revenue	5	163,821	171,116
Cost of sales		<u>(99,861)</u>	<u>(115,630)</u>
Gross profit		63,960	55,486
Other income	6	364	612
Other gain and losses, net	6	62	(301)
Administrative expenses		(37,825)	(39,179)
Listing expenses		<u>–</u>	<u>(553)</u>
Profit before taxation	8	26,561	16,065
Income tax expense	9	<u>(4,408)</u>	<u>(2,738)</u>
Profit and total comprehensive income for the year attributable to owners of the Company		<u>22,153</u>	<u>13,327</u>

## COMBINED STATEMENTS OF FINANCIAL POSITION

	NOTES	As at 31 March	
		2016 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	12	2,130	2,386
Deposits	14	802	693
Retention held by customers for contract works	14	<u>4,088</u>	<u>6,085</u>
		<u>7,020</u>	<u>9,164</u>
Current assets			
Inventories		545	535
Trade receivables	13	35,470	31,478
Retention held by customers for contract works	14	7,867	5,262
Other receivables, deposits and prepayments	14	1,228	4,071
Amounts due from customers for contract works	15	25,510	32,243
Amount due from a director	16	400	–
Pledged bank deposits	18	2,841	–
Time deposits with original maturity over three months	18	2,501	–
Bank balances and cash	18	<u>54,558</u>	<u>58,619</u>
		<u>130,920</u>	<u>132,208</u>
Current liabilities			
Trade payables	19	10,156	8,793
Other payables and accrued charges	20	8,371	10,545
Amounts due to customers for contract works	15	16,296	19,257
Tax payable		<u>6,959</u>	<u>3,289</u>
		<u>41,782</u>	<u>41,884</u>
Net current assets		<u>89,138</u>	<u>90,324</u>
Non-current liabilities			
Deferred tax liabilities	21	<u>88</u>	<u>91</u>
Net assets		<u>96,070</u>	<u>99,397</u>
Capital and reserves			
Issued share capital	22	14,339	14,339
Reserves		<u>81,731</u>	<u>85,058</u>
Total equity		<u>96,070</u>	<u>99,397</u>



## COMBINED STATEMENTS OF CHANGES IN EQUITY

	Attributable to owners of the Company		
	Issued share capital <i>HK\$'000</i>	Accumulated profits <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 April 2015	14,339	64,578	78,917
Profit and total comprehensive income for the year	–	22,153	22,153
Dividend ( <i>Note 10</i> )	–	(5,000)	(5,000)
At 31 March 2016	14,339	81,731	96,070
Profit and total comprehensive income for the year	–	13,327	13,327
Dividend ( <i>Note 10</i> )	–	(10,000)	(10,000)
At 31 March 2017	<u>14,339</u>	<u>85,058</u>	<u>99,397</u>

## COMBINED STATEMENTS OF CASH FLOWS

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>OPERATING ACTIVITIES</b>		
Profit before taxation	26,561	16,065
Adjustments for:		
Depreciation of property, plant and equipment	1,406	1,093
(Gain) loss on disposal of property, plant and equipment	(4)	219
Bank interest income	(165)	(165)
	<u>27,798</u>	<u>17,212</u>
Operating cash flows before movements in working capital	27,798	17,212
Changes in amounts due from/to customers for contract works, net	(7,626)	(3,772)
Decrease in inventories	104	10
(Increase) decrease in retention receivables	(1,278)	608
(Increase) decrease in trade receivables	(8,797)	3,992
Decrease (increase) in other receivables, deposits and prepayments	713	(3,098)
Decrease in amount due from a related company	763	–
Decrease in trade payables	(3,591)	(1,363)
Increase in other payables and accrued charges	895	2,174
	<u>8,981</u>	<u>15,763</u>
Cash generated from operations	8,981	15,763
Income tax paid	(2,319)	(6,405)
	<u>6,662</u>	<u>9,358</u>
<b>NET CASH FROM OPERATING ACTIVITIES</b>	<u>6,662</u>	<u>9,358</u>
<b>INVESTING ACTIVITIES</b>		
Bank interest received	165	165
Purchase of property, plant and equipment	(1,155)	(1,204)
Proceeds from disposal of property, plant and equipment	19	–
Withdrawn of time deposits with original maturity date over three months	9,400	2,501
Placement of time deposits with original maturity date over three months	(10,634)	–
Placement of pledged bank deposits	(20)	–
Withdrawal of pledged bank deposits	–	2,841
(Advance to) repayment from a director	(400)	400
	<u>(2,625)</u>	<u>4,703</u>
<b>NET CASH (USED IN) FROM INVESTING ACTIVITIES</b>	<u>(2,625)</u>	<u>4,703</u>
<b>CASH USED IN FINANCING ACTIVITY</b>		
Dividends paid	(5,000)	(10,000)
	<u>(5,000)</u>	<u>(10,000)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<u>(963)</u>	<u>4,061</u>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR</b>	<u>55,521</u>	<u>54,558</u>
<b>CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash</b>	<u><u>54,558</u></u>	<u><u>58,619</u></u>

## NOTES TO THE HISTORICAL FINANCIAL INFORMATION

**1. GENERAL, GROUP REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION OF HISTORICAL FINANCIAL 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, as consolidated and revised) of the Cayman Islands. The address of the Company's registered office and the principal place of business is disclosed in the section headed "Corporate Information" to the Prospectus.

In preparation of the listing of the Company's shares on the Growth Enterprise Market of the Stock Exchange (the "Listing"), the companies comprising the Group underwent a series of reorganisation as described below (the "Reorganisation"). Prior to the completion of the Reorganisation, the companies now comprising the Group were ultimately controlled by Mr. Luk Kam Ming ("Mr. KM Luk"), Mr. Luk Yin Cheung ("Mr. YC Luk"), Mr. Luk Kwai Lung ("Mr. KL Luk"), Ms. Leung Kwok Yee ("Madam Leung") and KML Holdings Limited ("KML Holdings") (collectively referred to as the "Controlling Shareholders"). Mr. YC Luk and Mr. KL Luk are sons of Mr. KM Luk and Madam Leung. Madam Leung is the spouse of Mr. KM Luk. KML Holdings is 50% and 50% owned by Mr. YC Luk and Mr. KL Luk respectively. Each of the Controlling Shareholders has reiterated their agreement in writing that, in respect of the arrival and/or execution of all decisions, including but not limited to financial, management and operational matters of the Group's subsidiaries, they have always been acting in concert.

- On 5 May 2017, the Company was incorporated in the Cayman Islands with an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On incorporation, one subscriber's share was allotted and issued to KML Holdings at a subscription price of HK\$0.01.
- On 16 May 2017, KML Group (BVI) Limited ("KML BVI") was incorporated with an authorised share capital of United States dollars ("US\$") \$50,000 divided into 50,000 shares of US\$1.00 each. On incorporation, 1 subscriber's share in KML BVI was allotted and issued to the Company at a subscription price of US\$1.00.
- On 9 June 2017, 45, 35 and 19 shares of the Company were allotted and issued to KML Holdings, Mr. KM Luk and Madam Leung respectively; and our Company became owned as to 46%, 35% and 19% by KML Holdings, Mr. KM Luk and Madam Leung respectively.
- On 6 September 2017, Mr. KL Luk and Mr. YC Luk transferred all their shares in KML Technology Limited ("KML Technology") to KML BVI; and in consideration for the said transfers, the Company issued 414 Shares to KML Holdings, a company held by Mr. KL Luk and Mr. YC Luk in equal shares in respect of voting rights. Upon completion of the said transfers, KML Technology has become wholly-owned by KML BVI and an indirect wholly-owned subsidiary of the Company.
- On 6 September 2017, KML Holdings, Mr. KM Luk and Madam Leung transferred all their shares in KML Engineering to KML BVI; and in consideration for the said transfers, the Company issued 4,140, 3,465 and 1,881 shares to KML Holdings, Mr. KM Luk and Madam Leung, respectively. Upon completion of the said transfers, KML Engineering has become wholly-owned by KML BVI and an indirect wholly-owned subsidiary of the Company.
- In addition, on 9 June 2017, all the issued shares of KML Transtech Limited ("KML Transtech"), a group entity incorporated in Hong Kong on 23 June 2000 and owned as to approximately 83.47% and 16.53% by KML Engineering and Madam Leung respectively, were transferred to Ms. Chan Patricia, the spouse of Mr. KL Luk for at a total consideration of HK\$1,932,722 with reference to the net asset value of KML Transtech. Subsequently, KML Transtech has been ceased to be a subsidiary of the Group.

Upon completion of the aforesaid steps of the Reorganisation, KML Holdings, Mr. KM Luk and Madam Leung held 46%, 35% and 19% of the issued share capital of the Company, respectively.

Pursuant to the Reorganisation detailed above, the Company has become the holding company of the companies now comprising the Group on 6 September 2017. As the Company and its subsidiaries have been under the common controls of the Controlling Shareholders throughout the Relevant Periods and before and after the Reorganisation, as a result, the Group resulting from the Reorganisation is regarded as a continuing entity. Accordingly, the Historical Financial Information has been prepared on the basis as if the Company had always been the holding company of the Group throughout the Relevant Periods under the principles of merger accounting in accordance with the Accounting Guideline 5 “Merger Accounting for Common Control Combinations” issued by the HKICPA.

The combined statements of profit or loss and other comprehensive income, combined statements of changes in equity and combined statements of cash flows for the Relevant Periods have been prepared to present the results, changes in equity and cash flows of the companies comprising the Group as if the current group structure had been in existence throughout the Relevant Periods or since their respective dates of incorporation, where there is a shorter period. The combined statements of financial position of the Group as at 31 March 2016 and 2017 have been prepared to present the assets and liabilities of the companies now comprising the Group as if the current group structure has been in existence at those dates taking into account the respective dates of incorporation, where applicable.

The Historical Financial Information is presented in HK\$, which is also the functional currency of the Company and its principal subsidiaries (Note 26).

## 2. APPLICATION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRS”)

For the purpose of preparing and presenting the Historical Financial Information for the Relevant Periods, the Group has consistently adopted the HKFRSs issued by the HKICPA that are effective for the Group’s financial year beginning on 1 April 2016 throughout the Relevant Periods.

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

HKFRS 9	Financial instruments <sup>1</sup>
HKFRS 15	Revenue from contracts with customers and the related amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 Insurance contracts <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture <sup>3</sup>
Amendments to HKAS 7	Disclosure initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses <sup>4</sup>
Amendments to HKAS 40	Transfers of investment property <sup>1</sup>
Amendments to HKFRSs	Annual improvements to HKFRSs 2014-2016 cycle <sup>5</sup>
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over income tax treatments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019.

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

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

### HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 “Revenue”, HKAS 11 “Construction contracts” and the related Interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

#### **HKFRS 16 Leases**

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Under the HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As set out in note 23, total operating lease commitment of the Group in respect of leased premises as at 31 March 2017 is amounted to HK\$6,200,000. Upon the adoption of HKFRS 16, the directors of the Company expect that the commitments in the future in respect of leased premises with the terms more than twelve months will be required to be recognised in the financial statements of the Group in the future as

right-of-use assets and lease liabilities and the directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the Group's results.

The directors of the Company anticipate that the application of other new and revised HKFRSs will have no material impact on the Group's future consolidated financial statements.

### 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in this Historical Financial Information is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 "Share-based payment", leasing transactions that are within the scope of HKAS 17 "Leases", and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 "Inventories" or value in use in HKAS 36 "Impairment of assets".

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

#### **Basis of combination**

The Historical Financial Information incorporates the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Combination of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the combined statements of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on combination.

#### **Merger accounting for business combination involving entities under common control**

The Historical Financial Information incorporates the financial statements items of the combining entities or businesses in which the common control combination occurs as if they had been combined from the date when the combining entities or businesses first came under the control of the controlling party.

The net assets of the combining entities or businesses are combined using the existing carrying values from the controlling party's perspective. No amount is recognised in respect of goodwill or excess of acquirer's interest in the net fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of common control combination, to the extent of the continuation of the controlling party's interest.

The combined statements of profit or loss and other comprehensive income includes the results of each of the combining entities or businesses from the earliest date presented or since the date when the combining entities or businesses first came under the common control, where this is a shorter period, regardless of the date of the common control combination.

#### **Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable.

Revenue from design, supply, installation of systems and implementation of electrical and mechanical engineering service contracts is based on the stage of completion at the end of each reporting period. The percentage of completion is determined using methods that measure reliably the work performed with reference to the proportion that contract cost incurred for work performed to date relative to the estimated total contract costs.

Revenue from provision of maintenance services is recognised when services are rendered.

Revenue from the sale of goods and fabrication and sales of made-to-order products for customers is recognised when the goods are delivered and titles have passed.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

#### **Government grants**

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the combined statements of

financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment over their estimated useful lives, using the straight-line method. The estimated useful lives and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### **Impairment loss on tangible assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised in profit or loss immediately.

#### **Engineering service contracts**

Where the outcome of an engineering service contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of each reporting period, measured based on the proportion that revenue recognised with reference to the proportion that contract cost incurred for work performed to date relative to the estimated total contract costs. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of an engineering service contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable to be recovered. Contract costs are recognised as expense in the period in which they are incurred.



When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts billed for work performed but not yet paid by the customer are included in the combined statements of financial position under trade receivables.

#### **Financial instruments**

Financial assets and financial liabilities are recognised on the combined statements of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

#### ***Financial assets***

The Group's financial assets are loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees or points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

#### ***Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables and deposits, retention receivables, amount due from a director, time deposits with original maturity over three months, pledged bank deposits and bank balances and cash) are measured at amortised cost using effective interest method, less any impairment (see accounting policy on impairment of financial assets below).

Interest income is recognised by applying the effective interest rate except for short-term receivables where the recognition of interest would be insignificant.

#### ***Impairment of financial assets***

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the loans and receivables, the estimated future cash flows of the loans and receivables have been affected.

For loans and receivables, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

Objective evidence of impairment for a portfolio of trade receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments past credit period, observable changes in national or local economic conditions that correlate with default on trade receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets carried at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### ***Financial liabilities and equity instruments***

Debt and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

#### ***Equity instruments***

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

#### ***Effective interest method***

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis for debt instruments.

#### ***Financial liabilities***

The Group's financial liabilities including trade payables and other payables and accrued charges are subsequently measured at amortised cost, using the effective interest method.

#### ***Derecognition***

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

#### **Retirement benefits costs**

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") as defined contribution plan are recognised as an expense when employees have rendered service entitling them to the contributions.

#### *Short-term and other long-term employee benefits*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period that related services is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of benefits expected to be paid in exchange for the related service.

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by the employees up to the end of each of the reporting period.

#### **Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessee*

Operating lease payments are recognised as an expense on a straight-line basis over the lease term.

#### **Taxation**

Taxation represents the sum of the income tax expense currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the combined statements of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of each reporting period.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the combined financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of each reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of each reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss.

#### **Research expenditure**

Expenditure on research activities is recognised as an expense in the year in which it is incurred.

#### **Foreign currencies**

In preparing the combined financial statements of the Group, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

#### **4. KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following is the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of each reporting period that have a significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

##### **Engineering service contracts**

The Group reviews and revises the estimates of contract revenue, contract costs, variation orders and contract claims prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by the management on the basis of quotations from time to time provided by the major contractors, suppliers or vendors involved and the experience of the management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews of the budgets of contracts by comparing the budgeted amounts to the actual amounts incurred. Such significant estimate may have impact on the profit recognised in each period with adjustments made on a prospective basis.

Recognised amounts of construction contract revenue and related receivables reflect management's best estimate of each contract's outcome and stage of completion, which are determined on the basis of a number of estimates. This includes the assessment of the profitability of on-going construction contracts. For more complex contracts in particular, costs to complete and contract profitability are subject to significant estimation uncertainty. The actual outcomes in terms of total cost or revenue may be higher or lower than estimated at the end of each of the end of the reporting period, which would affect the revenue and profit recognised in future years as an adjustment to the amounts recorded to date with adjustments made on a prospective basis.

## 5. REVENUE AND SEGMENTAL INFORMATION

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

	Year ended 31 March	
	2016	2017
	HK\$'000	HK\$'000
E&M engineering solutions and services (Note a)	113,629	131,288
E&M engineering maintenance services	15,024	22,345
E&M engineering design and fabrication services (Note b)	29,464	13,388
Sales of parts and components	5,704	4,095
	<u>163,821</u>	<u>171,116</u>

Notes:

- (a) Amount represents revenue generated from design, supply, installation of systems and implementation of electrical and mechanical ("E&M") engineering solutions and services, including revenue generated from design and fabrication services for the fabrication of made-to-order products for the customers, where applicable ("E&M engineering solutions and services").
- (b) Amount represents revenue generated from design and fabrication services for the fabrication of made-to-order products for the customers, such as control room consoles, public access kiosks and terminals, relay racks, test rigs, control room technical furniture and industrial enclosures and instrument cabinets, and also the conducting of ergonomic and work place studies without supply, installation of systems and implementation of E&M engineering solutions and services ("E&M engineering design and fabrication services").

**Segment information**

The Group's operations is solely derived from E&M engineering solutions and services, E&M engineering maintenance services with focus on (i) automatic fare collection system at railway stations; (ii) electronic payment and ticketing system; (iii) road and tunnel toll collection system; (iv) traffic control and surveillance system; and (v) railway signaling communication and control system, E&M engineering design and fabrication services and sales of parts and components during the Relevant Periods. For the purposes of resources allocation and performance assessment, the chief operation decision maker (i.e. the executive directors of the Company) (the "CODM") reviews the overall results and financial position of the Group as a whole which is prepared based on the same accounting policies as set out in note 3. According, the Group has only one single operating segment and no further analysis of this single segment is presented.

**Geographical information**

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

	Revenue		Non-current assets	
	Year ended 31 March		As at 31 March	
	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	137,255	161,996	2,130	2,386
Taiwan	4,862	2,493	–	–
Singapore	12,965	51	–	–
Canada	8,561	6,503	–	–
Others	178	73	–	–
	<u>163,821</u>	<u>171,116</u>	<u>2,130</u>	<u>2,386</u>

Note: Non-current assets excluded financial instruments.

**Information about major customers**

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

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Customer A	66,018	104,318
Customer B	43,876	21,433

Other than disclosed above, there was no revenue from customers individually contributing over 10% of the total revenue of the Group during each of the years comprising the Relevant Periods.

**6. OTHER INCOME AND OTHER GAIN AND LOSSES, NET****Other income**

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank interest income	165	165
Government subsidies ( <i>Note a</i> )	107	–
Reversal of over-accrued payables in prior years ( <i>Note b</i> )	18	403
Sundry income	74	44
	<u>364</u>	<u>612</u>

**Other gain and losses, net**

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gain (loss) on disposal of property, plant and equipment	4	(219)
Exchange gain (loss)	58	(82)
	<u>62</u>	<u>(301)</u>

*Notes:*

- (a) Amounts represent subsidies received from the Government of Hong Kong Special Administration Region (“HKSAR”) for the Group’s participation in Youth Employment and Training Programme, which is initiated by the Labour Department of HKSAR.
- (b) Amounts represent payables accrued in prior years which were reversed during the two years ended 31 March 2017 as the suppliers did not issue invoices and request for payments for more than seven years for the goods purchased or services consumed by the Group and therefore, in the opinion of directors of the Company, the possibility of being demanded for payments is remote. Other than that, the Group had settled all the invoices issued by the suppliers in prior years.

## 7. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

## (a) DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Mr. YC Luk and Mr. KL Luk were appointed as directors of the Company on 5 May 2017, Mr. KM Luk and Mr. Chan Chak Lun ("Mr. CL Chan") were appointed as directors of the Company on 9 June 2017. The emoluments paid or payable to the directors of the Company (including emoluments for services as employee/directors of the group entities prior to becoming the directors of the Company) by the entities comprising the Group during the Relevant Periods as:

	Mr. KM Luk HK\$'000 (Note a)	Mr. YC Luk HK\$'000	Mr. KL Luk HK\$'000	Mr. CL Chan HK\$'000	Total HK\$'000
<b>Year ended 31 March 2016</b>					
Fees	–	20	20	60	100
Other emoluments					
Salaries and allowances	2,356	426	474	1,068	4,324
Bonus (Note b)	–	34	36	87	157
Retirement benefit scheme contributions	–	18	18	86	122
Total emoluments	<u>2,356</u>	<u>498</u>	<u>548</u>	<u>1,301</u>	<u>4,703</u>
	Mr. KM Luk HK\$'000 (Note a)	Mr. YC Luk HK\$'000	Mr. KL Luk HK\$'000	Mr. CL Chan HK\$'000	Total HK\$'000
<b>Year ended 31 March 2017</b>					
Fees	–	60	60	60	180
Other emoluments					
Salaries and allowances	1,308	490	520	1,104	3,422
Retirement benefit scheme contributions	–	18	18	88	124
Total emoluments	<u>1,308</u>	<u>568</u>	<u>598</u>	<u>1,252</u>	<u>3,726</u>

## Notes:

- (a) Amount represents management and consultation service fee paid to K.M.Luk & Engineers Limited, a company jointly controlled by Mr. KM Luk, Madam Leung, Mr. YC Luk and Mr. KL Luk, in respect of management and consultation service rendered by Mr. KM Luk and his spouse, Madam Leung, both of them are employees of K.M.Luk & Engineers Limited.
- (b) Performance bonus is determined by reference to the duties and responsibilities of relevant individual within the Group and the Group's performance.

The emoluments of directors were mainly for their services in connection with management of the affairs of the subsidiaries now comprising the Group.

During the Relevant Periods, no remuneration was paid by the Group to the directors of the Company as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors of the Company have waived any remuneration during the Relevant Periods.

**(b) Employees' emoluments**

The five highest paid individuals included Mr. KM Luk and Mr. CL Chan whose emoluments are included in the disclosures in (a) above for the Relevant Periods. The emoluments of the remaining three individuals for the Relevant Periods, respectively were as follows:

	Year ended 31 March	
	2016	2017
	HK\$'000	HK\$'000
Salaries and other benefits	2,615	2,689
Bonus ( <i>Note</i> )	184	25
Retirement benefit scheme contributions	54	54
	<u>2,853</u>	<u>2,768</u>

*Note:*

Performance bonus is determined by reference to the duties and responsibilities of relevant individual within the Group and the Group's performance.

Their emoluments were within the following bands:

	Year ended 31 March	
	2016	2017
Nil to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	<u>1</u>	<u>1</u>

During the Relevant Periods, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

**8. PROFIT BEFORE TAXATION**

	Year ended 31 March	
	2016	2017
	HK\$'000	HK\$'000
Profit before taxation has been arrived at after charging (crediting):		
Auditor's remuneration	386	386
Depreciation of property, plant and equipment	1,406	1,093
Directors' remuneration ( <i>Note 7</i> )	4,703	3,726
Other staff costs		
– Salaries and other benefits	61,621	65,640
– Retirement benefits scheme contributions	2,710	2,850
Total staff costs	69,034	72,216
Minimum lease payments under operating leases in respect of:		
– office premises	4,037	4,376
– motor vehicle	161	103
Net foreign exchange (gain) loss	(58)	82
(Gain) loss on disposal of property, plant and equipment	(4)	219
Research expenses ( <i>Note</i> )	1,097	851
	<u>1,097</u>	<u>851</u>



*Note:* Amounts represented (i) manpower costs for employees who served research and development functions and (ii) expenses incurred through the conducting of other research and development activities, which were included in cost of sales in combined statements of profit or loss and other comprehensive income.

## 9. INCOME TAX EXPENSE

	Year ended 31 March	
	2016 HK\$'000	2017 HK\$'000
Current tax:		
Hong Kong	4,225	2,735
Taiwan	220	–
	4,445	2,735
Deferred tax ( <i>Note 21</i> )	(37)	3
	4,408	2,738

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

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The tax charge for the Relevant Periods can be reconciled to the profit before taxation as follows:

	Year ended 31 March	
	2016 HK\$'000	2017 HK\$'000
Profit before taxation	26,561	16,065
Tax at the domestic income tax rate of 16.5%	4,383	2,651
Tax effect of income not taxable for tax purpose	(40)	(29)
Tax effect of expenses not deductible for tax purpose	79	156
Effect of different tax rate of subsidiary operating in Taiwan	26	–
One-off tax reduction ( <i>Note</i> )	(40)	(40)
Tax charge for the year	4,408	2,738

*Note:* Amount represents the one-off reduction of profits tax for the Relevant Periods proposed by the Financial Secretary of HKSAR.

## 10. DIVIDEND

During each of the year ended 31 March 2016 and 2017, KML Engineering declared and paid dividend of HK\$5,000,000 and HK\$10,000,000 to the Controlling Shareholders respectively.

Other than disclosed above, no dividend was paid or declared by any group entity during the Relevant periods.

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this Historical Financial Information.

## 11. EARNINGS PER SHARE

No earnings per share information is presented for the purpose of this report as its inclusion is not considered meaningful having regard to the Reorganisation of the Group and the result of the Group for the Relevant Periods that is prepared on a combined basis as set out in Note 1.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Computer equipment HK\$'000	Leasehold improvement HK\$'000	Furniture and fixture HK\$'000	Plant and machinery HK\$'000	Motor vehicles HK\$'000	Cruiser HK\$'000	Total HK\$'000
COST							
As at 1 April 2015	5,988	755	560	4,172	1,956	–	13,431
Additions	284	503	52	316	–	–	1,155
Disposals	(19)	–	(46)	(332)	(26)	–	(423)
As at 31 March 2016	6,253	1,258	566	4,156	1,930	–	14,163
Additions	234	342	33	262	333	364	1,568
Disposals	–	(498)	–	(303)	–	–	(801)
As at 31 March 2017	6,487	1,102	599	4,115	2,263	364	14,930
ACCUMULATED DEPRECIATION							
As at 1 April 2015	5,078	707	495	3,474	1,281	–	11,035
Provided	414	112	38	591	251	–	1,406
Eliminated on disposals	(4)	–	(46)	(332)	(26)	–	(408)
As at 31 March 2016	5,488	819	487	3,733	1,506	–	12,033
Provided	340	101	52	210	317	73	1,093
Eliminated on disposals	–	(326)	–	(256)	–	–	(582)
As at 31 March 2017	5,828	594	539	3,687	1,823	73	12,544
NET CARRYING VALUE							
As at 1 April 2015	910	48	65	698	675	–	2,396
As at 31 March 2016	765	439	79	423	424	–	2,130
As at 31 March 2017	659	508	60	428	440	291	2,386

The above items of property, plant and equipment are depreciated on a straight-line basis at 20% per annum.

## 13. TRADE RECEIVABLES

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

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
0 – 30 days	17,390	20,650
31 – 60 days	13,094	6,240
61 – 90 days	3,907	4,138
Over 90 days	1,079	450
	<u>35,470</u>	<u>31,478</u>

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines credit limits by customer. Credit limits attributable to customers are reviewed regularly. Approximately 57% and 80% of trade receivables as at 31 March 2016 and 2017 respectively that are neither past due nor impaired have good credit quality. These customers have no default of payment in the past.

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

Included in the Group's trade receivables are debtors with aggregate carrying amount of approximately HK\$15,194,000 and HK\$6,169,000 which are past due at 31 March 2016 and 2017 respectively, for which the Group has not provided for impairment loss as there has not been a significant change in credit quality of the trade receivable and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

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

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
31 – 60 days	10,208	1,581
61 – 90 days	3,907	4,138
Over 90 days	1,079	450
Total	<u>15,194</u>	<u>6,169</u>

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

Trade receivables of HK\$215,000 were denominated in US\$ at 31 March 2017. Trade receivables of HK\$4,145,000, HK\$442,000, and HK\$226,000 were denominated in Singapore Dollar ("SGD"), US\$ and New Taiwan Dollar ("NTD"), respectively at 31 March 2016.

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

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Non-current:		
Retention receivables ( <i>Note</i> )	4,088	6,085
Deposits	<u>802</u>	<u>693</u>
	<u>4,890</u>	<u>6,778</u>
Current:		
Retention receivables ( <i>Note</i> )	<u>7,867</u>	<u>5,262</u>
Advances to suppliers	438	1,533
Deposits	29	651
Staff advances	298	425
Prepayments	429	677
Prepaid listing expenses	–	362
Deferred listing expense	–	185
ORSO receivables ( <i>defined in Note 25</i> )	–	203
Other receivables	<u>34</u>	<u>35</u>
	<u>1,228</u>	<u>4,071</u>
Total	<u><u>13,985</u></u>	<u><u>16,111</u></u>

*Note:*

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

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

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
On demand or within one year	7,867	5,262
After one year	<u>4,088</u>	<u>6,085</u>
	<u><u>11,955</u></u>	<u><u>11,347</u></u>

## 15. AMOUNTS DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Contracts in progress at the end of the reporting period:		
Actual costs incurred plus recognised profits less recognised losses	252,607	211,051
Less: Progress billings	<u>(243,393)</u>	<u>(198,065)</u>
	<u>9,214</u>	<u>12,986</u>
Analysed as:		
Amounts due from customers for contract works	25,510	32,243
Amounts due to customers for contract works	<u>(16,296)</u>	<u>(19,257)</u>
	<u>9,214</u>	<u>12,986</u>

## 16. AMOUNT DUE FROM A DIRECTOR

The amount due is unsecured, interest-free and repayable on demand.

Details of amount due from a director, which is non-trade nature, are as follows:

Name	As at	As at 31 March		Maximum amount	
	1 April	2016	2017	outstanding during the	
	2015	2016	2017	2016	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Mr. KM Luk	<u>400</u>	<u>400</u>	<u>–</u>	<u>423</u>	<u>400</u>

## 17. PLEDGE OF ASSET

At the end of the reporting period, the Group pledged the following asset to secure a banking facility granted to the Group.

The carrying amount of the asset pledged is as follows:

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Bank deposits	<u>2,841</u>	<u>–</u>

The pledge was released during year ended 31 March 2017 as a result of cancellation of the banking facility.

**18. TIME DEPOSITS WITH ORIGINAL MATURITY OVER THREE MONTHS/PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH**

As at 31 March 2016 and 2017, bank balances and cash comprise cash held by the Group and bank deposit carry interest at market rates which mainly range from 0.01% to 0.8% and 0.01% to 1.2%, respectively, per annum with an original maturity of three months or less.

As at 31 March 2016, pledged bank deposits represented deposit pledged to a bank to secure a banking facility granted by a bank to the Group, carried fixed interest rate of 0.6% per annum.

As at 31 March 2016, time deposits with original maturity over three months comprise bank deposits of fixed interest rates ranged from 4.0% to 4.2% per annum.

The Group's short term time deposits, pledged bank deposits and bank balances and cash that are denominated in currencies which are not the functional currency of the respective companies are set out below:

	<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Euro ("EUR")	373	146
Renminbi ("RMB")	2,518	2,461
SGD	1,566	–
US\$	1,727	1,713
NTD	563	478
	<u>          </u>	<u>          </u>

**19. TRADE PAYABLES**

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

	<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables:		
0 – 30 days	2,516	2,303
31 – 60 days	424	1,378
61 – 90 days	200	85
91 – 365 days	316	82
Over 365 days	<u>6,700</u>	<u>4,945</u>
	<u>10,156</u>	<u>8,793</u>

As at 31 March 2016 and 2017, included in the trade payables aged over 365 days was an amount of HK\$4,901,000, representing the full provision of the Group's contractual obligation, which was pending settlement as the Group was in dispute with the counterparty for final settlement. No reversal of this payable was recognised during the two years ended 31 March 2017 as the derecognition criteria in accordance with the Group's accounting policies does not meet.

Trade payables of HK\$480,000 and HK\$38,000 were denominated in US\$ and NTD, respectively at 31 March 2017. Trade payables of HK\$79,000, HK\$262,000, HK\$1,205,000 and HK\$38,000 were denominated in RMB, EUR, US\$ and NTD, respectively at 31 March 2016.

**20. OTHER PAYABLES AND ACCRUED CHARGES**

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Accrued staff costs	3,658	4,083
Provision for annual leave	2,073	2,241
Provision for long service payments	884	965
Retention payables ( <i>Note</i> )	999	1,861
Accrued management service fee ( <i>Note 24</i> )	–	508
Other accrued charges	732	886
Other payable	25	1
	<u>8,371</u>	<u>10,545</u>

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

**21. DEFERRED TAXATION**

The following is the major deferred tax liabilities recognised and movements during the current and prior years.

	Accelerated tax depreciation HK\$'000	Provision of long service payments HK\$'000	Total HK\$'000
At 1 April 2015	272	(147)	125
(Credit) charge to profit or loss ( <i>Note 9</i> )	<u>(38)</u>	<u>1</u>	<u>(37)</u>
At 31 March 2016	234	(146)	88
Charge (credit) to profit or loss ( <i>Note 9</i> )	<u>16</u>	<u>(13)</u>	<u>3</u>
At 31 March 2017	<u>250</u>	<u>(159)</u>	<u>91</u>

**22. ISSUED SHARE CAPITAL**

The issued share capital of the Group at 1 April 2015, 31 March 2016 and 2017 represent the aggregate share capital of KML Engineering and KML Technology directly held by the Controlling Shareholders prior to the Reorganisation.

**23. OPERATING LEASE****The Group as lessee**

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

As at 31 March 2016 and 2017, the Group had commitment for future minimum lease payments under non-cancellable operating leases with KML Ltd. and K.M. Luk & Engineers Limited (as detailed in Note 24) and other independent third parties which fall due as follows:

	As at 31 March	
	2016	2017
	HK\$'000	HK\$'000
Land and buildings		
Within one year	4,063	5,282
In the second to fifth years inclusive	4,089	918
	<u>8,152</u>	<u>6,200</u>

#### 24. RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in the Historical Financial Information, the Group had the following transactions with its related parties during the Relevant Periods:

	Year ended 31 March	
	2016	2017
	HK\$'000	HK\$'000
Management and consultation service fee paid to K.M. Luk & Engineers Limited ( <i>Note c</i> )	<u>2,356</u>	<u>1,308</u>
Purchase of materials from Logistic Industrial ( <i>Note b, c</i> )	<u>226</u>	<u>149</u>
Rental fee paid to		
KML Ltd. ( <i>Note a, c</i> )	3,960	3,960
K.M. Luk & Engineers Limited ( <i>Note c</i> )	<u>161</u>	<u>103</u>

*Notes:*

- (a) KML Ltd. is controlled by Mr. KM Luk.
- (b) Logistic Industrial Supply Company Limited ("Logistic Industrial") is a company which Mr. KM Luk and Madam Leung have significant influence over it.
- (c) In the opinion of directors, these transactions, except for (i) purchase of materials from Logistic Industrial and (ii) rental of office premises and car park from KML Ltd, will be terminated prior to the Listing.

Details of the balances with a director at the end of each reporting period are disclosed in the combined statements of financial position, combined statements of cash flows and Notes 16 and 20.

As at 31 March 2016 and 2017, Mr. KM Luk and Madam Leung have provided personal guarantee together with their bank deposits to secure a banking facility line granted to the Group. The directors of the Company confirmed that the guarantee provided by Mr. KM Luk and Madam Leung will be released upon the Listing.

#### Compensation of key management personnel

Key management personnel of the Company are the directors of the Company. Their remunerations during the Relevant Periods were set out in Note 7.



## 25. RETIREMENT BENEFITS SCHEMES

The Group participates in both a defined contribution scheme which is registered under the Occupational Retirement Scheme Ordinance (the ORSO Scheme) and a Mandatory Provident Fund Scheme (the MPF Scheme) established under the Mandatory Provident Fund Ordinance in December 2000. The assets of the schemes are held separately from those of the Group, in funds under the control of trustees. Employees who were members of the ORSO Scheme prior to the establishment of the MPF Scheme were offered a choice of staying within the ORSO Scheme or switching to the MPF Scheme, whereas all new employees joining the Group on or after 1 December 2000 are required to join the MPF Scheme.

For members of the MPF Scheme, the Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by the employee.

The ORSO Scheme is funded by monthly contributions from both employees and the Group at rates ranging from 5% to 8% of the employee's basic salary, depending on the length of service with the Group.

The total expense recognised in profit or loss of HK\$2,832,000 and HK\$2,974,000 during the year ended 31 March 2016 and 2017 respectively represent contributions payable to these plans by the Group at rates specified in the rules of the plans.

The contributions paid and payable to the schemes by the Group are disclosed in Note 8.

## 26. INTERESTS IN SUBSIDIARIES

As at the date of this report, the Company has direct and indirect interests in its subsidiaries, all of which are private limited liability companies (or, if incorporated outside Hong Kong, have substantially similar characteristics to a private company in Hong Kong), the particulars of which are as follows:

Name	Place and date of incorporation	Place of operation	Issued and fully paid share capital	Attributable equity interest of the Group as at			Principal activities
				31 March 2016	2017	Date of this report	
<b>Directly held:</b>							
KML BVI	BVI 16 May 2017	BVI	US\$1	–	–	100%	Investment holding
<b>Indirectly held:</b>							
KML Engineering (Note)	Hong Kong 12 August 1977	Hong Kong	HK\$10,000,000	100%	100%	100%	Provision of professional E&M system engineering services for railway and road transport infrastructure projects and sales of parts and components
KML Technology (Note)	Hong Kong 21 October 1988	Hong Kong	HK\$4,339,264	100%	100%	100%	Provision of professional E&M system engineering services for railway and road transport infrastructure projects
KML Transtech (Note)	Hong Kong 23 June 2000	Hong Kong	HK\$2,000,000	100%	100%	–	Inactive

*Note:* The statutory financial statements of these entities for the year ended 31 March 2016 and 2017 were prepared in accordance with HKFRSs issued by the HKICPA and were audited by Deloitte Touche Tohmatsu.

**27. CAPITAL RISK MANAGEMENT**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debt and equity of the Group, comprising issued share capital and accumulated profits.

Management of the Group reviews the capital structure regularly taking into account the cost of capital and the risk associated with the capital. The Group will balance its overall capital structure through issuance of new shares and the raise of borrowings.

**28. FINANCIAL INSTRUMENTS****Categories of financial instruments**

	<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>		
Loans and receivables (including cash and cash equivalents)	<u>108,888</u>	<u>103,451</u>
<b>Financial liabilities</b>		
Amortised cost	<u>15,570</u>	<u>16,132</u>

**Financial risk management objectives and policies**

The Group's financial instruments include trade and retention receivables, other receivables and deposits, amount due from a director, pledged bank deposits, time deposits with original maturity over three months, bank balances and cash, trade payables and other payables and accrued charges. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

**Currency risk**

Certain bank balances and cash, time deposits with original maturity over three months, pledged bank deposits and trade receivables and trade payables of the Group are denominated in foreign currencies of respective group entities, i.e. RMB, EUR and US\$. The carrying amounts of the Group's bank balances and cash and trade payables denominated in foreign currencies at the end of each reporting period are as follows:

	<b>Financial assets</b>		<b>Financial liabilities</b>	
	<b>As at 31 March</b>		<b>As at 31 March</b>	
	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	2,518	2,461	79	–
EUR	373	146	262	–
US\$	2,169	1,928	1,205	480
NTD	789	478	38	38
SGD	<u>5,711</u>	<u>–</u>	<u>–</u>	<u>–</u>

The Group currently does not have a foreign currency hedging policy. However, the directors of the Company monitor foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Since the exchange rate of HK\$ is pegged with US\$, the Group does not expect any significant movements in the US\$/HK\$ exchange rates. Thus, there is no sensitivity analysis on US\$ denominated financial assets.

Sensitivity analysis of strengthening 10% in functional currency of the Group (i.e. HK\$) against foreign currencies and keeping all other variables constant resulted an decrease in post-tax profit of the year ended 31 March 2016 and 2017. For a 10% weakening of HK\$ against foreign currencies there would be an equal and opposite impact on the results.

	<b>Year ended 31 March</b>	
	<b>2016</b>	<b>2017</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
RMB	204	205
EUR	9	12
NTD	63	37
SGD	477	–
	<u>477</u>	<u>–</u>

#### ***Interest rate risk***

The Group is exposed to cash flow interest rate risk in bank balances and cash (Note 18) as at 31 March 2016 and 2017.

The Group has not used any interest rate swaps to mitigate its exposure associated with interest rate risk. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

#### ***Sensitivity analysis***

In the opinion of management of the Group, the expected change in interest rate will not have significant impact on the interest income or expenses on payments for bank balances, hence sensitivity analysis is not presented.

#### ***Credit risk***

The Group's credit risk is primarily attributable to trade receivables, retention held by customers for contract works, other receivables and deposits, amount due from a director, pledged bank deposits, time deposits with original maturity over three months and bank balances.

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge the obligations by counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the combined statements of financial position at the end of the reporting period.

Management of the group adopted a policy on providing credit facilities to new customers. The level of credit granted must not exceed a predetermined level set by the management. Credit evaluation is performed on a regular basis. Management of the Group has delegated a team responsible for monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group has concentration of credit risks with exposure limited to certain customers. Top five customers amounting to HK\$31,031,000 and HK\$29,347,000 comprised approximately 87% and 93% of the Group's trade receivables as at 31 March 2016 and 2017 respectively. The management of the Group closely monitors the subsequent settlement of the customers. In this regard, the management of the Group considers that the Group's credit risk is significantly reduced.

The Group has a concentration of credit risk on pledged bank deposits, time deposits with original maturity over three months and bank balances deposited with a few major banks. The credit risk on these balances is limited because the counterparties are banks with good reputation.

#### *Liquidity risk*

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of unexpected fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

	<b>Weighted average effective interest rate</b> %	<b>On demand</b> HK\$'000	<b>Within 1 year</b> HK\$'000	<b>Total undiscounted cash flows</b> HK\$'000	<b>Total carrying amount</b> HK\$'000
<b>As at 31 March 2016</b>					
<i>Non-derivative financial liabilities</i>					
Trade payables	N/A	1,910	8,246	10,156	10,156
Other payables	N/A	<u>5,150</u>	<u>264</u>	<u>5,414</u>	<u>5,414</u>
		<u>7,060</u>	<u>8,510</u>	<u>15,570</u>	<u>15,570</u>
	<b>Weighted average effective interest rate</b> %	<b>On demand</b> HK\$'000	<b>Within 1 year</b> HK\$'000	<b>Total undiscounted cash flows</b> HK\$'000	<b>Total carrying amount</b> HK\$'000
<b>As at 31 March 2017</b>					
<i>Non-derivative financial liabilities</i>					
Trade payables	N/A	2,104	6,689	8,793	8,793
Other payables	N/A	<u>7,339</u>	<u>–</u>	<u>7,339</u>	<u>7,339</u>
		<u>9,443</u>	<u>6,689</u>	<u>16,132</u>	<u>16,132</u>

*Fair value of financial instruments*

Management of the Group considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Historical Financial Information approximate their fair values.

**29. PERFORMANCE GUARANTEE**

As at 31 March 2017, performance guarantee of approximately HK\$2,594,000 (2016: Nil) was given by a bank in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and its customer. If the Group failed to provide satisfactory performance to their customers to whom performance guarantee had been given, such customers may demand the banks to pay to them the sum or sum stipulated in such demand. The Group would become liable to compensate such banks accordingly. The performance guarantee would be released upon completion of the contract works. The performance guarantee was granted under a banking facility.

**30. MAJOR NON-CASH TRANSACTION**

During the year ended 31 March 2017, the Group acquired a cruiser through the deposits HK\$364,000 paid in year ended 31 March 2016.

**31. SUBSEQUENT EVENTS**

Save as disclosed elsewhere in the Historical Financial Information, subsequent events of the Group and detailed as below.

As part of the Reorganisation, KML Engineering and Madam Leung transferred their entire interest in KML Transtech to Ms. Chan Patricia, spouse of Mr. KL Luk, for a total consideration of HK\$1,932,722 on 9 June 2017.

Pursuant to the general meeting of all shareholders of the Company held on 20 September 2017, it was resolved, among other things, that:

- (i) the Company has conditionally adopted a share option scheme, the principal terms of which are set out in the subsection headed "D. Share Option Scheme" in Appendix IV to the Prospectus;
- (ii) the authorised share capital of the Company was increased to HK\$38,000,000 divided into 3,800,000,000 shares of the Company of HK\$0.01 each by the creation of an additional 3,762,000,000 shares of the Company;
- (iii) conditional further on the share premium account of the Company being credited with the proceeds of the Share Offer (as defined in the Prospectus), the Directors were authorised to capitalise an amount of HK\$2,999,900 standing to the credit of the share premium account of the Company and to appropriate such amount as to capital to pay up in full at par 299,990,000 shares for allotment and issue to the person(s) whose names appear on the register of members of the Company at the close of business on 9 October 2017 (or as they may direct) in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in the Company, each ranking pari passu in all respects with the then existing issued shares, and the aforesaid issue and allotment of shares was approved, and the Directors were authorised to give effect to such capitalisation and issue and allotment of shares; and
- (iv) the Company has declared dividend of HK\$25,000,000 (HK\$2,500 per share) to the Controlling Shareholders.

**32. SUBSEQUENT FINANCIAL STATEMENTS**

No audited financial statements of the Company, any of its subsidiaries or the Group have been prepared in respect of any period subsequent to 31 March 2017.

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## **APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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The information set out in this appendix does not form part of the accountants' report on the financial information of our Group for each of the years ended 31 March 2016 and 2017 prepared by Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, our Company's Reporting Accountants (the "Accountants' Report") as set out in Appendix I to this prospectus, and is included herein for illustrative purpose only. The unaudited pro forma financial information should be read in conjunction with the section headed "Financial Information" in this prospectus and the Accountants' Report set out in Appendix I in this prospectus.

### **A.    STATEMENT OF UNAUDITED PRO FORMA ADJUSTED COMBINED NET TANGIBLE ASSETS OF THE GROUP ATTRIBUTABLE TO OWNERS OF THE COMPANY**

The statement of unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company prepared in accordance with Rule 7.31 of the GEM Listing Rules is set out below to illustrate the effect of the proposed share offer of the Company on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "Share Offer") on the audited combined net tangible assets of the Group attributable to owners of the Company as if the Share Offer had taken place on 31 March 2017.

The statement of unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017 or any future date following the Share Offer.

## APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following statement of unaudited pro forma adjusted combined net tangible assets of the Group is based on the audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017 as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and adjusted as follows:

	<b>Audited combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017</b>	<b>Estimated net proceeds from the Share Offer</b>	<b>Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017</b>	<b>Unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017 per share</b>
	<i>HK\$'000</i> <i>(Note 1)</i>	<i>HK\$'000</i> <i>(Note 2)</i>	<i>HK\$'000</i>	<i>HK\$</i> <i>(Note 3)</i>
Based on Offer				
Price of HK\$				
0.72 per share	99,397	47,803	147,200	0.368
Based on Offer				
Price of HK\$				
0.48 per share	99,397	25,003	124,400	0.311

*Notes:*

1. The audited combined net tangible assets of the Group attributable to owners of the Company is extracted from the Accountants' Report set out in Appendix I to this prospectus.
2. The estimated net proceeds from the Share Offer are based on 100,000,000 Offer Shares at the Offer Price of lower limit and upper limit of HK\$0.48 and HK\$0.72 per Offer Share, respectively, after taking into account the estimated underwriting fees and other related expenses to be incurred by the Group since 1 April 2017. The calculation of such estimated net proceeds does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, Offer Size Adjustment Option or any Shares which may be issued or repurchased referred to in the subsection headed "General Mandate to Issue Shares" and the subsection headed "General Mandate to Repurchase Shares" in the section headed "Share Capital" in this prospectus.
3. The unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company as at 31 March 2017 per Share is arrived at on the basis that 400,000,000 Shares were in issue assuming that the Share Offer and the Capitalisation Issue had been completed on 31 March 2017 and does not take into account of any Shares which may be allotted and issued pursuant to the exercise of options which may be granted under the Share Option Scheme, Offer Size Adjustment Option or any Shares which may be issued or repurchased by the Company pursuant to the general mandates granted to the Directors to issue or repurchase Shares referred to in the subsection headed "General Mandate to Issue Shares" and the subsection headed "General Mandate to Repurchase Shares" in the section headed "Share Capital" in this prospectus.

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## APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION

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4. No adjustment has been made to the unaudited pro forma adjusted combined net tangible assets of the Group attributable to owners of the Company to reflect any trading results or other transactions of the Group entered into subsequent to 31 March 2017.
  
5. The unaudited pro forma adjusted combined net tangible assets of the Group as at 31 March 2017 do not take into account the dividend of HK\$25 million declared in September 2017. Had the declaration of the dividend been taken into account, the unaudited pro forma adjusted combined net tangible assets of the Group per share would be reduced to HK\$0.249 based on a minimum offer price of HK\$0.48 per Share or HK\$0.306 based on a maximum offer price of HK\$0.72 per Share.



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## APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION

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*The following is the text of the assurance report received from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong, the reporting accountants of our Company, in respect of the Group's unaudited pro forma financial information prepared for the purpose of incorporation in this prospectus.*

**Deloitte.**

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### **INDEPENDENT REPORTING ACCOUNTANTS' ASSURANCE REPORT ON THE COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION**

#### **To the Directors of KML Technology Group Limited**

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of KML Technology Group Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") by the directors of the Company (the "Directors") for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma statement of adjusted net tangible assets attributable to owners of the Company as at 31 March 2017 and related notes as set out on pages II-1 to II-3 of Appendix II to the prospectus issued by the Company dated 29 September (the "Prospectus"). The applicable criteria on the basis of which the Directors have compiled the unaudited pro forma financial information are described on pages II-1 to II-3 of Appendix II to the Prospectus.

The unaudited pro forma financial information has been compiled by the Directors to illustrate the impact of the proposed share offer of the Company on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "Share Offer") on the Group's financial position as at 31 March 2017 as if the proposed Share Offer had taken place at 31 March 2017. As part of this process, information about the Group's financial position has been extracted by the Directors from the Group's historical financial information for the two years ended 31 March 2017, on which an accountants' report set out in Appendix I to the Prospectus has been published.

#### **Directors' Responsibilities for the Unaudited Pro Forma Financial Information**

The Directors are responsible for compiling the unaudited pro forma financial information in accordance with paragraph 7.31 of the Rules Governing the Listing of Securities on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited (the "GEM Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

#### **Our Independence and Quality Control**

We have complied with the independence and other ethical requirements of the "Code of Ethics for Professional Accountants" issued by the HKICPA, which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behavior.

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## **APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION**

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Our firm applies Hong Kong Standard on Quality Control 1 “Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance and Related Services Engagements” issued by the HKICPA and accordingly maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

### **Reporting Accountants’ Responsibilities**

Our responsibility is to express an opinion, as required by paragraph 7.31(7) of the GEM Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 “Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus” issued by the HKICPA. This standard requires that the reporting accountants plan and perform procedures to obtain reasonable assurance about whether the Directors have compiled the unaudited pro forma financial information in accordance with paragraph 7.31 of the GEM Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the unaudited pro forma financial information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the unaudited pro forma financial information.

The purpose of unaudited pro forma financial information included in an investment circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the Group as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 March 2017 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the Directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- the related pro forma adjustments give appropriate effect to those criteria; and
- the unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

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## APPENDIX II    UNAUDITED PRO FORMA FINANCIAL INFORMATION

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The procedures selected depend on the reporting accountants' judgment, having regard to the reporting accountants' understanding of the nature of the Group, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- (a) the unaudited pro forma financial information has been properly compiled on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 7.31(1) of the GEM Rules.

**Deloitte Touche Tohmatsu**  
*Certified Public Accountants*  
Hong Kong  
29 September 2017

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**APPENDIX III                      SUMMARY OF THE CONSTITUTION OF OUR COMPANY  
AND CAYMAN ISLANDS COMPANY LAW**

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Set out below is a summary of certain provisions of the Memorandum and Articles of Association of the Company and of certain aspects of Cayman Islands company law.

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, as consolidated and revised) of the Cayman Islands (the “Companies Law”). The Company’s constitutional documents consist of its Memorandum of Association (the “Memorandum”) and its Articles of Association (the “Articles”).

**1. MEMORANDUM OF ASSOCIATION**

- (a) The Memorandum states, inter alia, that the liability of members of the Company is limited to the amount, if any, for the time being unpaid on the shares respectively held by them and that the objects for which the Company is established are unrestricted (including acting as an investment company), and that the Company shall have and be capable of exercising all the functions of a natural person of full capacity irrespective of any question of corporate benefit, as provided in section 27(2) of the Companies Law and in view of the fact that the Company is an exempted company that the Company will not trade in the Cayman Islands with any person, firm or corporation except in furtherance of the business of the Company carried on outside the Cayman Islands.
- (b) The Company may by special resolution alter its Memorandum with respect to any objects, powers or other matters specified therein.

**2. ARTICLES OF ASSOCIATION**

The Articles were conditionally adopted on 20 September 2017 with effect from the Listing Date. The following is a summary of certain provisions of the Articles:

**(a) Shares**

*(i) Classes of shares*

The share capital of the Company consists of ordinary shares.

*(ii) Variation of rights of existing shares or classes of shares*

Subject to the Companies Law, if at any time the share capital of the Company is divided into different classes of shares, all or any of the special rights attached to the shares or any class of shares may (unless otherwise provided for by the terms of issue of that class) be varied, modified or abrogated either with the consent in writing of the holders of not less than three fourths in nominal value of the issued shares of that class or with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of that class. To every such separate general meeting the provisions of the Articles relating to general meetings will mutatis mutandis apply, but so that the necessary

quorum (other than at an adjourned meeting) shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class and at any adjourned meeting two holders present in person or by proxy (whatever the number of shares held by them) shall be a quorum. Every holder of shares of the class shall be entitled to one vote for every such share held by him.

Any special rights conferred upon the holders of any shares or class of shares shall not, unless otherwise expressly provided in the rights attaching to the terms of issue of such shares, be deemed to be varied by the creation or issue of further shares ranking *pari passu* therewith.

*(iii) Alteration of capital*

The Company may by ordinary resolution of its members:

- (i) increase its share capital by the creation of new shares;
- (ii) consolidate all or any of its capital into shares of larger amount than its existing shares;
- (iii) divide its shares into several classes and attach to such shares any preferential, deferred, qualified or special rights, privileges, conditions or restrictions as the Company in general meeting or as the directors may determine;
- (iv) sub-divide its shares or any of them into shares of smaller amount than is fixed by the Memorandum; or
- (v) cancel any shares which, at the date of passing of the resolution, have not been taken and diminish the amount of its capital by the amount of the shares so cancelled.

The Company may reduce its share capital or any capital redemption reserve or other undistributable reserve in any way by special resolution.

*(iv) Transfer of shares*

All transfers of shares may be effected by an instrument of transfer in the usual or common form or in a form prescribed by The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) or in such other form as the board may approve and which may be under hand or, if the transferor or transferee is a clearing house or its nominee(s), by hand or by machine imprinted signature or by such other manner of execution as the board may approve from time to time.

The instrument of transfer shall be executed by or on behalf of the transferor and the transferee provided that the board may dispense with the execution of the instrument of transfer by the transferee. The transferor shall be deemed to remain the holder of the share until the name of the transferee is entered in the register of members in respect of that share.

The board may, in its absolute discretion, at any time transfer any share upon the principal register to any branch register or any share on any branch register to the principal register or any other branch register.

The board may decline to recognise any instrument of transfer unless a fee (not exceeding the maximum sum as the Stock Exchange may determine to be payable) determined by the Directors is paid to the Company, the instrument of transfer is properly stamped (if applicable), it is in respect of only one class of share and is lodged at the relevant registration office or registered office or such other place at which the principal register is kept accompanied by the relevant share certificate(s) and such other evidence as the board may reasonably require to show the right of the transferor to make the transfer (and if the instrument of transfer is executed by some other person on his behalf, the authority of that person so to do).

The registration of transfers may be suspended and the register closed on giving notice by advertisement in any newspaper or by any other means in accordance with the requirements of the Stock Exchange, at such times and for such periods as the board may determine. The register of members must not be closed for periods exceeding in the whole thirty (30) days in any year.

Subject to the above, fully paid shares are free from any restriction on transfer and free of all liens in favour of the Company.

***(v) Power of the Company to purchase its own shares***

The Company is empowered by the Companies Law and the Articles to purchase its own shares subject to certain restrictions and the board may only exercise this power on behalf of the Company subject to any applicable requirements imposed from time to time by the Stock Exchange.

Where the Company purchases for redemption a redeemable share, purchases not made through the market or by tender must be limited to a maximum price determined by the Company in general meeting. If purchases are by tender, tenders must be made available to all members alike.

***(vi) Power of any subsidiary of the Company to own shares in the Company***

There are no provisions in the Articles relating to ownership of shares in the Company by a subsidiary.

*(vii) Calls on shares and forfeiture of shares*

The board may from time to time make such calls upon the members in respect of any monies unpaid on the shares held by them respectively (whether on account of the nominal value of the shares or by way of premium). A call may be made payable either in one lump sum or by installments. If the sum payable in respect of any call or instalment is not paid on or before the day appointed for payment thereof, the person or persons from whom the sum is due shall pay interest on the same at such rate not exceeding twenty per cent. (20%) per annum as the board may agree to accept from the day appointed for the payment thereof to the time of actual payment, but the board may waive payment of such interest wholly or in part. The board may, if it thinks fit, receive from any member willing to advance the same, either in money or money's worth, all or any part of the monies uncalled and unpaid or installments payable upon any shares held by him, and upon all or any of the monies so advanced the Company may pay interest at such rate (if any) as the board may decide.

If a member fails to pay any call on the day appointed for payment thereof, the board may serve not less than fourteen (14) clear days' notice on him requiring payment of so much of the call as is unpaid, together with any interest which may have accrued and which may still accrue up to the date of actual payment and stating that, in the event of non payment at or before the time appointed, the shares in respect of which the call was made will be liable to be forfeited.

If the requirements of any such notice are not complied with, any share in respect of which the notice has been given may at any time thereafter, before the payment required by the notice has been made, be forfeited by a resolution of the board to that effect. Such forfeiture will include all dividends and bonuses declared in respect of the forfeited share and not actually paid before the forfeiture.

A person whose shares have been forfeited shall cease to be a member in respect of the forfeited shares but shall, notwithstanding, remain liable to pay to the Company all monies which, at the date of forfeiture, were payable by him to the Company in respect of the shares, together with (if the board shall in its discretion so require) interest thereon from the date of forfeiture until the date of actual payment at such rate not exceeding twenty per cent. (20%) per annum as the board determines.

**(b) Directors****(i) *Appointment, retirement and removal***

At each annual general meeting, one third of the Directors for the time being (or if their number is not a multiple of three, then the number nearest to but not less than one third) shall retire from office by rotation provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. The Directors to retire by rotation shall include any Director who wishes to retire and not offer himself for re-election. Any further Directors so to retire shall be those who have been longest in office since their last re election or appointment but as between persons who became or were last re elected Directors on the same day those to retire will (unless they otherwise agree among themselves) be determined by lot.

Neither a Director nor an alternate Director is required to hold any shares in the Company by way of qualification. Further, there are no provisions in the Articles relating to retirement of Directors upon reaching any age limit.

The Directors have the power to appoint any person as a Director either to fill a casual vacancy on the board or as an addition to the existing board. Any Director appointed to fill a casual vacancy shall hold office until the first general meeting of members after his appointment and be subject to re-election at such meeting and any Director appointed as an addition to the existing board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

A Director may be removed by an ordinary resolution of the Company before the expiration of his period of office (but without prejudice to any claim which such Director may have for damages for any breach of any contract between him and the Company) and members of the Company may by ordinary resolution appoint another in his place. Unless otherwise determined by the Company in general meeting, the number of Directors shall not be less than two. There is no maximum number of Directors.

The office of director shall be vacated if:

- (aa) he resigns by notice in writing delivered to the Company;
- (bb) he becomes of unsound mind or dies;
- (cc) without special leave, he is absent from meetings of the board for six (6) consecutive months, and the board resolves that his office is vacated;
- (dd) he becomes bankrupt or has a receiving order made against him or suspends payment or compounds with his creditors;



(ee) he is prohibited from being a director by law; or

(ff) he ceases to be a director by virtue of any provision of law or is removed from office pursuant to the Articles.

The board may appoint one or more of its body to be managing director, joint managing director, or deputy managing director or to hold any other employment or executive office with the Company for such period and upon such terms as the board may determine and the board may revoke or terminate any of such appointments. The board may delegate any of its powers, authorities and discretions to committees consisting of such Director or Directors and other persons as the board thinks fit, and it may from time to time revoke such delegation or revoke the appointment of and discharge any such committees either wholly or in part, and either as to persons or purposes, but every committee so formed must, in the exercise of the powers, authorities and discretions so delegated, conform to any regulations that may from time to time be imposed upon it by the board.

*(ii) Power to allot and issue shares and warrants*

Subject to the provisions of the Companies Law and the Memorandum and Articles and to any special rights conferred on the holders of any shares or class of shares, any share may be issued (a) with or have attached thereto such rights, or such restrictions, whether with regard to dividend, voting, return of capital, or otherwise, as the Directors may determine, or (b) on terms that, at the option of the Company or the holder thereof, it is liable to be redeemed.

The board may issue warrants conferring the right upon the holders thereof to subscribe for any class of shares or securities in the capital of the Company on such terms as it may determine.

Subject to the provisions of the Companies Law and the Articles and, where applicable, the rules of the Stock Exchange and without prejudice to any special rights or restrictions for the time being attached to any shares or any class of shares, all unissued shares in the Company are at the disposal of the board, which may offer, allot, grant options over or otherwise dispose of them to such persons, at such times, for such consideration and on such terms and conditions as it in its absolute discretion thinks fit, but so that no shares shall be issued at a discount.

Neither the Company nor the board is obliged, when making or granting any allotment of, offer of, option over or disposal of shares, to make, or make available, any such allotment, offer, option or shares to members or others with registered addresses in any particular territory or territories being a territory or territories where, in the absence of a registration statement or other special formalities, this would or might, in the opinion of the board, be unlawful or impracticable. Members affected as a result of the foregoing sentence shall not be, or be deemed to be, a separate class of members for any purpose whatsoever.

*(iii) Power to dispose of the assets of the Company or any of its subsidiaries*

There are no specific provisions in the Articles relating to the disposal of the assets of the Company or any of its subsidiaries. The Directors may, however, exercise all powers and do all acts and things which may be exercised or done or approved by the Company and which are not required by the Articles or the Companies Law to be exercised or done by the Company in general meeting.

*(iv) Borrowing powers*

The board may exercise all the powers of the Company to raise or borrow money, to mortgage or charge all or any part of the undertaking, property and assets and uncalled capital of the Company and, subject to the Companies Law, to issue debentures, bonds and other securities of the Company, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party.

*(v) Remuneration*

The ordinary remuneration of the Directors is to be determined by the Company in general meeting, such sum (unless otherwise directed by the resolution by which it is voted) to be divided amongst the Directors in such proportions and in such manner as the board may agree or, failing agreement, equally, except that any Director holding office for part only of the period in respect of which the remuneration is payable shall only rank in such division in proportion to the time during such period for which he held office. The Directors are also entitled to be prepaid or repaid all travelling, hotel and incidental expenses reasonably expected to be incurred or incurred by them in attending any board meetings, committee meetings or general meetings or separate meetings of any class of shares or of debentures of the Company or otherwise in connection with the discharge of their duties as Directors.

Any Director who, by request, goes or resides abroad for any purpose of the Company or who performs services which in the opinion of the board go beyond the ordinary duties of a Director may be paid such extra remuneration as the board may determine and such extra remuneration shall be in addition to or in substitution for any ordinary remuneration as a Director. An executive Director appointed to be a managing director, joint managing director, deputy managing director or other executive officer shall receive such remuneration and such other benefits and allowances as the board may from time to time decide. Such remuneration may be either in addition to or in lieu of his remuneration as a Director.

The board may establish or concur or join with other companies (being subsidiary companies of the Company or companies with which it is associated in business) in establishing and making contributions out of the Company's monies to any schemes or funds for providing pensions, sickness or compassionate

allowances, life assurance or other benefits for employees (which expression as used in this and the following paragraph shall include any Director or ex Director who may hold or have held any executive office or any office of profit with the Company or any of its subsidiaries) and ex employees of the Company and their dependents or any class or classes of such persons.

The board may pay, enter into agreements to pay or make grants of revocable or irrevocable, and either subject or not subject to any terms or conditions, pensions or other benefits to employees and ex employees and their dependents, or to any of such persons, including pensions or benefits additional to those, if any, to which such employees or ex employees or their dependents are or may become entitled under any such scheme or fund as is mentioned in the previous paragraph. Any such pension or benefit may, as the board considers desirable, be granted to an employee either before and in anticipation of, or upon or at any time after, his actual retirement.

*(vi) Compensation or payments for loss of office*

Pursuant to the Articles, payments to any Director or past Director of any sum by way of compensation for loss of office or as consideration for or in connection with his retirement from office (not being a payment to which the Director is contractually entitled) must be approved by the Company in general meeting.

*(vii) Loans and provision of security for loans to Directors*

The Company must not make any loan, directly or indirectly, to a Director or his close associate(s) if and to the extent it would be prohibited by the Companies Ordinance (Chapter 622 of the laws of Hong Kong) as if the Company were a company incorporated in Hong Kong.

*(viii) Disclosure of interests in contracts with the Company or any of its subsidiaries*

A Director may hold any other office or place of profit with the Company (except that of the auditor of the Company) in conjunction with his office of Director for such period and upon such terms as the board may determine, and may be paid such extra remuneration therefor in addition to any remuneration provided for by or pursuant to the Articles. A Director may be or become a director or other officer of, or otherwise interested in, any company promoted by the Company or any other company in which the Company may be interested, and shall not be liable to account to the Company or the members for any remuneration, profits or other benefits received by him as a director, officer or member of, or from his interest in, such other company. The board may also cause the voting power conferred by the shares in any other company held or owned by the Company to be exercised in such manner in all respects as it thinks fit, including the exercise thereof in favour of any resolution appointing the Directors

or any of them to be directors or officers of such other company, or voting or providing for the payment of remuneration to the directors or officers of such other company.

No Director or proposed or intended Director shall be disqualified by his office from contracting with the Company, either with regard to his tenure of any office or place of profit or as vendor, purchaser or in any other manner whatsoever, nor shall any such contract or any other contract or arrangement in which any Director is in any way interested be liable to be avoided, nor shall any Director so contracting or being so interested be liable to account to the Company or the members for any remuneration, profit or other benefits realised by any such contract or arrangement by reason of such Director holding that office or the fiduciary relationship thereby established. A Director who to his knowledge is in any way, whether directly or indirectly, interested in a contract or arrangement or proposed contract or arrangement with the Company must declare the nature of his interest at the meeting of the board at which the question of entering into the contract or arrangement is first taken into consideration, if he knows his interest then exists, or in any other case, at the first meeting of the board after he knows that he is or has become so interested.

A Director shall not vote (nor be counted in the quorum) on any resolution of the board approving any contract or arrangement or other proposal in which he or any of his close associates is materially interested, but this prohibition does not apply to any of the following matters, namely:

- (aa) any contract or arrangement for giving to such Director or his close associate(s) any security or indemnity in respect of money lent by him or any of his close associates or obligations incurred or undertaken by him or any of his close associates at the request of or for the benefit of the Company or any of its subsidiaries;
- (bb) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his close associate(s) has himself/themselves assumed responsibility in whole or in part whether alone or jointly under a guarantee or indemnity or by the giving of security;
- (cc) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his close associate(s) is/are or is/are to be interested as a participant in the underwriting or sub underwriting of the offer;

- (dd) any contract or arrangement in which the Director or his close associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company; or
- (ee) any proposal or arrangement concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death, or disability benefits scheme or other arrangement which relates both to Directors, his close associates and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his close associate(s), as such any privilege or advantage not accorded generally to the class of persons to which such scheme or fund relates.

**(c) Proceedings of the Board**

The board may meet for the despatch of business, adjourn and otherwise regulate its meetings as it considers appropriate. Questions arising at any meeting shall be determined by a majority of votes. In the case of an equality of votes, the chairman of the meeting shall have an additional or casting vote.

**(d) Alterations to constitutional documents and the Company's name**

The Articles may be rescinded, altered or amended by the Company in general meeting by special resolution. The Articles state that a special resolution shall be required to alter the provisions of the Memorandum, to amend the Articles or to change the name of the Company.

**(e) Meetings of members**

***(i) Special and ordinary resolutions***

A special resolution of the Company must be passed by a majority of not less than three fourths of the votes cast by such members as, being entitled so to do, vote in person or, in the case of such members as are corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

Under the Companies Law, a copy of any special resolution must be forwarded to the Registrar of Companies in the Cayman Islands within fifteen (15) days of being passed.

An ordinary resolution is defined in the Articles to mean a resolution passed by a simple majority of the votes of such members of the Company as, being entitled to do so, vote in person or, in the case of corporations, by their duly authorised representatives or, where proxies are allowed, by proxy at a general meeting of which notice has been duly given in accordance with the Articles.

*(ii) Voting rights and right to demand a poll*

Subject to any special rights or restrictions as to voting for the time being attached to any shares, at any general meeting on a poll every member present in person or by proxy or, in the case of a member being a corporation, by its duly authorised representative shall have one vote for every fully paid share of which he is the holder but so that no amount paid up or credited as paid up on a share in advance of calls or installments is treated for the foregoing purposes as paid up on the share. A member entitled to more than one vote need not use all his votes or cast all the votes he uses in the same way.

At any general meeting a resolution put to the vote of the meeting is to be decided by way of a poll save that the chairman of the meeting may in good faith, allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands in which case every member present in person (or being a corporation, is present by a duly authorized representative), or by proxy(ies) shall have one vote provided that where more than one proxy is appointed by a member which is a clearing house (or its nominee(s)), each such proxy shall have one vote on a show of hands.

If a recognised clearing house (or its nominee(s)) is a member of the Company it may authorise such person or persons as it thinks fit to act as its representative(s) at any meeting of the Company or at any meeting of any class of members of the Company provided that, if more than one person is so authorised, the authorisation shall specify the number and class of shares in respect of which each such person is so authorised. A person authorised pursuant to this provision shall be deemed to have been duly authorised without further evidence of the facts and be entitled to exercise the same powers on behalf of the recognised clearing house (or its nominee(s)) as if such person was the registered holder of the shares of the Company held by that clearing house (or its nominee(s)) including, where a show of hands is allowed, the right to vote individually on a show of hands.

Where the Company has any knowledge that any shareholder is, under the rules of the Stock Exchange, required to abstain from voting on any particular resolution of the Company or restricted to voting only for or only against any particular resolution of the Company, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.

*(iii) Annual general meetings*

The Company must hold an annual general meeting of the Company every year within a period of not more than fifteen (15) months after the holding of the last preceding annual general meeting or a period of not more than eighteen (18) months from the date of adoption of the Articles, unless a longer period would not infringe the rules of the Stock Exchange.

*(iv) Notices of meetings and business to be conducted*

An annual general meeting must be called by notice of not less than twenty-one (21) clear days and not less than twenty (20) clear business days. All other general meetings must be called by notice of at least fourteen (14) clear days and not less than ten (10) clear business days. The notice is exclusive of the day on which it is served or deemed to be served and of the day for which it is given, and must specify the time and place of the meeting and particulars of resolutions to be considered at the meeting and, in the case of special business, the general nature of that business.

In addition, notice of every general meeting must be given to all members of the Company other than to such members as, under the provisions of the Articles or the terms of issue of the shares they hold, are not entitled to receive such notices from the Company, and also to, among others, the auditors for the time being of the Company.

Any notice to be given to or by any person pursuant to the Articles may be served on or delivered to any member of the Company personally, by post to such member's registered address or by advertisement in newspapers in accordance with the requirements of the Stock Exchange. Subject to compliance with Cayman Islands law and the rules of the Stock Exchange, notice may also be served or delivered by the Company to any member by electronic means.

All business that is transacted at an extraordinary general meeting and at an annual general meeting is deemed special, save that in the case of an annual general meeting, each of the following business is deemed an ordinary business:

- (aa) the declaration and sanctioning of dividends;
- (bb) the consideration and adoption of the accounts and balance sheet and the reports of the directors and the auditors;
- (cc) the election of directors in place of those retiring;
- (dd) the appointment of auditors and other officers;
- (ee) the fixing of the remuneration of the directors and of the auditors;



(ff) the granting of any mandate or authority to the directors to offer, allot, grant options over or otherwise dispose of the unissued shares of the Company representing not more than twenty per cent (20%) in nominal value of its existing issued share capital; and

(gg) the granting of any mandate or authority to the directors to repurchase securities of the Company.

**(v) *Quorum for meetings and separate class meetings***

No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business, but the absence of a quorum shall not preclude the appointment of a chairman.

The quorum for a general meeting shall be two members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and entitled to vote. In respect of a separate class meeting (other than an adjourned meeting) convened to sanction the modification of class rights the necessary quorum shall be two persons holding or representing by proxy not less than one third in nominal value of the issued shares of that class.

**(vi) *Proxies***

Any member of the Company entitled to attend and vote at a meeting of the Company is entitled to appoint another person as his proxy to attend and vote instead of him. A member who is the holder of two or more shares may appoint more than one proxy to represent him and vote on his behalf at a general meeting of the Company or at a class meeting. A proxy need not be a member of the Company and is entitled to exercise the same powers on behalf of a member who is an individual and for whom he acts as proxy as such member could exercise. In addition, a proxy is entitled to exercise the same powers on behalf of a member which is a corporation and for which he acts as proxy as such member could exercise if it were an individual member. Votes may be given either personally (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy.

**(f) *Accounts and audit***

The board shall cause true accounts to be kept of the sums of money received and expended by the Company, and the matters in respect of which such receipt and expenditure take place, and of the property, assets, credits and liabilities of the Company and of all other matters required by the Companies Law or necessary to give a true and fair view of the Company's affairs and to explain its transactions.



The accounting records must be kept at the registered office or at such other place or places as the board decides and shall always be open to inspection by any Director. No member (other than a Director) shall have any right to inspect any accounting record or book or document of the Company except as conferred by law or authorised by the board or the Company in general meeting. However, an exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

A copy of every balance sheet and profit and loss account (including every document required by law to be annexed thereto) which is to be laid before the Company at its general meeting, together with a printed copy of the Directors' report and a copy of the auditors' report, shall not less than twenty-one (21) days before the date of the meeting and at the same time as the notice of annual general meeting be sent to every person entitled to receive notices of general meetings of the Company under the provisions of the Articles; however, subject to compliance with all applicable laws, including the rules of the Stock Exchange, the Company may send to such persons summarised financial statements derived from the Company's annual accounts and the directors' report instead provided that any such person may by notice in writing served on the Company, demand that the Company sends to him, in addition to summarised financial statements, a complete printed copy of the Company's annual financial statement and the directors' report thereon.

At the annual general meeting or at a subsequent extraordinary general meeting in each year, the members shall appoint an auditor to audit the accounts of the Company and such auditor shall hold office until the next annual general meeting. The remuneration of the auditors shall be fixed by the Company in general meeting or in such manner as the members may determine.

The financial statements of the Company shall be audited by the auditor in accordance with generally accepted auditing standards which may be those of a country or jurisdiction other than the Cayman Islands. The auditor shall make a written report thereon in accordance with generally accepted auditing standards and the report of the auditor must be submitted to the members in general meeting.

**(g) Dividends and other methods of distribution**

The Company in general meeting may declare dividends in any currency to be paid to the members but no dividend shall be declared in excess of the amount recommended by the board.

The Articles provide dividends may be declared and paid out of the profits of the Company, realised or unrealised, or from any reserve set aside from profits which the directors determine is no longer needed. With the sanction of an ordinary resolution

dividends may also be declared and paid out of share premium account or any other fund or account which can be authorised for this purpose in accordance with the Companies Law.

Except in so far as the rights attaching to, or the terms of issue of, any share may otherwise provide, (i) all dividends shall be declared and paid according to the amounts paid up on the shares in respect whereof the dividend is paid but no amount paid up on a share in advance of calls shall for this purpose be treated as paid up on the share and (ii) all dividends shall be apportioned and paid pro rata according to the amount paid up on the shares during any portion or portions of the period in respect of which the dividend is paid. The Directors may deduct from any dividend or other monies payable to any member or in respect of any shares all sums of money (if any) presently payable by him to the Company on account of calls or otherwise.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared on the share capital of the Company, the board may further resolve either (a) that such dividend be satisfied wholly or in part in the form of an allotment of shares credited as fully paid up, provided that the shareholders entitled thereto will be entitled to elect to receive such dividend (or part thereof) in cash in lieu of such allotment, or (b) that shareholders entitled to such dividend will be entitled to elect to receive an allotment of shares credited as fully paid up in lieu of the whole or such part of the dividend as the board may think fit.

The Company may also upon the recommendation of the board by an ordinary resolution resolve in respect of any one particular dividend of the Company that it may be satisfied wholly in the form of an allotment of shares credited as fully paid up without offering any right to shareholders to elect to receive such dividend in cash in lieu of such allotment.

Any dividend, interest or other sum payable in cash to the holder of shares may be paid by cheque or warrant sent through the post addressed to the holder at his registered address, or in the case of joint holders, addressed to the holder whose name stands first in the register of the Company in respect of the shares at his address as appearing in the register or addressed to such person and at such addresses as the holder or joint holders may in writing direct. Every such cheque or warrant shall, unless the holder or joint holders otherwise direct, be made payable to the order of the holder or, in the case of joint holders, to the order of the holder whose name stands first on the register in respect of such shares, and shall be sent at his or their risk and payment of the cheque or warrant by the bank on which it is drawn shall constitute a good discharge to the Company. Any one of two or more joint holders may give effectual receipts for any dividends or other moneys payable or property distributable in respect of the shares held by such joint holders.

Whenever the board or the Company in general meeting has resolved that a dividend be paid or declared the board may further resolve that such dividend be satisfied wholly or in part by the distribution of specific assets of any kind.

All dividends or bonuses unclaimed for one year after having been declared may be invested or otherwise made use of by the board for the benefit of the Company until claimed and the Company shall not be constituted a trustee in respect thereof. All dividends or bonuses unclaimed for six years after having been declared may be forfeited by the board and shall revert to the Company.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company.

**(h) Inspection of corporate records**

Pursuant to the Articles, the register and branch register of members shall be open to inspection for at least two (2) hours during business hours by members without charge, or by any other person upon a maximum payment of HK\$2.50 or such lesser sum specified by the board, at the registered office or such other place at which the register is kept in accordance with the Companies Law or, upon a maximum payment of HK\$1.00 or such lesser sum specified by the board, at the office where the branch register of members is kept, unless the register is closed in accordance with the Articles.

**(i) Rights of minorities in relation to fraud or oppression**

There are no provisions in the Articles relating to rights of minority shareholders in relation to fraud or oppression. However, certain remedies are available to shareholders of the Company under Cayman Islands law, as summarised in paragraph 3(f) of this Appendix.

**(j) Procedures on liquidation**

A resolution that the Company be wound up by the court or be wound up voluntarily shall be a special resolution.

Subject to any special rights, privileges or restrictions as to the distribution of available surplus assets on liquidation for the time being attached to any class or classes of shares:

- (i) if the Company is wound up and the assets available for distribution amongst the members of the Company shall be more than sufficient to repay the whole of the capital paid up at the commencement of the winding up, the excess shall be distributed *pari passu* amongst such members in proportion to the amount paid up on the shares held by them respectively; and
- (ii) if the Company is wound up and the assets available for distribution amongst the members as such shall be insufficient to repay the whole of the paid-up capital, such assets shall be distributed so that, as nearly as may be,

the losses shall be borne by the members in proportion to the capital paid up, or which ought to have been paid up, at the commencement of the winding up on the shares held by them respectively.

If the Company is wound up (whether the liquidation is voluntary or by the court) the liquidator may, with the authority of a special resolution and any other sanction required by the Companies Law divide among the members in specie or kind the whole or any part of the assets of the Company whether the assets shall consist of property of one kind or shall consist of properties of different kinds and the liquidator may, for such purpose, set such value as he deems fair upon any one or more class or classes of property to be divided as aforesaid and may determine how such division shall be carried out as between the members or different classes of members. The liquidator may, with the like authority, vest any part of the assets in trustees upon such trusts for the benefit of members as the liquidator, with the like authority, shall think fit, but so that no contributory shall be compelled to accept any shares or other property in respect of which there is a liability.

**(k) Subscription rights reserve**

The Articles provide that to the extent that it is not prohibited by and is in compliance with the Companies Law, if warrants to subscribe for shares have been issued by the Company and the Company does any act or engages in any transaction which would result in the subscription price of such warrants being reduced below the par value of a share, a subscription rights reserve shall be established and applied in paying up the difference between the subscription price and the par value of a share on any exercise of the warrants.

**3. CAYMAN ISLANDS COMPANY LAW**

The Company is incorporated in the Cayman Islands subject to the Companies Law and, therefore, operates subject to Cayman Islands law. Set out below is a summary of certain provisions of Cayman Islands company law, although this does not purport to contain all applicable qualifications and exceptions or to be a complete review of all matters of Cayman Islands company law and taxation, which may differ from equivalent provisions in jurisdictions with which interested parties may be more familiar:

**(a) Company operations**

As an exempted company, the Company's operations must be conducted mainly outside the Cayman Islands. The Company is required to file an annual return each year with the Registrar of Companies of the Cayman Islands and pay a fee which is based on the amount of its authorised share capital.

**(b) Share capital**

The Companies Law provides that where a company issues shares at a premium, whether for cash or otherwise, a sum equal to the aggregate amount of the value of the premiums on those shares shall be transferred to an account, to be called the “share premium account”. At the option of a company, these provisions may not apply to premiums on shares of that company allotted pursuant to any arrangement in consideration of the acquisition or cancellation of shares in any other company and issued at a premium.

The Companies Law provides that the share premium account may be applied by the company subject to the provisions, if any, of its memorandum and articles of association in (a) paying distributions or dividends to members; (b) paying up unissued shares of the company to be issued to members as fully paid bonus shares; (c) the redemption and repurchase of shares (subject to the provisions of section 37 of the Companies Law); (d) writing-off the preliminary expenses of the company; and (e) writing-off the expenses of, or the commission paid or discount allowed on, any issue of shares or debentures of the company.

No distribution or dividend may be paid to members out of the share premium account unless immediately following the date on which the distribution or dividend is proposed to be paid, the company will be able to pay its debts as they fall due in the ordinary course of business.

The Companies Law provides that, subject to confirmation by the Grand Court of the Cayman Islands (the “**Court**”), a company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, by special resolution reduce its share capital in any way.

**(c) Financial assistance to purchase shares of a company or its holding company**

There is no statutory restriction in the Cayman Islands on the provision of financial assistance by a company to another person for the purchase of, or subscription for, its own or its holding company’s shares. Accordingly, a company may provide financial assistance if the directors of the company consider, in discharging their duties of care and acting in good faith, for a proper purpose and in the interests of the company, that such assistance can properly be given. Such assistance should be on an arm’s-length basis.

**(d) Purchase of shares and warrants by a company and its subsidiaries**

A company limited by shares or a company limited by guarantee and having a share capital may, if so authorised by its articles of association, issue shares which are to be redeemed or are liable to be redeemed at the option of the company or a shareholder and the Companies Law expressly provides that it shall be lawful for the rights attaching to any shares to be varied, subject to the provisions of the company’s articles of association, so as to provide that such shares are to be or are liable to be so

redeemed. In addition, such a company may, if authorised to do so by its articles of association, purchase its own shares, including any redeemable shares. However, if the articles of association do not authorise the manner and terms of purchase, a company cannot purchase any of its own shares unless the manner and terms of purchase have first been authorised by an ordinary resolution of the company. At no time may a company redeem or purchase its shares unless they are fully paid. A company may not redeem or purchase any of its shares if, as a result of the redemption or purchase, there would no longer be any issued shares of the company other than shares held as treasury shares. A payment out of capital by a company for the redemption or purchase of its own shares is not lawful unless immediately following the date on which the payment is proposed to be made, the company shall be able to pay its debts as they fall due in the ordinary course of business.

Shares purchased by a company is to be treated as cancelled unless, subject to the memorandum and articles of association of the company, the directors of the company resolve to hold such shares in the name of the company as treasury shares prior to the purchase. Where shares of a company are held as treasury shares, the company shall be entered in the register of members as holding those shares, however, notwithstanding the foregoing, the company is not be treated as a member for any purpose and must not exercise any right in respect of the treasury shares, and any purported exercise of such a right shall be void, and a treasury share must not be voted, directly or indirectly, at any meeting of the company and must not be counted in determining the total number of issued shares at any given time, whether for the purposes of the company's articles of association or the Companies Law.

A company is not prohibited from purchasing and may purchase its own warrants subject to and in accordance with the terms and conditions of the relevant warrant instrument or certificate. There is no requirement under Cayman Islands law that a company's memorandum or articles of association contain a specific provision enabling such purchases and the directors of a company may rely upon the general power contained in its memorandum of association to buy and sell and deal in personal property of all kinds.

Under Cayman Islands law, a subsidiary may hold shares in its holding company and, in certain circumstances, may acquire such shares.

**(e) Dividends and distributions**

The Companies Law permits, subject to a solvency test and the provisions, if any, of the company's memorandum and articles of association, the payment of dividends and distributions out of the share premium account. With the exception of the foregoing, there are no statutory provisions relating to the payment of dividends. Based upon English case law, which is regarded as persuasive in the Cayman Islands, dividends may be paid only out of profits.

No dividend may be declared or paid, and no other distribution (whether in cash or otherwise) of the company's assets (including any distribution of assets to members on a winding up) may be made to the company, in respect of a treasury share.

**(f) Protection of minorities and shareholders' suits**

The Courts ordinarily would be expected to follow English case law precedents which permit a minority shareholder to commence a representative action against or derivative actions in the name of the company to challenge (a) an act which is ultra vires the company or illegal, (b) an act which constitutes a fraud against the minority and the wrongdoers are themselves in control of the company, and (c) an irregularity in the passing of a resolution which requires a qualified (or special) majority.

In the case of a company (not being a bank) having a share capital divided into shares, the Court may, on the application of members holding not less than one fifth of the shares of the company in issue, appoint an inspector to examine into the affairs of the company and to report thereon in such manner as the Court shall direct.

Any shareholder of a company may petition the Court which may make a winding up order if the Court is of the opinion that it is just and equitable that the company should be wound up or, as an alternative to a winding up order, (a) an order regulating the conduct of the company's affairs in the future, (b) an order requiring the company to refrain from doing or continuing an act complained of by the shareholder petitioner or to do an act which the shareholder petitioner has complained it has omitted to do, (c) an order authorising civil proceedings to be brought in the name and on behalf of the company by the shareholder petitioner on such terms as the Court may direct, or (d) an order providing for the purchase of the shares of any shareholders of the company by other shareholders or by the company itself and, in the case of a purchase by the company itself, a reduction of the company's capital accordingly.

Generally claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the Cayman Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

**(g) Disposal of assets**

The Companies Law contains no specific restrictions on the power of directors to dispose of assets of a company. However, as a matter of general law, every officer of a company, which includes a director, managing director and secretary, in exercising his powers and discharging his duties must do so honestly and in good faith with a view to the best interests of the company and exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances.



**(h) Accounting and auditing requirements**

A company must cause proper books of account to be kept with respect to (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Proper books of account shall not be deemed to be kept if there are not kept such books as are necessary to give a true and fair view of the state of the company's affairs and to explain its transactions.

An exempted company must make available at its registered office in electronic form or any other medium, copies of its books of account or parts thereof as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(i) Exchange control**

There are no exchange control regulations or currency restrictions in the Cayman Islands.

**(j) Taxation**

Pursuant to the Tax Concessions Law of the Cayman Islands, the Company has obtained an undertaking:

- (1) that no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciation shall apply to the Company or its operations; and
- (2) that the aforesaid tax or any tax in the nature of estate duty or inheritance tax shall not be payable on or in respect of the shares, debentures or other obligations of the Company.

The undertaking for the Company is for a period of twenty years from 22 June 2017.

The Cayman Islands currently levy no taxes on individuals or corporations based upon profits, income, gains or appreciations and there is no taxation in the nature of inheritance tax or estate duty. There are no other taxes likely to be material to the Company levied by the Government of the Cayman Islands save for certain stamp duties which may be applicable, from time to time, on certain instruments executed in or brought within the jurisdiction of the Cayman Islands. The Cayman Islands are a party to a double tax treaty entered into with the United Kingdom in 2010 but otherwise is not party to any double tax treaties.



**(k) Stamp duty on transfers**

No stamp duty is payable in the Cayman Islands on transfers of shares of Cayman Islands companies except those which hold interests in land in the Cayman Islands.

**(l) Loans to directors**

There is no express provision in the Companies Law prohibiting the making of loans by a company to any of its directors.

**(m) Inspection of corporate records**

Members of the Company have no general right under the Companies Law to inspect or obtain copies of the register of members or corporate records of the Company. They will, however, have such rights as may be set out in the Company's Articles.

**(n) Register of members**

An exempted company may maintain its principal register of members and any branch registers at such locations, whether within or without the Cayman Islands, as the directors may, from time to time, think fit. A branch register must be kept in the same manner in which a principal register is by the Companies Law required or permitted to be kept. The company shall cause to be kept at the place where the company's principal register is kept a duplicate of any branch register duly entered up from time to time.

There is no requirement under the Companies Law for an exempted company to make any returns of members to the Registrar of Companies of the Cayman Islands. The names and addresses of the members are, accordingly, not a matter of public record and are not available for public inspection. However, an exempted company shall make available at its registered office, in electronic form or any other medium, such register of members, including any branch register of members, as may be required of it upon service of an order or notice by the Tax Information Authority pursuant to the Tax Information Authority Law of the Cayman Islands.

**(o) Register of Directors and Officers**

The Company is required to maintain at its registered office a register of directors and officers which is not available for inspection by the public. A copy of such register must be filed with the Registrar of Companies in the Cayman Islands and any change must be notified to the Registrar within sixty (60) days of any change in such directors or officers.

**(p) Register of Beneficial Ownership**

An exempted company is required to maintain a beneficial ownership register at its registered office that records details of the persons who ultimately own or control, directly or indirectly, more than 25% of the equity interests or voting rights of the company or have rights to appoint or remove a majority of the directors of the company. The register of beneficial ownership is not a public document and is only accessible by a designated competent authority of the Cayman Islands. Such requirement does not, however, apply to an exempted company with its shares listed on an approved stock exchange, which includes the Stock Exchange. Accordingly, for so long as the Company is listed on the Stock Exchange, it is not required to maintain a register of beneficial ownership.

**(q) Winding up**

A company may be wound up (a) compulsorily by order of the Court, (b) voluntarily, or (c) under the supervision of the Court.

The Court has authority to order winding up in a number of specified circumstances including where the members of the company have passed a special resolution requiring the company to be wound up by the Court, or where the company is unable to pay its debts, or where it is, in the opinion of the Court, just and equitable to do so. Where a petition is presented by members of the company as contributories on the ground that it is just and equitable that the company should be wound up, the Court has the jurisdiction to make certain other orders as an alternative to a winding-up order, such as making an order regulating the conduct of the company's affairs in the future, making an order authorising civil proceedings to be brought in the name and on behalf of the company by the petitioner on such terms as the Court may direct, or making an order providing for the purchase of the shares of any of the members of the company by other members or by the company itself.

A company (save with respect to a limited duration company) may be wound up voluntarily when the company so resolves by special resolution or when the company in general meeting resolves by ordinary resolution that it be wound up voluntarily because it is unable to pay its debts as they fall due. In the case of a voluntary winding up, such company is obliged to cease to carry on its business (except so far as it may be beneficial for its winding up) from the time of passing the resolution for voluntary winding up or upon the expiry of the period or the occurrence of the event referred to above.

For the purpose of conducting the proceedings in winding up a company and assisting the Court therein, there may be appointed an official liquidator or official liquidators; and the court may appoint to such office such person, either provisionally or otherwise, as it thinks fit, and if more persons than one are appointed to such office, the Court must declare whether any act required or authorised to be done by the official liquidator is to be done by all or any one or more of such persons. The Court may also determine whether any and what security is to be given by an official

liquidator on his appointment; if no official liquidator is appointed, or during any vacancy in such office, all the property of the company shall be in the custody of the Court.

As soon as the affairs of the company are fully wound up, the liquidator must make a report and an account of the winding up, showing how the winding up has been conducted and how the property of the company has been disposed of, and thereupon call a general meeting of the company for the purposes of laying before it the account and giving an explanation thereof. This final general meeting must be called by at least 21 days' notice to each contributory in any manner authorised by the company's articles of association and published in the Gazette.

**(r) Reconstructions**

There are statutory provisions which facilitate reconstructions and amalgamations approved by a majority in number representing seventy-five per cent. (75%) in value of shareholders or class of shareholders or creditors, as the case may be, as are present at a meeting called for such purpose and thereafter sanctioned by the Court. Whilst a dissenting shareholder would have the right to express to the Court his view that the transaction for which approval is sought would not provide the shareholders with a fair value for their shares, the Court is unlikely to disapprove the transaction on that ground alone in the absence of evidence of fraud or bad faith on behalf of management.

**(s) Take-overs**

Where an offer is made by a company for the shares of another company and, within four (4) months of the offer, the holders of not less than ninety per cent. (90%) of the shares which are the subject of the offer accept, the offeror may at any time within two (2) months after the expiration of the said four (4) months, by notice in the prescribed manner require the dissenting shareholders to transfer their shares on the terms of the offer. A dissenting shareholder may apply to the Court within one (1) month of the notice objecting to the transfer. The burden is on the dissenting shareholder to show that the Court should exercise its discretion, which it will be unlikely to do unless there is evidence of fraud or bad faith or collusion as between the offeror and the holders of the shares who have accepted the offer as a means of unfairly forcing out minority shareholders.

**(t) Indemnification**

Cayman Islands law does not limit the extent to which a company's articles of association may provide for indemnification of officers and directors, except to the extent any such provision may be held by the Court to be contrary to public policy (e.g. for purporting to provide indemnification against the consequences of committing a crime).

**4. GENERAL**

Conyers Dill & Pearman, the Company's special legal counsel on Cayman Islands law, have sent to the Company a letter of advice summarising certain aspects of Cayman Islands company law. This letter, together with a copy of the Companies Law, is available for inspection as referred to in the subsection headed "Documents available for inspection" in Appendix V to this prospectus. Any person wishing to have a detailed summary of Cayman Islands company law or advice on the differences between it and the laws of any jurisdiction with which he is more familiar is recommended to seek independent legal advice.

**A. FURTHER INFORMATION ABOUT OUR COMPANY AND OUR SUBSIDIARIES****1. Incorporation**

Our Company was incorporated in the Cayman Islands as an exempted company with limited liability on 5 May 2017. Our registered office is at Cricket Square, Hutchins Drive, PO Box 2681, Grand Cayman, KY1-1111, Cayman Islands. Our Company has established a principal place of business in Unit B12, G/F, Shatin Industrial Centre, Siu Lek Yuen Road, Shatin, New Territories, Hong Kong and was registered as a non-Hong Kong company under Part 16 of the Companies Ordinance on 12 June 2017. Ms. Wai Hang Ying Helen and Ms. Woo Siu Wai have been appointed as the authorised representatives of our Company for the acceptance of service of process and notices on behalf of our Company in Hong Kong.

As our Company was incorporated in the Cayman Islands, it is subject to the relevant laws of the Cayman Islands and the Memorandum of Association and the Articles of Association. Accordingly, our corporate structure and Articles are subject to the Companies Law and other relevant laws of the Cayman Islands. A summary of our Memorandum and Articles of Association is set out in Appendix III to this prospectus.

**2. Change in Share Capital of our Company***(a) Increase in authorised share capital*

At the time of incorporation, our Company had an authorised share capital of HK\$380,000 divided into 38,000,000 shares of HK\$0.01 each. On 5 May 2017, one subscriber's Share was allotted and issued to the initial subscriber who is an independent third party at a subscription price of HK\$0.01 and such Share was transferred to KML Holdings on the same date. The authorised share capital of our Company was increased from HK\$380,000 to HK\$38,000,000 by the creation of a further 3,762,000,000 Shares pursuant to a resolution by our Shareholders referred to in paragraph 5 below and subject to the conditions contained herein.

Immediately following completion of the Capitalisation Issue and the Share Offer and without taking into account of any Shares which may be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme or pursuant to the exercise of the Offer Size Adjustment Option, 400,000,000 Shares will be in issue fully paid or credited as fully paid, and 3,400,000,000 Shares in the authorised share capital will remain unissued.

Save as disclosed in this paragraph and in the subsection headed "A. Further information about our Company and our subsidiaries – 3. Our corporate reorganisation" in this Appendix, there has been no alteration in the share capital of our Company since its incorporation.

*(b) Founder Shares*

Our Company has no founder shares, management shares or deferred shares.

### **3. Our Corporate Reorganisation**

In preparing for the Listing, the companies comprising our Group underwent the Reorganisation to rationalise the corporate structure of our Group and our Company became the holding company of our Group. For details, please see the subsection headed “History, Reorganisation and Corporate Structure – Reorganisation” in this prospectus.

### **4. Changes in the Share Capital of our Subsidiaries**

The subsidiaries of our Company are listed in the Accountants’ Report of our Company, the text of which is set out in Appendix I to this prospectus.

Save for the alterations mentioned in the section headed “History, Reorganisation and Corporate Structure” in this prospectus, there has been no other alteration in the share capital of our subsidiaries within the two years immediately preceding the issue of this prospectus.

### **5. Written resolutions of our Shareholders passed on 20 September 2017**

On 20 September 2017, resolutions in writing were passed by our Shareholders pursuant to which, amongst others:

- (a) our Company approved and adopted the Memorandum and, with effect from the Listing Date, the Articles;
- (b) the authorised share capital of our Company was increased from HK\$380,000 to HK\$38,000,000 by the creation of a further 3,762,000,000 Shares;
- (c) subject to the conditions set out in the subsection headed “Structure of the Share Offer – Conditions of the Share Offer” in this prospectus having been fulfilled or waived:
  - (i) the Share Offer was approved and our Directors were authorised to allot and issue the Offer Shares pursuant to the Share Offer to rank pari passu with the then existing Shares in all respects;
  - (ii) the rules of the Share Option Scheme, the principal terms of which are set out in the subsection headed “D. Share Option Scheme” in this Appendix, were approved and adopted and our Directors were authorised, at their absolute discretion but subject to the terms and conditions of the Share Option Scheme, to grant options to subscribe for Shares thereunder and to allot, issue and deal with the Shares pursuant to the exercise of subscription rights attaching to any options which may be granted under the Share Option Scheme and to take all such actions as they consider necessary or desirable to implement the Share Option Scheme;

- (iii) conditional further on the share premium account of our Company being credited with the proceeds of the Share Offer, our Directors were authorised to capitalise an amount of HK\$2,999,900 standing to the credit of the share premium account of our Company and to appropriate such amount as to capital to pay up in full at par 299,990,000 Shares for allotment and issue to the person(s) whose names appear on the register of members of our Company at the close of business on 9 October 2017 (or as they may direct) in proportion (as nearly as possible without involving fractions) to its/their then existing shareholdings in our Company, each ranking pari passu in all respects with the then existing issued Shares, and the aforesaid issue and allotment of Shares was approved, and our Directors were authorised to give effect to such capitalisation and issue and allotment of Shares;
- (d) a general unconditional mandate was given to our Directors to exercise all powers of our Company to allot, issue and deal with, otherwise than by way of rights issue or an issue of Shares pursuant to the exercise of any options which may be granted under the Share Option Scheme or any other share option scheme of our Company or any Shares allotted and issued in lieu of the whole or part of a dividend on Shares or similar arrangement in accordance with the Articles or pursuant to a specific authority granted by our Shareholders in general meeting or pursuant to the Share Offer or the Capitalisation Issue, Shares or securities convertible into Shares or options, warrants or similar rights to subscribe for shares or securities convertible into Shares or options, warrants or similar rights to subscribe for Shares or such convertible securities, and to make or grant offers, agreements or options thereof where the exercise of the right to convert into or subscribe for Shares of the securities issued pursuant to this general mandate might require the issue of new Shares during or after the period when this general mandate remains in effect, with the number of Shares (or underlying Shares) involved in aggregate not exceeding 20% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and exercise of the Offer Size Adjustment Option), subject to adjustment for each consolidation or sub-division of Shares the record date of which falls within the period when this general mandate remains in effect so that the maximum number of Shares that may be issued pursuant to the authority granted hereunder as a percentage of the total number of issued Shares at the

date immediately before and after such consolidation or sub-division shall be the same and the said approval shall be limited accordingly, such mandate to remain in effect until the earliest of:

- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and Articles or the Companies Law or any applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.
- (e) a general unconditional mandate (“**Repurchase Mandate**”) was given to our Directors authorising them to exercise all powers of our Company to repurchase on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, with such number of Shares in aggregate not exceeding 10% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and exercise of the Offer Size Adjustment Option), subject to adjustment for each consolidation or sub-division of Shares the record date of which falls within the period when this general mandate remains in effect so that the maximum number of Shares that may be repurchased pursuant to the authority granted hereunder as a percentage of the total number of issued Shares at the date immediately before and after such consolidation or sub-division shall be the same and the said approval shall be limited accordingly, such mandate to remain in effect until the earliest of:
- (i) the conclusion of the next annual general meeting of our Company;
  - (ii) the expiration of the period within which the next annual general meeting of our Company is required by the Memorandum and Articles or the Companies Law or any applicable laws of the Cayman Islands to be held; or
  - (iii) the time when such mandate is revoked or varied by an ordinary resolution of our Shareholders in general meeting.
- (f) the general unconditional mandate mentioned in sub-paragraph (d) above was extended by including the number of Shares which are repurchased pursuant to exercise of the Repurchase Mandate in sub-paragraph (e) above, provided that such extended amount shall not exceed 10% of the aggregate number of Shares in issue immediately following completion of the Capitalisation Issue



and the Share Offer (excluding any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and exercise of the Offer Size Adjustment Option).

## 6. Repurchase of our Shares

This section contains the information required by the Stock Exchange to be included in this prospectus concerning the repurchase of Shares by our Company.

### (a) *Provisions of the GEM Listing Rules*

The GEM Listing Rules permit companies whose primary listing is on the GEM to repurchase securities on the Stock Exchange subject to certain restrictions, a summary of which is set out below:

#### (i) *Shareholder's approval*

The GEM Listing Rules provide that all proposed repurchases of shares, which must be fully paid up in the case of shares, by a company with a primary listing on the Stock Exchange must be approved in advance by an ordinary resolution of the shareholders, either by way of general mandate or by specific approval of a particular transaction.

*(Note:* Pursuant to the written resolutions passed by our Shareholders on 20 September 2017, the Repurchase Mandate was given to our Directors authorising them to exercise all powers of our Company to repurchase Shares on the Stock Exchange or on any other stock exchange on which the securities of our Company may be listed and which is recognised by the SFC and the Stock Exchange for this purpose, such number of Shares as will represent up to 10% of the aggregate number of shares our Company in issue immediately following completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and exercise of the Offer Size Adjustment Option), and the Repurchase Mandate shall remain in effect until the earliest of the conclusion of the next annual general meeting of our Company, or the expiration of the period within which the next annual general meeting of our Company is required by the Articles of Association or the Companies Law or any other applicable laws of the Cayman Islands to be held or the time when the Repurchase Mandate is revoked or varied by an ordinary resolution of our Shareholders in a general meeting.)

#### (ii) *Source of funds*

Any repurchase by our Company must be funded out of funds legally available for the purpose in accordance with the Articles, the applicable laws, rules and regulations of the Cayman Islands and the GEM Listing Rules. Our Company may not repurchase its own Shares on the Stock Exchange for a consideration other than cash or for settlement otherwise than in accordance with the trading rules of the Stock Exchange from time to time.

Any repurchase by our Company may be made out of profits or our share premium or out of the proceeds of a fresh issue of Shares made for the purpose of the repurchase and, in the case of any premium payable on the repurchase, out of profits of our Company or out of our Company's share premium account before or at the time the Shares are repurchased. Subject to satisfaction of the solvency test prescribed by the Companies Law, a repurchase may also be made out of capital.

*(iii) Connected parties*

The GEM Listing Rules prohibit our Company from knowingly repurchasing the Shares on the Stock Exchange from a "core connected person" (as defined in the GEM Listing Rules), which includes a Director, chief executive or substantial shareholder of our Company or any of its subsidiaries or associates of any of them, and a core connected person shall not knowingly sell Shares to our Company on the Stock Exchange.

***(b) Exercise of the Repurchase Mandate***

On the basis of 400,000,000 Shares in issue immediately after completion of the Capitalisation Issue and the Share Offer (excluding any Shares which may be issued upon exercise of any options which may be granted under the Share Option Scheme and exercise of the Offer Size Adjustment Option), our Directors would be authorised under the Repurchase Mandate to repurchase up to 40,000,000 Shares during the period in which the Repurchase Mandate remains in force. Any Shares repurchased pursuant to the Repurchase Mandate must be fully paid-up.

***(c) Reasons for repurchases***

Our Directors believe that it is in the best interests of our Company and our Shareholders for our Directors to have a general authority from Shareholders to enable our Company to repurchase Shares in the market. Such repurchases may, depending on market conditions and funding arrangements at the time, lead to an enhancement of our Company's net asset value and/or earnings per Share and will only be made when our Directors believe that such repurchases will benefit our Company and our Shareholders.

***(d) Funding of repurchases***

In repurchasing the Shares, our Company may only apply funds legally available for such purpose in accordance with the Articles, the GEM Listing Rules and the applicable laws and regulations of the Cayman Islands.

Our Directors do not propose to exercise the Repurchase Mandate to such extent as would, in the circumstances, have a material adverse effect on the working capital requirements of our Company or the gearing levels which in the opinion of our Directors are from time to time appropriate for our Company.

(e) *General*

None of our Directors or, to the best of their knowledge, having made all reasonable enquiries, any of their associates (as defined in the GEM Listing Rules), has any present intention to sell any Shares to our Company if the Repurchase Mandate is exercised.

Our Directors have undertaken to the Stock Exchange that, so far as the same may be applicable, they will exercise the Repurchase Mandate in accordance with the GEM Listing Rules, the Articles and the applicable laws and regulations in force from time to time in the Cayman Islands.

If, as a result of a repurchase of Shares pursuant to the Repurchase Mandate, a Shareholder's proportionate interest in the voting rights of our Company increases, such increase will be treated as an acquisition for the purpose of the Takeovers Code. In certain circumstances, a Shareholder or a group of Shareholders acting in concert (as defined in the Takeovers Code) depending on the level of increase of our Shareholders' interest, could obtain or consolidate control of our Company and may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code as a result of any such increase.

Save as disclosed above, our Directors are not aware of any consequences which may arise under the Takeovers Code as a result of any repurchase of Shares if made immediately after the Listing of the Shares pursuant to the Repurchase Mandate. At present, so far as is known to the Directors, no Shareholder may become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code in the event that our Directors exercise the power in full to repurchase the Shares pursuant to the Repurchase Mandate.

Our Directors will not exercise the Repurchase Mandate if the repurchase would result in the number of Shares which are in the hands of the public falling below 25% of the total number of Shares in issue (or such other percentage as may be prescribed as the minimum public shareholding under the GEM Listing Rules).

No core connected person of our Company has notified our Company that he/she has a present intention to sell Shares to our Company, or has undertaken not to do so, if the Repurchase Mandate is exercised.

**B. FURTHER INFORMATION ABOUT OUR BUSINESS****1. Summary of material contracts**

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by our Group within the two years preceding the date of this prospectus and are or may be material in relation to the business of our Group taken as a whole:


- (a) the sale and purchase agreement dated 9 June 2017 entered into between KML Engineering Limited, Ms. Leung Kwok Yee and Ms. Chan Patricia for the sale and purchase of the entire issued share capital of KML Transtech Limited;
- (b) the share swap agreement dated 6 September 2017 entered into between KML Technology Group Limited, KML Holdings Limited, Mr. Luk Kam Ming, Ms. Leung Kwok Yee, Mr. Luk Kwai Lung and Mr. Luk Yin Cheung in respect of the transfers of shares in KML Engineering Limited and KML Technology Limited;
- (c) the Deed of Indemnity;
- (d) the Deed of Non-Competition; and
- (e) the Public Offer Underwriting Agreement.


**2. Intellectual property rights of our Group***(a) Trademark*

As at the Latest Practicable Date, our Group had registered the following trademark in Hong Kong:

Trademark	Place of Registration	Class	Registered Owner	Trademark No.	Date of Registration	Expiry Date
MetroStile	Hong Kong	9	KML Engineering	300323108	20 November 2004	19 November 2024

As at the Latest Practicable Date, our Group had applied for the registration of the following trademarks in Hong Kong which we consider to be material to our business, the registration of which was still being processed:

Trademark	Place of Application	Class	Applicant	Application No.	Application Date
	Hong Kong	9, 42	KML Engineering	304102901	7 April 2017

Trademark	Place of Application	Class	Applicant	Application No.	Application Date
	Hong Kong	9, 42	KML Engineering	304102910	7 April 2017

(b) *Domain names*

As at the Latest Practicable Date, our Group has registered the following domain names which we consider to be material to our business:

Domain name	Registrant	Registration Date	Expiry Date
kml.com.hk	KML Engineering	12 September 1997	1 October 2018
kmltech.com.hk	KML Engineering	16 August 2013	16 August 2018

*The class number represents the specifications of products or services which have already been registered or are in the process of registration. Detailed specifications of the products and services represented by that class number are set out in the relevant registration certificates or application forms.*

## C. FURTHER INFORMATION ABOUT DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND EXPERTS

### 1. Disclosure of Interests

(a) *Interests of Directors and chief executive in shares, underlying shares and debentures of our Company and its associated corporations*

Immediately following completion of the Capitalisation Issue and the Share Offer (without taking into account any Shares which may be issued upon exercise of any Shares which may be granted under the Share Option Scheme or the Offer Size Adjustment Option), the interests and short positions of our Directors or chief executive of our Company in our Shares, underlying Shares and debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which, once the Shares are listed on the Stock Exchange, would have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules to be notified to our Company and the Stock Exchange, will be as follows:

*Long position in the Shares*

<b>Name</b>	<b>Capacity/nature of interest</b>	<b>Number of Shares held/interested</b>	<b>Percentage of shareholding in the Company immediately after the Share Offer</b>
Mr. KM Luk	Beneficial owner; interest of spouse ( <i>Notes 1, 3</i> )	162,000,000	40.5%
Mr. KL Luk	Interest in a controlled corporation ( <i>Notes 1, 2</i> )	138,000,000	34.5%
Mr. YC Luk	Interest in a controlled corporation ( <i>Notes 1, 2</i> )	138,000,000	34.5%

**(b) *Interests of substantial and other Shareholders in the Shares and underlying Shares***

So far as is known to our Directors and taking no account any Shares which may be issued pursuant to options which may be granted under the Share Option Scheme and the Offer Size Adjustment Option, the following persons (not being a Director or chief executive of our Company) will, immediately following completion of the Capitalisation Issue and the Share Offer, have interests or short positions in Shares or underlying Shares which would fall to be disclosed to our

Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO or who will be directly or indirectly interested in 10% or more of the issued voting shares of any other member of our Group:

*Long position in the Shares*

Name	Capacity/nature of interest	Number of Shares held/interested	Percentage of shareholding in the Shares
KML Holdings	Beneficial owner ( <i>Notes 1, 2</i> )	138,000,000	34.5%
Mr. KL Luk	Interest in a controlled corporation ( <i>Notes 1, 2</i> )	138,000,000	34.5%
Mr. YC Luk	Interest in a controlled corporation ( <i>Notes 1, 2</i> )	138,000,000	34.5%
Mr. KM Luk	Beneficial owner; interest of spouse ( <i>Notes 1, 3</i> )	162,000,000	40.5%
Madam Leung	Beneficial owner; interest of spouse ( <i>Notes 1, 3</i> )	162,000,000	40.5%

*Notes:*

- (1) Immediately after completion of the Capitalisation Issue and the Share Offer, (a) Mr. KM Luk will personally hold 105,000,000 Shares; (ii) Madam Leung will personally hold 57,000,000 Shares; and (iii) KML Holdings will hold 138,000,000 Shares.
- (2) Mr. KL Luk is the legal and beneficial owner of 6,062 issued preferred shares and one common share of KML Holdings, representing approximately 50% of the issued share capital in KML Holdings carrying voting rights. Mr. YC Luk is the legal and beneficial owner of 6,061 issued preferred shares and one common share in KML Holdings, representing approximately 50% of the issued share capital of KML Holdings carrying voting rights.
- (3) Mr. KM Luk is the spouse of Madam Leung. By virtue of the SFO, Mr. KM Luk is deemed to be interested in all the Shares in which Madam Leung is interested under the SFO, and vice versa.

## 2. Particulars of Directors' service agreements

- (a) Each of our Executive Directors has entered into a service agreement with our Company effective from the Listing Date, which has no fixed term and may be terminated in accordance with the terms of the individual service agreement. Pursuant to their respective service agreements, each of Mr. KM Luk, Mr. Chan Chak Lun Philip, Mr. KL Luk and Mr. YC Luk is entitled to

an annual salary of HK\$1,068,000, HK\$1,291,200, HK\$621,600 and HK\$591,600, respectively, commission based on business performance and discretionary bonus to be determined by our Group.

- (b) Each of our Independent Non-executive Directors has entered into a letter of appointment with our Company for a fixed term of three years commencing from the Listing Date, which may be terminated in accordance with the terms of the individual letter of appointment. Each of Mr. Lau On Kwok, Dr. Tse Chi Kong and Mr. Law Wing Chi Stephen is entitled to an annual director's fee of HK\$144,000. Save for the director's fee, none of our Independent Non-executive Directors is expected to receive any other remuneration for holding his office as an Independent Non-executive Director.

### 3. Remuneration of Directors

- (a) The aggregate amount of fees, salaries, contributions to retirement benefit scheme contributions, discretionary, bonuses, housing and other benefits in kind granted to the Directors in respect of each of the two financial years ended 31 March 2017 were approximately HK\$4.7 million and HK\$3.7 million, respectively.
- (b) Under the arrangements currently in force, the aggregate emoluments payable by our Group to our Directors for the year ending 31 March 2018 is estimated to be approximately HK\$3.8 million.
- (c) Under the arrangements currently proposed, conditional upon the Listing, the basic annual remuneration (excluding payments pursuant to any discretionary benefits or bonus or other fringe benefits) payable by our Group to each of our Directors will be as follows:

	<i>HK\$</i>
<i>Executive Directors</i>	
Mr. KM Luk	1,068,000
Mr. Chan Chak Lun Philip	1,291,200
Mr. KL Luk	621,600
Mr. YC Luk	591,600
<i>Independent Non-executive Directors</i>	
Mr. Lau On Kwok	144,000
Dr. Tse Chi Kong	144,000
Mr. Law Wing Chi Stephen	144,000

- (d) There has been no arrangement under which a Director has waived or agreed to waive any emoluments for each of the two financial years ended 31 March 2017.



- (e) The remuneration of our Directors was determined by reference to their qualifications, experience, duties and responsibilities with our Group, prevailing market rates and performance of our Group.
- (f) None of our Directors or any past directors of any members of our Group has been paid any sum of money for each of the two financial years ended 31 March 2017 (1) as an inducement to join or upon joining our Company; or (2) for loss of office as a director of any member of our Group or of any other office in connection with the management of the affairs of any members of our Group.

#### **4. Agency fees or commissions received**

Save as disclosed in the subsection headed “Underwriting – Commission and expenses” in this prospectus, and in the subsection headed “E. Other information – 3. Sole Sponsor” in this Appendix, none of our Directors nor the experts named in the subsection headed “E. Other information – 8. Consent of experts” in this Appendix had received any agency fee or commissions from our Group within the two years preceding the date of this prospectus.

#### **5. Related party transactions**

Details of the related party transactions are set out under Note 24 to the Accountants’ Report of our Company set out in Appendix I to this prospectus.

#### **6. Disclaimers**

Save as disclosed herein:

- (a) taking no account of any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme or repurchased by our Company pursuant to the Repurchase Mandate as referred to in the subsection headed “A. Further information about our Company and our subsidiaries” in this Appendix, and taking no account of any Shares which may be issued upon the exercise of Offer Size Adjustment Option, our Directors are not aware of any person (not being a Director or chief executive of our Company) who will, immediately following completion of the Capitalisation Issue and the Share Offer, have an interest or short position in Shares or underlying Shares which would fall to be disclosed to our Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who will be directly or indirectly interested in 10% or more of the nominal value or any class of share capital carrying rights to vote in all circumstances at general meetings of our Company or any of its subsidiaries;
- (b) taking no account of any Shares to be issued upon exercise of any options which may be granted under the Share Option Scheme, none of our Directors or chief executive of our Company has any interest or short position in

shares, underlying shares or debentures of our Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to our Company and the Stock Exchange under Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they are taken or deemed to have under such provisions of the SFO) or would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or would be required, pursuant to Rule 5.46 to Rule 5.67 of the GEM Listing Rules, to be notified to our Company and the Stock Exchange, in each case once the Shares are listed on the Stock Exchange;

- (c) none of the Directors nor the experts named in the subsection headed “E. Other information – 7. Qualification of experts” in this Appendix is interested in the promotion of, or in any assets which have been, within the two years immediately preceding the issue of this prospectus, acquired or disposed of by, or leased to, any member of our Group, or are proposed to be acquired or disposed of by or leased to any member of our Group;
- (d) none of the Directors nor the experts named in the subsection headed “E. Other information – 7. Qualification of experts” in this Appendix is materially interested in any contract or arrangement subsisting at the date of this prospectus which is significant in relation to the business of our Group taken as a whole;
- (e) none of the Directors nor the experts named in the subsection headed “E. Other information – 7. Qualification of experts” in this Appendix has any shareholding in any member of our Group nor the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of our Group;
- (f) so far as is known to our Directors, none of our Directors, their respective associates (as defined under the GEM Listing Rules) or Shareholders who are interested in more than 5% of the issued share capital of our Company has any interests in our five largest customers, our five largest suppliers or our five largest subcontractors; and
- (g) none of our Directors has any existing or proposed service contracts with any member of our Group (which is not determinable by the employer within one year without payment of compensation (other than statutory compensation)).

#### **D. SHARE OPTION SCHEME**

The following is a summary of the principal terms of the Share Option Scheme conditionally approved and adopted by a written shareholders’ resolution of our Company dated 20 September 2017, it does not form part of, nor was it intended to be part of the Share Option Scheme, nor should it be taken as affecting the interpretation of the rules of the Share Option Scheme.

The terms of the Share Option Scheme are in accordance with the provisions of Chapter 23 of the GEM Listing Rules.

**(a) Summary of terms**

*(i) Purpose of Share Option Scheme*

The purpose of the Share Option Scheme is to recognise and acknowledge the contributions that the directors and employees of our Group have made or may make to our Group.

*(ii) Who may join and basis of eligibility*

Our Board may, at its absolute discretion and on such terms as it may think fit, grant any director or employee of our Group, options to subscribe, at a price calculated in accordance with paragraph (iii) below, for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme. The basis of eligibility of any participant to the grant of any option shall be determined by our Board (or as the case may be, the Independent Non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

*(iii) Price of Shares*

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 our Board and notified to a grantee 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.

*(iv) Grant of options and acceptance of offers*

An offer for the grant of options must be accepted within three business days from the date of offer. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK\$10.00.

*(v) Maximum number of Shares*

- (aa) subject to sub-paragraphs (bb) and (cc) below, the maximum number of Shares issuable upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company (excluding, for this purpose, Shares issuable upon exercise of options which have been granted but which have lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) must not in aggregate exceed 10% of all the

Shares in issue as at the Listing Date. Therefore, it is expected that our Company may grant options in respect of up to 40,000,000 Shares, assuming the Offer Adjustment Option is not exercised (or such numbers of Shares as shall result from a sub-division or a consolidation of such 40,000,000 Shares from time to time) to the grantees under the Share Option Scheme.

- (bb) the 10% limit as mentioned above may be refreshed at any time by obtaining approval of our Shareholders in general meeting provided that the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of our Company must not exceed 10% of the Shares in issue as at the date of approval of the refreshed limit. Options previously granted under the Share Option Scheme and any other share option schemes of our Company (including those outstanding, cancelled or lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of our Company) will not be counted for the purpose of calculating the refreshed 10% limit. A circular must be sent to our Shareholders containing the information as required under the GEM Listing Rules in this regard.
- (cc) subject to sub-paragraph (dd) below, our Company may seek separate approval of our Shareholders in a general meeting for granting options beyond the 10% limit provided the options in excess of the 10% limit are granted only to grantees specifically identified by our Company before such approval is sought. In such event, our Company must send a circular to our Shareholders containing a generic description of such grantees, the number and terms of such options to be granted and the purpose of granting options to them with an explanation as to how the terms of the options will serve such purpose, such other information required under the GEM Listing Rules.
- (dd) the aggregate number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of our Company must not exceed 30% of the Shares in issue from time to time. No options may be granted under the Share Option Scheme or any other share option schemes of our Company if this will result in such 30% limit being exceeded.

(vi) *Maximum entitlement of each participant*

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. In such event,

our Company must send a circular to our Shareholders containing the identity of the grantee, the number and terms of the options to be granted (and options previously granted to such grantee), and all other information required under the GEM Listing Rules. The number and terms (including the subscription price) of the options to be granted must be fixed before the approval of our Shareholders and the date of the Board meeting proposing such further grant should be taken as the date of grant for the purpose of calculating the subscription price.

*(vii) Grant of options to connected persons or their associates*

- (aa) Any grant of an option to a Director, chief executive or substantial shareholder of our Company (or any of their respective associates) must be approved by the Independent Non-executive Directors (excluding any Independent Non-executive Director who is the proposed grantee).
- (bb) Where any grant of options to a substantial shareholder of our Company or an Independent Non-executive Director (or any of their respective associates) will result in the total number of Shares issued and to be issued upon exercise of all options already granted and to be granted to such person under the Share Option Scheme and any other share option schemes of our Company (including options exercised, cancelled and outstanding) in any 12-month period up to and including the date of grant:
  - a. representing in aggregate over 0.1% of the Shares in issue; and
  - b. having an aggregate value, based on the closing price of the Shares at the date of each grant, in excess of HK\$5 million,

such further grant of options is required to be approved by Shareholders at a general meeting of our Company. Our Company shall send a circular to our Shareholders containing all information as required under the GEM Listing Rules in this regard. The grantee, his associates and all core connected persons of our Company shall abstain from voting in favour at such general meeting. Any change in the terms of an option granted to a substantial shareholder of our Company or an Independent Non-executive Director or any of their respective close associates is also required to be approved by Shareholders in the aforesaid manner.

*(viii) Restrictions on the times of grant of options*

An offer for the grant of options may not be made after any inside information (as defined in the SFO) has come to the knowledge of our Company until such inside information has been announced pursuant to the requirements of the GEM Listing Rules and the SFO. In particular, no option may be granted during the period commencing one month immediately before the earlier of:

- (aa) the date of the Board meeting (as such date is first notified to the Stock Exchange in accordance with the GEM Listing Rules) for approving our Company's results for any annual, half-year, quarterly or other interim period (whether or not required under the GEM Listing Rules); and
- (bb) the deadline for our Company to announce its results for any annual, half-year or quarterly period under the GEM Listing Rules, or other interim period (whether or not required under the GEM Listing Rules), and ending on the date of the results announcement.

*(ix) Time of exercise of option*

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.

*(x) Performance targets*

Save as determined by the Board and provided in the offer of the grant of the relevant options, there is no minimum holding period or performance target which must be achieved before any of the options can be exercised.

*(xi) Ranking of shares*

The Shares to be allotted upon the exercise of an option will be subject to all the provisions of the Articles and will rank *pari passu* in all respects with the fully paid Shares in issue on the date of allotment and accordingly will entitle the holders to participate in all dividends or other distributions paid or made after the date of allotment other than any dividend or other distribution previously declared or recommended or resolved to be paid or made with respect to a record date which shall be on or before the date of allotment, save that the Shares allotted upon the exercise of any option shall not carry any voting rights until the name of the grantee has been duly entered on the register of members of our Company as the holder thereof.

*(xii) Rights are personal to grantee*

An option shall not be transferable or assignable and shall be personal to the grantee of the option.

*(xiii) Rights on cessation of employment by death*

In the event of the death of the grantee, the legal personal representative(s) of the grantee may exercise the option up to the grantee's entitlement (to the extent which such option has become exercisable and has not already been exercised) within 30 days following his death or such longer period as our Board may determine.

*(xiv) Rights on cessation of employment by dismissal*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group on any one or more of the grounds that he has been guilty of serious misconduct, or has become bankrupt or insolvent, or has made any arrangement or composition with his creditors generally, or has been convicted of any criminal offence involving his integrity or honesty, his option shall lapse automatically (to the extent not already exercised) on the date of termination of his employment with our Group.

*(xv) Rights on cessation of employment for other reasons*

In the event that the grantee is an employee of our Group at the date of grant and he subsequently ceases to be an employee of our Group for any reason other than his death, disability or the termination of his employment on one or more of the grounds specified in (xiv) above, the grantee may exercise the option (to the extent not already exercised) till the date of cessation of his employment with our Group.

*(xvi) Effects of alterations to share capital*

In the event of any alteration in the capital structure of our Company whilst any option remains exercisable, whether by way of capitalisation of profits or reserves, rights issue, consolidation, subdivision or reduction of the share capital of our Company, such corresponding adjustments (if any) shall be made in the number or nominal amount of Shares subject to the option so far as unexercised; and/or the subscription prices of any unexercised option, as the auditors of or independent financial adviser to our Company shall confirm in writing that the adjustments satisfy the requirements set out in the Share Option Scheme.

*(xvii) Rights on general offer of scheme of arrangements*

In the event of a general offer (whether by way of takeover offer or share buyback offer or scheme of arrangement or otherwise in like manner) being made to all our Shareholders (or all such holders other than the offeror and/or any



persons controlled by the offeror and/or any person acting in concert with the offeror) and such offer becoming or is declared unconditional, or the scheme of arrangement is formally proposed to our Shareholders, the grantee shall be entitled to exercise the option in full or in part (to the extent not already exercised) at any time thereafter up to the close of such offer or the date on which the scheme of arrangement becomes effective.

*(xviii) Rights on winding-up*

In the event a notice is given by our Company to the members to convene a general meeting for the purposes of considering, and if thought fit, approving a resolution to voluntarily wind-up our Company, our Company shall forthwith give notice thereof to the grantee, and the grantee shall be entitled to exercise all or any of his options at any time not later than 2 business days prior to the proposed general meeting of our Company by giving notice in writing to our Company, accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall as soon as possible and, in any event, no later than the business day immediately prior to the date of the proposed general meeting referred to above, allot the relevant Shares to the grantee credited as fully paid.

*(xix) Rights on compromise or arrangement*

In the event of a compromise or arrangement between our Company and our Shareholders or the creditors of our Company being proposed in connection with a scheme for the reconstruction or amalgamation of our Company (other than any relocation schemes as contemplated in Rule 10.18(3) of the GEM Listing Rules), our Company shall give notice thereof to all the grantees on the same day as it gives notice of the meeting to our Shareholders or the creditors to consider such a compromise or arrangement and the options (to the extent not already exercised) shall become exercisable in whole or in part on such date not later than two business days prior to the date of the proposed meeting, by giving notice in writing to our Company accompanied by a remittance for the full amount of the aggregate subscription price for the Shares in respect of which the notice is given whereupon our Company shall prior to the date of the proposed meeting, allot and issue the relevant Shares to the grantee credited as fully paid.

*(xx) Lapse of options*

An option shall lapse automatically on the earliest of:

- (aa) the expiry of the period referred to in paragraph (ix) above;
- (bb) the date on which our Board exercises our Company's right to cancel, revoke or terminate the option on the ground that the grantee commits a breach of paragraph (xii);



- (cc) the expiry of the relevant period or the occurrence of the relevant event referred to in paragraphs (xiii), (xiv), (xv), (xvii), (xviii) or (xix) above;
- (dd) subject to paragraph (xviii) above, the date of the commencement of the winding-up of our Company;
- (ee) the occurrence of any act of bankruptcy, insolvency or entering into of any arrangements or compositions with his creditors generally by the grantee, or conviction of the grantee of any criminal offence involving his integrity or honesty;
- (ff) subject to the compromise or arrangement as referred to in paragraph (xix) become effective, the date on which such compromise or arrangement becomes effective;
- (gg) the date on which the grantee commits a breach of any terms or conditions attached to the grant of option, unless otherwise resolved to the contrary by our Board; or
- (hh) the date on which our Board resolves that the grantee has failed or otherwise is or has been unable to meet the continuity eligible criteria provided in the Share Option Scheme.

*(xvi) Cancellation of options granted but not exercised*

Our Board shall have the absolute discretion to cancel any options granted at any time if the grantee so agreed provided that where an option is cancelled and a new option is proposed to be granted to the same grantee, the grant of such new option may only be made with available but unissued Shares in the authorised share capital of our Company, and available ungranted options (excluding for this purpose all cancelled options) within the limits as set out in (v) above.

*(xvii) Period of the Share Option Scheme*

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 our Shareholders in a general meeting.

*(xviii) Alteration to the Share Option Scheme*

- (aa) The Share Option Scheme may be altered by resolution of our Board except those specific provisions relating to matters set out in Rule 23.03 of the GEM Listing Rules which cannot be altered to the advantage of the grantees or prospective grantees except with the prior approval of our Shareholders in a general meeting.

- (bb) Any alteration to the terms and conditions of the Share Option Scheme which are of a material nature must be approved by our Shareholders in a general meeting, except where the alterations take effect automatically under the existing terms of the Share Option Scheme.
- (cc) Any amendment to any terms of the Share Option Scheme shall continue to comply with the relevant requirements of the GEM Listing Rules.
- (dd) Any change to the authority of our Directors or scheme administrators in relation to any alteration of the terms of the Share Option Scheme must be approved by our Shareholders in a general meeting.

*(xxiv) Termination of Share Option Scheme*

Our Company by resolution in a general meeting or our Board may at any time terminate the operation of the Share Option Scheme and in such event, no further options will be offered but options granted prior to such termination shall continue to be valid and exercisable in accordance with provisions of the Share Option Scheme.

*(xxv) Conditions of the Share Options Scheme*

The Share Option Scheme is conditional on the Stock Exchange granting the listing of, and permission to deal in, the Shares which may be issued pursuant to the exercise of any options which may be granted under the Share Option Scheme, and commencement of dealings in the Shares on the Stock Exchange.

**(b) Present status of the Share Option Scheme**

Application has been made to the Stock Exchange for the listing of, and permission to deal in 40,000,000 Shares which may fall to be issued upon exercise of any options which may be granted under the Share Option Scheme.

As at the date of this prospectus, no option has been granted or agreed to be granted under the Share Option Scheme.

**E. OTHER INFORMATION****1. Tax and other indemnities**

Our Controlling Shareholders have entered into the Deed of Indemnity in favour of our Company (for ourselves and as trustee for other Group members) referred to in the subsection headed “B. Further information about our business – 1. Summary of material contracts” in this Appendix, pursuant to which our Controlling Shareholders have given indemnities in favour of our Group from and against, among other things, (a) any tax liability falling on any member of our Group relating to any income, profits or gains earned, accrued or received and/or assets acquired or disposed of by any member of our Group on or before the Listing Date; (b) any liability for Hong Kong estate duty which may be payable by any member of our Group by reason of any transfer of property (within the meaning of sections 35 and 43 of the Estate Duty Ordinance (Chapter 111 of the Laws of Hong Kong, or the equivalent thereof under the laws of any jurisdiction outside Hong Kong) to any member of our Group on or before the Listing Date; (c) any liability falling on any member of our Group directly or indirectly resulting from, or relating to, or in consequence of the Reorganisation; (d) any action, claims, losses, charges, penalties incurred by any member of our Group directly resulting from violation or non-compliance with any applicable law, rules and/or regulations whether in Hong Kong, Taiwan or elsewhere in the world on or before the Listing Date, and the reasonable costs and expenses incurred in connection with the actions, claims, legal or arbitration proceedings related thereto; and (e) any costs of removal, costs of reinstatement of properties or premises, whether in Hong Kong, Taiwan or elsewhere, which are owned, leased, rented, occupied or used by any member of our Group as at the date of this prospectus.

Our Controlling Shareholders will not however, be liable under the Deed of Indemnity for taxation to the extent that, among others:

- (a) to the extent that provision, reserve or allowance has been made for such taxation liability in the audited accounts of any member of our Group for each of the two financial years ended 31 March 2017; or
- (b) the taxation liability arises or is incurred as a result of a retrospective change in law or a retrospective increase in tax rates coming into force after the date of the Listing Date; or
- (c) the liability would not have arisen but for any voluntary act of any member of our Group after the Listing Date which the relevant member of our Group ought reasonably to have known would give rise to such liability subject to certain exceptions; or
- (d) the taxation liability arises in the ordinary course of business of our Group after 31 March 2017 and up to the Listing Date.

In the event that our Controlling Shareholders have indemnified our Group for any tax liability and payment arising from any additional assessment by any tax authority pursuant to the Deed of Indemnity referred to above, our Company shall disclose such fact and relevant details by way of an announcement immediately after the payment of indemnification by our Controlling Shareholders.

## **2. Litigation**

Our Directors confirmed that, during the Track Record Period and up to the Latest Practicable Date, no member of our Group is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is pending or threatened by or against any member of our Group.

## **3. Sole Sponsor**

The Sole Sponsor has made an application on behalf of our Company to the Stock Exchange for listing of and permission to deal in the Shares in issue and to be issued as mentioned herein and any Shares which may fall to be issued pursuant to the exercise of the options which may be granted under the Share Option Scheme.

The Sole Sponsor has confirmed to the Stock Exchange that it satisfies the independence test as stipulated under the GEM Listing Rules.

The fee payable by our Company to the Sole Sponsor to act as sponsor in relation to the Listing is HK\$4.6 million, and the Sole Sponsor will be reimbursed for their expenses properly incurred in connection with the Share Offer.

## **4. Preliminary expenses**

The preliminary expenses relating to the incorporation of our Company are approximately HK\$45,000 and are payable by our Company.

## **5. Promoter**

Our Company has no promoter within two years preceding the date of this prospectus and no amount or benefit has been paid or given to any promoter in connection with the Share Offer or the related transactions described in this prospectus.

## **6. Compliance adviser**

Our Company has agreed to appoint Kingsway Capital as our compliance adviser upon Listing in compliance with Rule 6A.19 of the GEM Listing Rules.

## 7. Qualification of experts

The following are the respective qualifications of the experts who have given their opinion or advice which are contained in this prospectus:

<b>Name</b>	<b>Qualifications</b>
Kingsway Capital Limited	A licensed corporation under the SFO to engage in type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities under the SFO
Deloitte Touche Tohmatsu	Certified Public Accountants
Conyers Dill & Pearman	Cayman Islands attorneys-at-law
Frost & Sullivan International Limited	Industry consultant
Mr. Henry H. G. Cheng	Barrister-at-law of Hong Kong
Deacons	Qualified Hong Kong Solicitors

## 8. Consent of experts

Each of the parties listed in the subsection headed “E. Other information – 7. Qualification of experts” in this Appendix has given and has not withdrawn its/his written consent to the issue of this prospectus, with the inclusion of its/his letters and/or reports and/or opinions and/or summary thereof (as the case may be) and/or references to its/his name included herein in the form and context in which they respectively appear.

## 9. Binding effect

This prospectus shall have the effect, if an application is made in pursuance hereof, of rendering all persons concerned bound by all of the provisions (other than the penal provisions) of sections 44A and 44B of the Companies (Winding Up and Miscellaneous Provisions) Ordinance so far as applicable.

## 10. Registration procedures

The principal register of members of our Company in the Cayman Islands will be maintained by Conyers Trust Company (Cayman) Limited and a branch register of members of our Company will be maintained by Tricor Investor Services Limited, our Hong Kong Share Registrar. Save where our Directors otherwise agree, all transfers and other documents of title to Shares must be lodged for registration with, and registered by, our Hong Kong Share Registrar in Hong Kong and may not be lodged in the Cayman Islands. All necessary arrangements have been made to enable the Shares to be admitted into CCASS.

**11. No material adverse change**

Save as disclosed in the subsection headed “Financial Information – No material adverse change” in this prospectus, our Directors confirm that there has been no material adverse change in the financial or trading position or prospects of our Company or our subsidiaries since 31 March 2017 (being the date to which the latest audited consolidated financial statements of our Group were made up) and up to the Latest Practicable Date.

**12. Taxation of holders of Shares***(a) Hong Kong*

Dealings in Shares registered on our Company’s Hong Kong branch register of members will be subject to Hong Kong stamp duty.

Profits from dealings in Shares arising in or derived from Hong Kong may also be subject to Hong Kong profits tax.

*(b) Cayman Islands*

Under the present law of the Cayman Islands, there is no stamp duty payable in the Cayman Islands on transfers of Shares.

*(c) Consultation with professional advisers*

Intending holders of the Shares are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of subscribing for, purchasing, holding or disposing of or dealing in the Shares. It is emphasised that none of our Company, our Directors or parties involved in the Share Offer accepts responsibility for any tax effect on, or liabilities of holders of Shares resulting from their subscription for, purchase, holding or disposal of or dealing in Shares.

**13. Miscellaneous***(a) Save as disclosed in this prospectus:**(i) within the two years immediately preceding the date of this prospectus:*

*(aa) no share or loan capital of our Company or any of its subsidiaries has been issued, agreed to be issued or is proposed or intended to be issued fully or partly paid either for cash or for a consideration other than cash;*

*(bb) no commissions, discounts, brokerages or other special terms have been granted or agreed to be granted in connection with the issue or sale of any share or loan capital of our Company or any of its*

subsidiaries and no commission has been paid or is payable in connection with the issue or sale of any capital of our Company or any of its subsidiaries; and

- (cc) no commission has been paid or is payable (except to sub-underwriter(s)) for subscribing or agreeing to subscribe, procuring or agreeing to procure subscriptions, for any shares or debenture of our Company or any of its subsidiaries;
- (ii) no founders, management or deferred shares or any debentures of our Company have been issued or agreed to be issued;
- (iii) no share or loan capital of our Company is under option or is agreed conditionally or unconditionally to be put under option;
- (iv) there has not been any interruption in the business of our Group which may have or has had a significant effect on the financial position of our Group in the 24 months immediately preceding the date of this prospectus;
- (v) none of the experts named in the subsection headed “E. Other information – 7. Qualification of experts” in this Appendix:
  - (aa) is interested beneficially or non-beneficially in any securities in any member of our Group, including the Shares; nor
  - (bb) has any right or option (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of our Group, including the Shares;
- (vi) our Company and our subsidiaries do not have any debt securities issued or outstanding, or authorised or otherwise created but unissued, or any term loans whether guaranteed or secured as at the Latest Practicable Date;
- (vii) no company within our Group is presently listed on any stock exchange or traded on any trading system;
- (viii) our Group has no outstanding convertible debt securities; and
- (ix) the English text of this prospectus shall prevail over the Chinese text.

#### **14. Bilingual Prospectus**

The English language and Chinese language versions of this prospectus are being published separately in reliance upon the exemption provided in section 4 of the Companies (Exemption of Companies and Prospectuses from Compliance with Provisions) Notice (Chapter 32L of the Laws of Hong Kong).

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## APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG AND AVAILABLE FOR INSPECTION

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### DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES IN HONG KONG

The documents attached to the copy of this prospectus delivered to the Registrar of Companies in Hong Kong for registration were (i) copies of the **WHITE**, **YELLOW** and **GREEN** Application Forms; (ii) the written consents referred to in the subsection headed “E. Other information – 8. Consent of experts” in Appendix IV to this prospectus, (iii) copies of the material contracts referred to in the subsection headed “B. Further information about our business – 1. Summary of material contracts” in Appendix IV to this prospectus, and (iv) the statement of adjustments made by Deloitte Touche Tohmatsu setting out the adjustments made in arriving at the figures shown in the accountants’ report set out in Appendix I to this prospectus.

### DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the office of Deacons at 5/F, Alexandra House, 18 Chater Road, Central, Hong Kong during normal business hours up to and including the date which is 14 days from the date of this prospectus:

- (a) the Memorandum of Association and the Articles of Association of our Company;
- (b) the accountants’ report prepared by Deloitte Touche Tohmatsu, the text of which is set out in Appendix I to this prospectus;
- (c) the assurance report from Deloitte Touche Tohmatsu on compilation of unaudited pro forma financial information of our Group, the text of which is set out in Appendix II to this prospectus;
- (d) the audited consolidated financial statements of KML Engineering Limited for each of the two years ended 31 March 2016 and 2017 and the audited financial statements of KML Technology Limited for each of the two years ended 31 March 2016 and 2017;
- (e) the statement of adjustments made by Deloitte Touche Tohmatsu setting out the adjustments made in arriving at the figures shown in the accountants’ report set out in Appendix I to this prospectus;
- (f) the Companies Law;
- (g) the letter prepared by Conyers Dill & Pearman, our Cayman legal advisers, summarising certain aspects of the company law of the Cayman Islands as referred to in Appendix III to this prospectus;
- (h) the material contracts referred to in the subsection headed “B. Further information about our business – 1. Summary of material contracts” in Appendix IV to this prospectus;



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**APPENDIX V DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES  
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- (i) the written consents referred to in the subsection headed “E. Other information – 8. Consent of experts” in Appendix IV to this prospectus;
- (j) the rules of the Share Option Scheme;
- (k) the Frost & Sullivan Report;
- (l) the legal opinion of Mr. Henry H. G. Cheng; and
- (m) the service contracts and letters of appointment referred to in the subsection headed “C. Further information about Directors, substantial Shareholders and experts – 2. Particulars of Directors’ service agreements” in Appendix IV to this prospectus.

The background features a complex, light blue monochromatic design. It includes several large, semi-transparent gears of varying sizes, some with teeth pointing outwards and others inwards. Overlaid on these are various geometric shapes, including rectangles, circles, and lines, some of which resemble circuit board traces or data paths. A prominent feature is a large, bright white circle on the right side, which appears to be a lens or a light source. The overall aesthetic is clean, technical, and futuristic.

**KML Technology Group Limited**  
高萌科技集團有限公司