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KINETIX SYSTEMS HOLDINGS LIMITED

捷冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2021**

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate small and mid-sized companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration.

Given that the companies listed on GEM are generally small and mid-sized companies, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2021

The board (the “Board”) of directors (the “Directors”) of Kinetix Systems Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2021, together with the corresponding comparative figures of 2020. The information should be read in conjunction with the prospectus of the Company dated 30 June 2018 (the “Prospectus”). Capitalised terms used in this announcement shall have the same respective meanings as those defined in the Prospectus unless otherwise stated.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Revenue	4	254,121	282,362
Cost of sales	7	<u>(204,444)</u>	<u>(234,805)</u>
Gross profit		49,677	47,557
Other income and gains	5	1,607	8,154
Selling expenses	7	(11,711)	(8,990)
(Provision for)/reversal of expected credit losses, net		(23)	743
Administrative and general expenses	7	<u>(60,041)</u>	<u>(35,702)</u>
Operating (loss)/profit		(20,491)	11,762
Finance costs	6	<u>(1,609)</u>	<u>(437)</u>
(Loss)/profit before income tax		(22,100)	11,325
Income tax credit/(expense)	9	<u>656</u>	<u>(1,686)</u>
(Loss)/profit for the year		<u>(21,444)</u>	<u>9,639</u>
Attributable to:			
Owners of the Company		(20,344)	10,316
Non-controlling interest		<u>(1,100)</u>	<u>(677)</u>
(Loss)/profit for the year		<u>(21,444)</u>	<u>9,639</u>
(Loss)/earnings per share for the (loss)/profit attributable to owners of the Company (in cents)			
Basic and diluted	11	<u>(2.25)</u>	<u>1.29</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
(Loss)/profit for the year	(21,444)	9,639
Other comprehensive loss		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	<u>(10)</u>	<u>–</u>
Other comprehensive loss for the year, net of tax	<u>(10)</u>	<u>–</u>
Total comprehensive (loss)/income for the year	<u>(21,454)</u>	<u>9,639</u>
Attributable to:		
Owners of the Company	(20,354)	10,316
Non-controlling interest	<u>(1,100)</u>	<u>(677)</u>
	<u>(21,454)</u>	<u>9,639</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment		10,884	1,224
Right-of-use assets		15,709	1,733
Intangible asset		45,067	–
Financial lease receivables	12	2,392	7,240
Deposits and prepayments	13	747	2,931
Deposit and prepayment for a life insurance		6,712	6,747
Deferred income tax assets		–	96
		<u>81,511</u>	<u>19,971</u>
<i>Current assets</i>			
Inventories		11,855	15,303
Finance lease receivables	12	4,848	4,658
Trade and other receivables	13	84,391	85,939
Contract assets		28,066	24,904
Amount due from immediate holding company		57	17
Amounts due from non-controlling shareholders		243	243
Current income tax assets		766	–
Cash and cash equivalents		29,966	35,793
		<u>160,192</u>	<u>166,857</u>
Total assets		<u>241,703</u>	<u>186,828</u>
EQUITY			
Share capital	14	9,639	8,000
Reserves		122,280	91,118
Equity attributable to owners of the Company		131,919	99,118
Non-controlling interests		(2,316)	(1,216)
Total equity		<u>129,603</u>	<u>97,902</u>

		2021	2020
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
LIABILITIES			
<i>Non-current liabilities</i>			
Lease liabilities		15,489	4,331
Deferred income tax liabilities		61	–
		<u>15,550</u>	<u>4,331</u>
<i>Current liabilities</i>			
Trade and other payables	15	68,344	61,825
Contract liabilities		7,353	8,285
Bank borrowings	16	11,717	6,778
Amounts due to non-controlling shareholders		3,044	1,684
Lease liabilities		6,092	4,472
Current income tax liabilities		–	1,551
		<u>96,550</u>	<u>84,595</u>
Total liabilities		<u>112,100</u>	<u>88,926</u>
Total equity and liabilities		<u>241,703</u>	<u>186,828</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to the owners of the Company									
	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i> <i>(note i)</i>	Other reserve <i>HK\$'000</i> <i>(note ii)</i>	Share- based payment reserve <i>HK\$'000</i>	Convertible bonds equity reserve <i>HK\$'000</i>	Exchange reserve <i>HK\$'000</i>	Retained earnings <i>HK\$'000</i>	Total <i>HK\$'000</i>	Non- controlling interests <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2020	8,000	43,199	10	-	-	-	37,593	88,802	(539)	88,263
Profit/(loss) for the year	-	-	-	-	-	-	10,316	10,316	(677)	9,639
Other comprehensive income for the year	-	-	-	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the year	-	-	-	-	-	-	10,316	10,316	(677)	9,639
Non-controlling interests arising on the establishment of subsidiaries	-	-	-	-	-	-	-	-	-*	-
At 31 December 2020 and 1 January 2021	8,000	43,199	10	-	-	-	47,909	99,118	(1,216)	97,902
Loss for the year	-	-	-	-	-	-	(20,344)	(20,344)	(1,100)	(21,444)
Exchange difference arising from translation of foreign operations	-	-	-	-	-	(10)	-	(10)	-	(10)
Total comprehensive loss for the year	-	-	-	-	-	(10)	(20,344)	(20,354)	(1,100)	(21,454)
Transactions with owners in their capacity as owners:										
Issuance of convertible bonds	-	-	-	-	10,149	-	-	10,149	-	10,149
Issuance of shares upon conversion of convertible bonds	1,600	46,914	-	-	(10,149)	-	-	38,365	-	38,365
Share-based payments	-	-	-	4,048	-	-	-	4,048	-	4,048
Exercise of share options	39	752	-	(198)	-	-	-	593	-	593
Lapse of share options	-	-	-	(486)	-	-	486	-	-	-
	1,639	47,666	-	3,364	-	-	486	53,155	-	53,155
At 31 December 2021	9,639	90,865	10	3,364	-	(10)	28,051	131,919	(2,316)	129,603

* *Less than HK\$1,000*

Notes:

- i. Share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued.
- ii. Other reserve represents the difference between issued share capital of the Company issued during the reorganisation in preparation for the listing pursuant to which the Company became the holding company of the Group, and the aggregate value of the respective share capital/paid-in capital of the companies now comprising the Group and the amount of advances from immediate holding company capitalised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1. CORPORATE INFORMATION

Kinetix Systems Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 16 September 2016 and its shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”) by way of shares offer (the “Share Offer”) on 16 July 2018. The registered office of the Company is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company. The principal activities of the Group are provision of information technology (“IT”) infrastructure solutions services, IT development solutions services, IT maintenance and support services and entertainment products. In the opinion of the directors of the Company, the ultimate and immediate holding company of the Company is Vigorous King Limited, a company incorporated in the British Virgin Islands (“BVI”) which is wholly owned by Mr. Yu Larry (“Mr. Yu”), who is also the Chairman, Chief Executive Officer and Executive Director of the Company.

These consolidated financial statements are presented in thousands of Hong Kong Dollars (“HK\$’000”), unless otherwise stated.

2. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with the Hong Kong Financial Reporting Standards (“HKFRSs”), which collective term includes all applicable individual HKFRS, Hong Kong Accounting Standards (“HKAS”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance Cap.622. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

(a) New and amended standards adopted by the Group

The Group has applied the following new and amended standards, improvements and interpretation for the first time for their annual reporting period commencing 1 January 2021:

Amendments to HKAS 39, HKFRS 4, HKFRS 7, HKFRS 9 and HKFRS 16	Interest Rate Benchmark Reform (Amendments)
Amendments to HKFRS 16	Covid-19-Related Rent concessions

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

The following new standards and interpretations have been published that are not mandatory for the current reporting period and have not been early adopted by the Group:

		Effective for annual periods beginning on or after
Amendment to HKFRS 16	COVID-19 Rent Concessions Beyond 30 June 2021	1 April 2021
Annual Improvements Project	Annual Improvements 2018–2020 Cycle (Amendments)	1 January 2022
Amendment to HKAS 16	Property, Plant and Equipment (Amendments)	1 January 2022
Amendment to HKAS 37	Provisions, Contingent Liabilities and Contingent Assets (Amendments)	1 January 2022
Amendment to HKFRS 3	Definition of a Business (Amendments)	1 January 2022
Accounting Guideline 5 (Revised)	Revised Accounting Guideline 5 – Merger Accounting for Common Control Combinations	1 January 2022
HKAS 1	Classification of Liabilities as Current or Non-current (Amendments)	1 January 2023
HKFRS 17	Insurance Contracts	1 January 2023
HK Int 5 (2020)	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause	1 January 2023
HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (Amendments)	1 January 2023
HKAS 8	Definition of Accounting Estimates (Amendments)	1 January 2023
HKAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments)	1 January 2023
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined

The directors of the Company have assessed the financial impact on the Group of the adoption of the above new standards, amendments to existing standards, interpretations and accounting guideline. These standards and amendments are not expected to have a material impact on the Group in the future reporting periods and on foreseeable future transactions. The Group intends to adopt the above new standards, amendments to existing standards interpretations and accounting guideline when they become effective.

3. SEGMENT INFORMATION

(a) Segment revenue and results

The Group's executive directors monitor the operating results of its operating segment for the purpose of making decisions about resource allocation and performance assessment.

The chief operating decision-maker ("CODM") has been identified as the executive directors of the Group. The executive directors consider the segment from a business perspective. The Group has four (2020: four) operating segments that qualify as reporting segment under HKFRS 8 and the information that is regularly reviewed by the executive directors for the purposes of allocating resources and assessing performance of the operating segment is the consolidated financial statements of the Group.

For the purposes of assessing segment performance and allocating resources between segments, the Group's CODM monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred during the year. The Group's other income and expense items, such as other income and gains, selling expenses, administrative and general expenses, (provision for)/reversal of expected credit losses, net and finance costs, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, depreciation, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2021 and 2020 is set out below.

	For the year ended 31 December 2021				Total HK\$'000
	IT solutions services		IT maintenance and support services HK\$'000	Entertainment products HK\$'000	
	IT infrastructure solutions services HK\$'000	IT development solutions services HK\$'000			
Reportable segment revenue	104,135	105,969	25,431	18,586	254,121
Reportable segment cost of sales	(77,719)	(92,862)	(16,903)	(16,960)	(204,444)
Reportable segment gross profit	<u>26,416</u>	<u>13,107</u>	<u>8,528</u>	<u>1,626</u>	49,677
Corporate and unallocated expenses, net					(71,777)
Loss before income tax					(22,100)
Income tax credit					656
Loss for the year					<u>(21,444)</u>

For the year ended 31 December 2020

	IT solutions services				Total HK\$'000
	IT infrastructure solutions services HK\$'000	IT development solutions services HK\$'000	IT maintenance and support services HK\$'000	Entertainment products HK\$'000	
Reportable segment revenue	133,268	74,586	27,654	46,854	282,362
Reportable segment cost of sales	(115,704)	(57,573)	(17,871)	(43,657)	(234,805)
Reportable segment gross profit	<u>17,564</u>	<u>17,013</u>	<u>9,783</u>	<u>3,197</u>	47,557
Corporate and unallocated expenses, net					(36,232)
Profit before income tax					11,325
Income tax expenses					(1,686)
Profit for the year					<u>9,639</u>

(b) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

The geographical information of the Group's revenue from external customers for the year ended 31 December 2021 and 2020 is set out below.

	2021 HK\$'000	2020 HK\$'000
Geographical markets:		
– Hong Kong	251,854	274,791
– Macau	<u>2,267</u>	<u>7,571</u>
	<u>254,121</u>	<u>282,362</u>

The geographical information of the Group's non-current assets other than finance lease receivables, deposits and prepayments, deposit and prepayment for a life insurance and deferred income tax assets for the year ended 31 December 2021 and 2020 is set out below.

	2021 HK\$'000	2020 HK\$'000
Geographical markets:		
– Hong Kong	48,024	2,716
– Macau	460	241
– The PRC	<u>23,176</u>	–
	<u>71,660</u>	<u>2,957</u>

(c) **Information about major customers**

For the year ended 31 December 2021, there was no customer (2020: two) which individually contributed over 10% of the Group's total revenue. During the years ended 31 December 2021 and 2020, the revenue contributed from each of these customers was as follows:

	2021	2020
	HK\$'000	HK\$'000
Customer A	–	38,416
Customer B	–	34,083
	<u> </u>	<u> </u>

4. REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) **Disaggregation of revenue from contracts with customers**

	2021	2020
	HK\$'000	HK\$'000
Revenue		
IT solutions services		
– IT infrastructure solutions services	104,135	133,268
– IT development solutions services	105,969	74,586
IT maintenance and support services	25,431	27,654
Entertainment products	18,586	46,854
	<u> </u>	<u> </u>
	254,121	282,362
	<u> </u>	<u> </u>

For the year ended 31 December 2021

	IT solutions services				
	IT infrastructure solutions services HK\$'000	IT development solutions services HK\$'000	IT maintenance and support services HK\$'000	Entertainment products HK\$'000	Total HK\$'000
At a point in time	101,976	–	–	15,886	117,862
Over time	2,159	105,969	25,431	2,700	136,259
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	104,135	105,969	25,431	18,586	254,121
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

For the year ended 31 December 2020

	IT solutions services				
	IT infrastructure solutions services HK\$'000	IT development solutions services HK\$'000	IT maintenance and support services HK\$'000	Entertainment products HK\$'000	Total HK\$'000
At a point in time	132,692	–	–	46,854	179,546
Over time	576	74,586	27,654	–	102,816
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	133,268	74,586	27,654	46,854	282,362
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(b) **Assets and liabilities related to contracts with customers**

The Group has recognised the following assets and liabilities related to contracts with customers:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Total contract assets:		
IT solutions services		
– IT infrastructure solutions services	165	3
– IT development solutions services	27,903	24,903
Less: Allowance for ECLs	(2)	(2)
	<u>28,066</u>	<u>24,904</u>
Total contract liabilities:		
IT solutions services		
– IT infrastructure solutions services	(398)	(93)
– IT development solutions services	(3,881)	(6,814)
Arising from IT maintenance and support services	(3,074)	(1,378)
	<u>(7,353)</u>	<u>(8,285)</u>

5. **OTHER INCOME AND GAINS**

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank interest income	8	178
Government grants (<i>Note (i)</i>)	5	5,762
Finance lease interest income	391	283
Gain on finance lease arrangement (<i>Note (ii)</i>)	–	1,563
Foreign exchange gains, net	101	158
Imputed interest income from deposit for a life insurance policy	124	101
COVID-19 related rent concession	–	83
Sundry income	978	26
	<u>1,607</u>	<u>8,154</u>

Note (i): In 2020, the government grants are subsidies granted from the Employment Support Scheme of the Government of the Hong Kong Special Administrative Region and Anti-epidemic Fund of the Macao Special Administrative Region, which aim to retain employment and combat COVID-19. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertakes not to make redundancies during the subsidy period. For the conditions of receiving the subsidies from Anti-epidemic Fund, the Group undertakes not to close down the Macau's subsidiary and make unreasonable redundancies six months from the effective date of the relevant regulation. These conditions have been satisfied.

Note (ii): This mainly arises from derecognition of right-of-use assets under sublease arrangement. Gain arose as the balance of the net investment in the sublease outweighs that of right-of-use assets of the head lease on date of derecognition.

6. FINANCE COSTS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Interest expense on lease liabilities	995	245
Interest expense on bank borrowings	100	192
Interest expense on convertible bonds	514	–
	<u>1,609</u>	<u>437</u>

7. EXPENSES BY NATURE

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Cost of hardware and software recognised as expenses	82,470	140,267
Cost of IT services	84,389	31,255
Cost of inventories recognised as expenses	16,960	43,657
Auditor's remuneration		
– Audit services	782	376
– Non-audit services	300	180
Entertainment expenses	1,581	633
Lease payments under short-term leases for office premises	342	87
Depreciation of property, plant and equipment	2,440	735
Depreciation of right-of-use assets	4,922	2,262
Amortisation of intangible asset	2,933	–
Loss on write-off of property, plant and equipment	–	2
Legal and professional fees	1,957	1,948
Premium charges on a life insurance policy	160	129
Employee benefit costs, including directors' emoluments	70,351	54,304
Insurance expenses	531	405
Provision for onerous contracts, net of reversal	–	645
Other expenses	6,078	2,612
	<u>276,196</u>	<u>279,497</u>
Total cost of sales and selling and administrative and general expense	<u>276,196</u>	<u>279,497</u>

8. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' EMOLUMENTS

Compensation of key management personnel of the Group during the year was as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Directors' fee, salaries, allowance and other benefits in kind	4,337	3,994
Employer's contribution to defined contribution plans	72	99
Equity-settled share-based payments	757	–
	<u>5,166</u>	<u>4,093</u>

The above compensation of key management personnel includes directors' emoluments for the year.

The remuneration of every director for the years ended 31 December 2021 and 2020 are set out below:

	Fees <i>HK\$'000</i>	Salaries, allowances, and benefits in kind <i>HK\$'000</i>	Employer's contribution to defined contribution plans <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Equity-settled share-based payments <i>HK\$'000</i>	Total <i>HK\$'000</i>
For the year ended						
31 December 2021						
<i>Executive directors</i>						
Yu Larry (Chief executive officer)	–	960	18	–	61	1,039
Law Cheung Moon (Head of enterprise services)	–	629	18	–	41	688
Leung Patrick Cheong Yu (Sales director)	–	1,543	18	–	41	1,602
<i>Independent non-executive directors</i>						
Yeung Wai Keung (Note iii)	10	–	–	–	–	10
Lam Yau Hin (Note v)	30	–	–	–	–	30
Lam Shun Ka	60	–	–	–	–	60
He Dazhi (Note iv)	45	–	–	–	–	45
Li Xiaoping (Note vii)	5	–	–	–	–	5
Tong Tsz Kwan (Note viii)	16	–	–	–	–	16
<i>Non-executive directors</i>						
Cheng Kwan Ngai (Note i)	52	–	–	–	–	52
Chen Jie (Note ii)	53	–	–	–	–	53
Tang Biao (Note vi)	–	–	–	–	–	–
	<u>271</u>	<u>3,132</u>	<u>54</u>	<u>–</u>	<u>143</u>	<u>3,600</u>

	Fees HK\$'000	Salaries, allowances, and benefits in kind HK\$'000	Employer's contribution to defined contribution plans HK\$'000	Discretionary bonuses HK\$'000	Total HK\$'000
For the year ended 31 December 2020					
<i>Executive directors</i>					
Yu Larry (Chief executive officer)	–	1,179	30	–	1,209
Law Cheung Moon (Head of enterprise services)	–	664	22	–	686
Leung Patrick Cheong Yu (Sales director)	–	972	18	–	990
<i>Independent non-executive directors</i>					
Yeung Wai Keung (Note iii)	60	–	–	–	60
Lam Yau Hin (Note v)	60	–	–	–	60
Lam Shun Ka	60	–	–	–	60
<i>Non-executive directors</i>					
Cheng Kwan Ngai (Note i)	7	–	–	–	7
	<u>187</u>	<u>2,815</u>	<u>70</u>	<u>–</u>	<u>3,072</u>

Notes:

- (i) Mr. Cheng Kwan Ngai is appointed as a non-executive director on 20 November 2020 and resigned as a non-executive director on 11 November 2021.
- (ii) Ms. Chen Jie is appointed as a non-executive director on 9 February 2021.
- (iii) Mr. Yeung Wai Keung resigned as an independent non-executive director on 1 March 2021.
- (iv) Dr. He Dazhi is appointed as an independent non-executive director on 1 April 2021.
- (v) Mr. Lam Yau Hin retired as an independent non-executive director on 29 June 2021.
- (vi) Mr. Tang Biao is appointed as a non-executive director on 6 August 2021.
- (vii) Mr. Li Xiaoping is appointed as independent non-executive director on 6 August 2021.
- (viii) Mr. Tong Tsz Kwan is appointed as independent non-executive director on 28 September 2021.

9. INCOME TAX (CREDIT)/EXPENSE

Hong Kong Profits Tax has been provided at the two-tiered rate of 8.25% for the first HK\$2,000,000 of the estimated assessable profit of the qualifying group entity and 16.5% on the remaining estimated assessable profit of the Group for the year ended 31 December 2021 and 2020.

Macau corporate income tax has not been provided for the Macau subsidiaries as they have been either loss-making or the amount is immaterial (2020: nil).

No PRC Corporate Income Tax provision was made for the PRC subsidiary as the PRC subsidiary has sustained a loss for taxation purpose for the year ended 31 December 2021 (2020: nil).

The amount of income tax (credit)/expense charged to the consolidated income statement represents:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Hong Kong Profits Tax		
Current year	9	1,833
Over-provision in prior years	<u>(822)</u>	<u>(51)</u>
	(813)	1,782
Deferred income tax	<u>157</u>	<u>(96)</u>
	<u><u>(656)</u></u>	<u><u>1,686</u></u>

10. DIVIDENDS

The directors have resolved not to declare any dividend for the year ended 31 December 2021 (2020: Nil).

11. (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2021	2020
(Loss)/profit attributable to owners of the Company (<i>HK\$'000</i>)	<u>(20,344)</u>	<u>10,316</u>
Weighted average number of ordinary shares in issue (<i>thousands</i>)	<u>903,452</u>	<u>800,000</u>
Basic (loss)/earnings per share (<i>Hong Kong cents</i>)	<u>(2.25)</u>	<u>1.29</u>

(b) **Diluted**

Diluted (loss)/earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all potentially dilutive ordinary shares. The Company has potentially dilutive ordinary shares of share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the year ended 31 December 2021, diluted loss per share is the same as the basic loss per share as the exercise of potential ordinary shares in relation to the outstanding share options would have anti-dilutive effects to the basic loss per share.

For the year ended 31 December 2020, diluted earnings per share is the same as the basic earnings per share as there was no potential dilutive ordinary shares.

12. FINANCE LEASE RECEIVABLES

The Group entered into finance lease arrangements as a lessor for security systems. The terms of finance leases entered into are 3 years. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

There were no guaranteed residual value and unguaranteed residual value of leased assets and no contingent rent arrangement that needed to be recognised in both periods.

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Finance lease receivables		
Current	4,848	4,658
Non-current	2,392	7,240
	<u>7,240</u>	<u>11,898</u>

	As at 31 December 2021		As at 31 December 2020	
	Minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>	Minimum lease payments <i>HK\$'000</i>	Present value of minimum lease payments <i>HK\$'000</i>
Finance lease receivables:				
Within one year	5,049	4,848	5,049	4,658
In second year	2,427	2,392	5,049	4,848
In third year	–	–	2,427	2,392
	<u>7,476</u>	<u>7,240</u>	<u>12,525</u>	<u>11,898</u>
Less: unearned finance income	(236)	–	(627)	–
Present value of minimum lease payment receivables	<u>7,240</u>	<u>7,240</u>	<u>11,898</u>	<u>11,898</u>

As at 31 December 2021, the interest rates implicit in the above finance leases were 4% (2020: 4%) per annum.

13. TRADE AND OTHER RECEIVABLES

	<i>Notes</i>	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Trade receivables	(a)	48,347	47,387
Less: provision for loss allowance		<u>(358)</u>	<u>(8,127)</u>
		<u>47,989</u>	<u>39,260</u>
Unbilled receivables	(b)	26,994	40,797
Less: provision for loss allowance		<u>(25)</u>	<u>(112)</u>
		<u>26,969</u>	<u>40,685</u>
Deposits		2,453	5,546
Prepayments		6,558	3,011
Prepayment for a life insurance policy		160	160
Others		<u>1,009</u>	<u>208</u>
		<u>85,138</u>	<u>88,870</u>
Less: non-current portion of deposits and prepayments		<u>(747)</u>	<u>(2,931)</u>
Current portion of trade and other receivables		<u><u>84,391</u></u>	<u><u>85,939</u></u>

(a) Trade receivables

The Group normally grants credit terms to its customers ranging from 30 to 45 days. The ageing analysis of the trade receivables based on invoice date is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
0 to 30 days	23,301	22,558
31 to 90 days	15,575	8,829
91 to 180 days	4,776	7,148
Over 180 days	<u>4,337</u>	<u>725</u>
	<u><u>47,989</u></u>	<u><u>39,260</u></u>

The ageing analysis of the trade receivables based on due date is as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Not yet past due nor impaired	22,899	23,937
1 to 30 days	15,381	4,273
31 to 90 days	2,277	5,400
91 to 180 days	3,161	5,012
Over 180 days	<u>4,271</u>	<u>638</u>
	<u><u>47,989</u></u>	<u><u>39,260</u></u>

The carrying amounts of the Group's trade and other receivables are denominated in HK\$, US\$ and RMB.

The movement in provision for loss allowance on trade receivables are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At beginning of the year	8,127	8,504
Provision for/(reversal of) expected credit losses, net	110	(377)
Amount written-off as uncollectible	<u>(7,879)</u>	<u>–</u>
At end of the year	<u>358</u>	<u>8,127</u>

(b) Unbilled receivables

The unbilled receivables were mainly attributable to fully completed IT solutions services and maintenance and support services which will be billed within the next twelve months from the end of the reporting period in accordance with the payment terms stipulated in the relevant contracts, quotation, purchase orders and service agreements entered into between the Group and the customers. For these completed services, the revenue has been fully recognised. Since the Group has unconditional right to consideration but only the passage of time is required before payment of that consideration is due, the Group classified these as unbilled receivables.

The movement in provision for loss allowance on unbilled receivables are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
At beginning of the year	112	475
Reversal of expected credit losses, net	<u>(87)</u>	<u>(363)</u>
At end of the year	<u>25</u>	<u>112</u>

The other classes within trade and other receivables do not contain impaired assets. The Group does not hold any collateral as security.

14. SHARE CAPITAL

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Authorised 10,000,000,000 shares at HK\$0.01 each	<u>100,000</u>	<u>100,000</u>

	Number of Shares	Total HK\$'000
Issued and fully paid		
At 1 January 2020, 31 December 2020 and 1 January 2021	800,000,000	8,000
Issuance of shares upon conversion of convertible bonds	160,000,000	1,600
Exercise of share options	3,900,000	39
	<u>963,900,000</u>	<u>9,639</u>
At 31 December 2021	<u>963,900,000</u>	<u>9,639</u>

15. TRADE AND OTHER PAYABLES

	<i>Notes</i>	2021 HK\$'000	2020 HK\$'000
Trade payables	(a)	39,033	22,559
Accrued purchases and services costs	(b)	23,032	36,200
Other payables and accruals		6,279	3,066
		<u>68,344</u>	<u>61,825</u>

(a) Trade payables

Trade payables principally comprise amounts outstanding for purchases and service costs and have an average credit term of 30 days.

The ageing analysis of the trade payables based on invoice date was as follows:

	2021 HK\$'000	2020 HK\$'000
1 to 30 days	25,770	13,740
31 to 90 days	6,944	8,218
Over 90 days	6,319	601
	<u>39,033</u>	<u>22,559</u>

The carrying amounts of trade and other payables approximate their fair values and are denominated in HK\$ and RMB.

(b) Accrued purchases and service costs

The accrued purchases and service costs were mainly attributable to services carried out by subcontractors/goods provided by suppliers which will be billed within the next twelve months from the end of the reporting dates in accordance with the payment terms stipulated in the relevant contracts, quotation, purchase orders and service agreements entered into between the Group and the suppliers or subcontractors.

16. BANK BORROWINGS

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Bank loans – secured	<u>11,717</u>	<u>6,778</u>

The Group's interest-bearing bank borrowings are secured by way of the following:

- (a) The deed of assignment over life insurance policy purchased for the Company's director with carrying amount of HK\$6,872,000 (2020: HK\$6,907,000); and
- (b) The Company has guaranteed HK\$31,000,000 plus interest and other charges relating to the liabilities of the Group (2020: same).

The bank borrowings are granted under various facilities lines where interest rate is ranged from 1.5% per annum over the alternative risk-free rate to 2.5% per annum over the Hong Kong Interbank Offered Rate ("HIBOR") (2020: 1.5% per annum over London Interbank Offered Rate – 2% per annum over HIBOR). The bank borrowings had an effective interest rate of 1.66%–2.57% during the year (2020: 1.65%–2.36%).

All the bank loan agreement contains a "repayment on demand" clause and therefore, the outstanding balance has been classified as current liabilities.

Details of the repayment schedule in respect of the interest-bearing bank borrowings are as follows:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Within one year	9,292	3,259
Within a period of more than one year but not exceeding two years	1,089	1,092
Within a period of more than two years but not exceeding five years	<u>1,336</u>	<u>2,427</u>
	<u>11,717</u>	<u>6,778</u>

17. CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2021 <i>HK\$'000</i>	2020 <i>HK\$'000</i>
Contracted for, but not provided for:		
Acquisition of equipment	<u>–</u>	<u>320</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Established in 1998, we are currently a well-established IT services provider with business portfolio including provision of IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and entertainment products with approximately 23 years of experience in the IT consulting services industry in Hong Kong. Our principal businesses include IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and entertainment products.

BUSINESS REVIEW

For FY2021, the Group recorded a loss attributable to equity shareholders of the Company of approximately HK\$20.3 million as compared to the profit attributable to equity shareholders of the Company of approximately HK\$10.3 million in FY2020. The turning from profit to loss was primarily due to the combined effect of (i) decrease in other income, other gains and losses by approximately HK\$6.5 million mainly due to the decrease in government subsidies; (ii) increase in staff cost in selling, administrative and general expenses by approximately HK\$13.1 million mainly due to the increase in number of staff and commission expenses; (iii) increase in depreciation and amortisation by approximately HK\$7.3 million mainly due to an amortisation of an Exclusive LED Products Agency Selling Rights; (iv) one-off expenses for the share options granted in 2021 by approximately HK\$4.0 million; (v) increase in other operating expenses by approximately HK\$2.3 million; but partially offset by (vi) increase in gross profit by approximately HK\$2.1 million mainly due to better cost control in IT infrastructure solution services in 2021.

Provision of IT infrastructure solutions services

This segment provides IT infrastructure solutions services to our clients by advising them the hardware and/or software that their IT systems would require and procuring the relevant hardware and/or software and integrating them with our client's IT systems. The revenue generated from this segment in FY2021 amounted to approximately HK\$104.1 million, representing approximately 41.0% of the total revenue for FY2021. The revenue derived from this segment decreased by approximately 21.9% from approximately HK\$133.3 million for FY2020 to approximately HK\$104.1 million for FY2021. The decrease primarily due to a decrease in the total number of projects awarded and the decrease in amount of revenue recognised per project in FY2021.

Provision of IT development solutions services

This segment provides IT development solutions services that generally include system analysis and design, software development and technology consultancy. The revenue generated from this segment in FY2021 amounted to approximately HK\$106.0 million, representing approximately 41.7% of the total revenue for FY2021. The revenue derived from this segment increased by approximately 42.1% from approximately HK\$74.6 million for FY2020 to approximately HK\$106.0 million for FY2021. The increase was primarily due to a significant increase in total number of IT development solution services projects undertaken in FY2021.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment in FY2021 amounted to approximately HK\$25.4 million, representing approximately 10.0% of the total revenue for FY2021. The revenue derived from this segment decreased by approximately 8.3% from approximately HK\$27.7 million for FY2020 to approximately HK\$25.4 million for FY2021. The decrease was primarily due to a decrease in average project size of IT maintenance and support services projects undertaken in FY2021.

Entertainment products

This segment operates an e-commerce business which includes trading of entertainment products and consultant service for digital payment advisory on payment platform. The revenue generated from this segment amounted to approximately HK\$18.6 million, representing approximately 7.3% of the total revenue for FY2021. The revenue derived from this segment decreased by approximately 60.3% from approximately HK\$46.9 million for FY2020 to approximately HK\$18.6 million for FY2021. The considerably decrease in revenue was mainly because (i) both the total number of orders and quantities sold reduced; and (ii) the average order value decreased.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

By leveraging on the Group's current sales network, its services, technology, and customers recognition, the Group intends to continue with our business strategies and the implementation plan as set out in the prospectus of the Company dated 30 June 2018 (the "Prospectus"). The plan includes:

- (1) developing IT solutions services tailored for finance and insurance sectors
- (2) expanding the application of Enterprise Resource Planning ("ERP") system in our IT development solutions services
- (3) maintaining fund for performance bond and contract deposit
- (4) provision of cloud computing and IoT products
- (5) developing technical support centre to enhance our service quality
- (6) strengthening our marketing efforts
- (7) enhancing the expertise of our professional team
- (8) enhancing the Group's management information system

The ordinary shares (the “Shares”) were listed on the GEM of the Stock Exchange on 16 July 2018 (the “Listing Date”). An analysis comparing the business objectives as set out in the Prospectus with the Group’s actual business progress for the period from the Listing Date to 31 December 2021 are set out below:

The bases and assumptions (including commercial assumptions) in support of our assessment. The actual net proceeds of the Group raised from the initial public offering was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 31 December 2021, the Group has utilised proceeds from the listing of approximately HK\$32.0 million and a summary of use of proceeds are set out in the table below:

	As set out in the Prospectus <i>HK\$'million</i>	Amount expected to be used up to 31 December 2021 <i>HK\$'million</i>	Amount actually used up to 31 December 2021 <i>HK\$'million</i>	Balance as at 31 December 2021 <i>HK\$'million</i>	Expected timeline to fully utilise the remaining net proceeds
Develop IT solutions services tailored for finance and insurance sectors	7.10	7.10	7.10	–	Fully utilised
Expand the application of ERP system in our IT development solutions services	1.17	1.17	1.17	–	Fully utilised
Maintain fund for performance bond and contract deposit	2.34	2.34	2.34	–	Fully utilised
Provision of cloud computing and IoT products	9.15	9.15	8.89	0.26	31 December 2022
Develop technical support centre to enhance our service quality	2.92	2.92	2.92	–	Fully utilised
Strengthen our marketing efforts	2.34	2.34	2.34	–	Fully utilised
Enhance the expertise of our professional team	1.75	1.75	1.75	–	Fully utilised
Enhance our Group’s management information system	5.19	5.19	3.31	1.88	31 December 2022
Working capital and other general corporate purposes	2.14	2.14	2.14	–	Fully utilised
Total	34.10	34.10	31.96	2.14	

Up to 31 December 2021, the actual application of the net proceeds from the initial public offering were used according to the intentions previously disclosed in the Prospectus. However, save for the use of proceeds for expanding the application of ERP system in our IT development solutions services, develop IT solutions services tailored for finance and insurance sectors, maintain fund for performance bond and contract deposit, development technical support centre to enhance our service quality, strengthen our marketing effort, enhance the expertise of our professional team and as general working capital which was in line with the timeline as disclosed in the Prospectus, there was a general delay in the timeline in the use of proceeds due to the following reasons:

- (i) given the macroeconomic situation during FY2021, potential large-scale IT solutions services business opportunities, IT application and development solutions for cloud products and IoT projects has been delayed; and
- (ii) given the uncertain business environment, the outbreak of COVID-19 and certain social restrictions imposed by the government, it has considerable impact on the enhancement of management information system of the Group. It is financially prudent to prolong the timeline for the Group's business plans (including participating in IT industry exhibitions), which would enhance the cash position and liquidity of the Group to respond to the challenging economic environment ahead.

The expected timeline for using the remaining proceeds is based on the best estimation of the present and future business market situations made by the Board. It is expected to fully utilise the remaining net proceeds will extend to 31 December 2022. The management will continue to assess the impact of the continuous spread of COVID-19 on the Group's operation and financial performance and the plans for remaining proceeds, and to cope with the changing market conditions and strive for better business performance for the Group.

MAJOR RISKS AND UNCERTAINTIES

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in our operations and financial position as efficiently and effectively as possible. The followings are the major risks and uncertainties of our business:

- (1) We rely on a supplier's hardware and software for our provision of IT infrastructure and development solutions services, and any shortage or delay in the supply of hardware and software from its authorised distributors or any deterioration of business relationship with that supplier and/or its authorised distributor(s) may materially and adversely affect our results of operations.
- (2) Our operations may be affected by concentrating on a few key suppliers. Should there be any loss of key suppliers or disruption in their supply, our business and results of operations could be materially and adversely affected.

- (3) Our Group is exposed to credit risk of our clients.
- (4) We may encounter cost overruns or delays in our IT infrastructure and development solutions projects and our business, financial position and results of operation may be materially and adversely affected.
- (5) We are unable to control the quality of the hardware and/or software provided by our suppliers. Should the products provided by our suppliers be defective or fail to meet the required standards, our business and reputation may be adversely affected.
- (6) Part of our works are subcontracted to subcontractors. Our operations and financial results may be adversely affected by any delay, drop out or defects in their work.
- (7) It may be difficult for us to maintain our high business partnership rankings with the IT products vendors and distributors.
- (8) Our current Standing Offer Agreement with the Hong Kong Government will expire in January 2026. There is no assurance that we will continue to provide quality professional services as an approved contractor of the Hong Kong Government and its statutory bodies.
- (9) It may be difficult for us to recruit, train and retain capable and experienced sales staff and highly skilled technical staff. If there is any shortfall in our workforce or increase in labour cost, our business operations may be materially impeded and our financial results may be adversely affected.
- (10) Our business may be adversely affected if we fail to retain certain key executives and senior management or find suitable replacements since our performance relies heavily on them.
- (11) We are exposed to potential liabilities for damages as a result of our negligent acts or omissions in our services.
- (12) We may be vicariously liable for the acts or omissions of our staff and face claims or legal actions brought by our clients for damages as a result of the negligent conduct or fault of our staff.
- (13) During the implementation of IT infrastructure and development solutions projects, we may record net cash outflows. If we take up too many significant projects in the future, we may not have sufficient working capital, which may affect our financial position.
- (14) The project basis of our IT projects create uncertainty as to our future revenue streams.
- (15) Our business and our financial performance may be adversely affected by any infringement of our intellectual property rights or any infringement by us of the intellectual property rights of others, in particular our clients.

- (16) There may be adverse impact on our reputation and business operations in the event of leakage or misappropriation of confidential information handled by us.
- (17) Our success hinges on our ability to keep pace with the rapid changes in IT technology and to provide innovative solutions, services and products in response to rapidly evolving market demand. Our business, financial conditions and result of operations may be adversely impacted if we fail to do so.
- (18) We are subject to various risks relating to the development of cloud computing and IoT solutions.
- (19) We may not be able to successfully implement our strategies, or achieve our business objectives.
- (20) We may not be adequately insured against losses and liabilities arising from our operations, as set forth in the section headed “Business Objectives and Use of Proceeds” above.
- (21) Our operations may be affected adversely by continuing spread of COVID-19, products/ services provided from suppliers/to customers may be delayed.
- (22) We will face foreign exchange exposure as the Group would have assets in China after the acquisition of the Exclusive LED Products Agency Selling Rights, as such, we will continue to monitor the foreign exchange exposure.

For other risks and uncertainties facing the Group, please refer to the section headed “Risks Factors” in the Prospectus. An analysis of the Group’s financial risk management (included foreign currency risk, credit risk, liquidity risk and interest rate risk) objectives and policies are provided in Note 3 to the consolidated financial statements.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

Due to the volatility of COVID-19 Pandemic in 2021, we have implemented a list of hygiene and safety measures, including:

- (1) encouraging staff to take 2 dose of vaccine;
- (2) requesting staff to present negative COVID-19 test results if they are not able to take a dose of vaccine;

- (3) implementing flexible “work from home” policy unless mandatory physical present in office or requested by on-site clients;
- (4) requesting staff must wear surgical mask in office area, especially when they have internal/external meeting;
- (5) conducting mandatory body temperature check before entering office;
- (6) requesting visitors/clients to record their access even they stay in office area for a moment;
- (7) requesting staff not to travel to those areas severely affected by COVID-19 unless necessary, and those who return from the affected areas shall be quarantined for 14 days; and
- (8) requesting staff to report the residential building/area have the confirmed case of COVID-19.

The Company will continue to engage external independent professionals to review the Group’s system of internal controls and risk management annually and further enhance the Group’s internal control and risk management systems as appropriate.

There is currently no internal audit function within the Group. The Board has reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Board will continue to review at least annually the need for an internal audit function.

OUTLOOK AND PROSPECTS

Looking forward, with many uncertainties in the global and local business environment, including the COVID-19 pandemic around the world and the forced lockdowns and quarantine measures that have severely damage the global economy, the Group will continue face challenges in the future business environment. The Group believes that these challenges will impact the overall performance of the Group’s operations and is expected to result in reduction of orders, which will bring certain pressure to our profit growth in short-term. The Group will actively manage its operation to avoid interruptions by COVID-19 and be prepared to respond to different government policies and measures. The Group has strengthen the sales team and will continue to enlarge our customer base and actively manage the profit margin of projects. The Group believes that its established PRC headquarters in 2021, will leverage the application of IoT, cloud computing services and graphic information integration technology, combined with its IT infrastructure solution services and IT development solution services, to participate in more smart city infrastructure projects in PRC and overseas by leveraging the development of MaaS, with the aim to bring the best possible results to our Shareholders

in medium and long term. The Group has also acquired the Exclusive LED Products Agency Selling Rights in which will allow the Group to diversify its business segment and gain exposure in the selling of LED products. The Group believes the projects will create possible growth of revenue and profits to the Group in the future.

FINANCIAL REVIEW

Revenue

The Group's revenue for FY2021 amounted to approximately HK\$254.1 million, representing a decrease of approximately HK\$28.3 million or 10.0% compared to FY2020 (2020: approximately HK\$282.4 million). The decrease was attributable to decrease in revenue generated from provision of (i) IT infrastructure solutions services projects by approximately HK\$29.1 million mainly due to the decrease in the total number of projects awarded and the decrease in amount of revenue recognised per project in FY2021; (ii) entertainment products by approximately HK\$28.3 million mainly due to the total number of orders and quantities sold reduced and the average order value decreased; and (iii) IT maintenance and support services projects by approximately HK\$2.2 million but partially offset by the increase in provision of IT development solutions services projects by approximately HK\$31.4 million.

Gross profit and gross profit margin

The Group's gross profit for FY2021 amounted to approximately HK\$49.7 million, representing a slightly increase of approximately HK\$2.1 million or 4.4% compared to FY2020 (2020: approximately HK\$47.6 million), and the increase was mainly attributable to increase in gross profit of IT infrastructure solution services by a better cost control on IT infrastructure solution services project. The Group's gross profit margin increased from approximately 16.9% for FY2020 to approximately 19.6% for FY2021 as the increase was mainly attributable to the increase in gross profit margin of provision of IT infrastructure solutions services and entertainment products, but partially mitigated by the decrease in gross profit margin of provision of IT development solutions services and IT maintenance and support services during FY2021.

Selling expenses

The Group's selling expenses for FY2021 amounted to approximately HK\$11.7 million, representing an increase of approximately HK\$2.7 million or 30.0% compared to FY2020 (2020: approximately HK\$9.0 million). Such increase was mainly attributed by the increase in sales commission expenses by approximately HK\$2.2 million due to sales commission scheme changed.

Administrative and general expenses

The Group's administrative expenses for FY2021 amounted to approximately HK\$60.0 million, representing an increase of approximately HK\$24.3 million or 68.1% compared to FY2020 (2020: approximately HK\$35.7 million). Such increase was mainly attributed by the increase in staff cost in administrative expenses by approximately HK\$10.8 million due to increase in number of staff for FY2021; increase in depreciation and amortisation by approximately HK\$7.3 million mainly due to an amortisation recorded for an intangible asset; and increase in share option expenses granted by HK\$4.0 million.

Loss and total comprehensive loss for the year

The Group recorded net loss for FY2021 of approximately HK\$21.4 million compared to profit recorded of approximately HK\$9.6 million for FY2020. The turning from profit to loss was mainly attributable to the decrease in other income and gains by approximately HK\$6.5 million; increase in selling expenses, and administrative and general expenses by approximately HK\$27.0 million; increase in finance cost by approximately HK\$1.2 million mainly due to the increase in interest on convertible bonds and lease liabilities for FY2021; partially offset by the increase in gross profit by approximately HK\$2.1 million mainly due to the decrease in the cost of IT infrastructure solution services.

The total comprehensive loss for FY2021 recorded HK\$21.5 million, which include an exchange difference arising on translation of a subsidiary in Shanghai.

FINANCIAL POSITION

Liquidity and financial resources

We maintained a healthy liquidity position, with working capital financed primarily through cash generated from our operating activities during FY2021, and our use of cash primarily relates to operating activities and purchase of property, plant and equipment. As at 31 December 2021, we had cash and cash equivalents of approximately HK\$30.0 million (31 December 2020: approximately HK\$35.8 million), which were cash at banks and in hand. Up to the date of consolidated financial statements, the Group has bank borrowings of approximately HK\$11.7 million. The Group have a credit facility from the Bank of East Asia of HK\$25.0 million as at 31 December 2021 (31 December 2020: HK\$25.0 million) which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31.0 million plus interest and other charges provided by the Company. The Group's gearing ratio, which is calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was 28.0% as at 31 December 2021 (31 December 2020: 19.3%). Our liquidity position has further been strengthened by using the cash generated from our operating activities and fund raising of the debt and the Shares were listed on the Stock Exchange on the Listing Date. Going forward, we intend to use our capital for our operations and the expansion plans as stated in the Prospectus.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2021. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital structure

As at 31 December 2021, the capital structure of the Company comprised share capital and reserves and bank borrowings.

Capital expenditure

Our capital expenditure for the FY2020 and FY2021 was approximately HK\$0.5 million and approximately HK\$12.2 million respectively.

Dividend policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the Shareholders, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group. The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors it may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, the Articles of Association of the Company (the "Articles") and the Shareholders.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2021, the Group had a total of 145 employees (31 December 2020: 140). Total staff costs (including key management personnel and directors' emoluments) were approximately HK\$70.4 million for FY2021, as compared to approximately HK\$51.3 million for FY2020. The increase in the number of employees for FY2021 was mainly attributable to the increase in the number of employees employed for the Group's development of IT development solutions services business, and the newly established subsidiary in Shanghai for FY2021.

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including Directors). The remuneration policy and remuneration packages of the executive directors and members of the senior management of the Group are reviewed by the Remuneration Committee.

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the section headed “Share Option Scheme” below.

SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 22 June 2018.

During FY2021, 48.0 million shares options at exercise price of HK\$0.152 per Share have been granted on 16 August 2021 while 32.0 million shares options at exercise price of HK\$0.154 per Share have been granted on 20 August 2021 (2020: nil).

As at 31 December 2021 and up to the date of this announcement, 9.6 million share options was lapsed and 3.9 million share options have been exercised (2020: nil).

FOREIGN EXCHANGE EXPOSURE

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK\$. During FY2021, the Group’s exposure to foreign currency risk primarily arose from certain financial instruments including deposit for a life insurance policy, trade receivables, cash and cash equivalents and bank borrowings which are denominated in US\$ and RMB. During FY2021 and FY2020, the Group did not adopt any hedging strategy but the management continuously monitored the foreign exchange risk exposure on a case-by-case basis. The Group did not use any hedging contracts to engage in speculative activities during FY2021 and FY2020.

DONATION

During FY2021, the Group made donations for charitable purpose totaling approximately HK\$2,800 (2020: approximately HK\$1,000).

SIGNIFICANT INVESTMENTS

During FY2021, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have capital commitment for equipment as at 31 December 2021 (2020: HK\$0.3 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During FY2021, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

CHARGES ON GROUP ASSETS

As at 31 December 2021, except for the banking facilities which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31.0 million plus interest and other charges provided by the Company, there were no other charges on the Group's assets (2020: HK\$31.0 million).

EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this announcement, there is no significant event subsequent to 31 December 2021.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is critical to effective management, successful business growth and a healthy corporate culture that will benefit the Company's stakeholders as a whole. The Directors will continue to review their corporate governance practices to enhance their corporate governance standard, comply with increasingly tightened regulatory requirements from time to time, and meet the growing expectations of the Shareholders and other stakeholders of the Company.

The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for FY2021, save for the deviation from such code disclosed below.

The CG Code in Appendix 15 to the GEM Listing Rules provision C.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu Larry is the chairman and the chief executive officer of the Company. In view of Mr. Yu Larry is one of the co-founders of the Group and has been operating and managing the Group since 1998, the Board believes that it is in the best interest of the Group to have Mr. Yu Larry taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the CG Code provision C.2.1 is appropriate in such circumstance.

Under the CG Code provision C.1.8, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Currently, the Company does not have insurance cover for legal action against its Directors. Every Director is, subject to the provisions of the applicable laws, indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto pursuant to the Articles of Association of the Company. However, as the risk management and internal control systems of our Group is effective and constantly under review, and as all the executive Directors and management are familiar with the operation of the Group and the information technology industry, the Board believes that the risk of the Directors being sued or getting involved in litigation in their capacity as Directors is relatively low, and hence the Board is of the view that the benefits of the insurance may not outweigh the cost. Therefore, the Board considers that the Directors' exposure to risk is manageable. Save for the deviations as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code since the Listing Date up to the date of this announcement.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during FY2021.

ANNUAL GENERAL MEETING

Notice of the annual general meeting of the Company will be published and dispatched to the Company's shareholders in the manner required by the GEM Listing Rules in due course.

AUDIT COMMITTEE

The Audit Committee has reviewed with management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the annual consolidated financial statements for FY2021, and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made. There was no disagreement from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

SCOPE OF WORK OF LINKSFIELD CPA LIMITED

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2021 as set out in the preliminary announcement have been agreed by the Group's auditors, Linksfeld CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Linksfeld CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Linksfeld CPA Limited on the preliminary announcement.

By order of the Board
Kinetix Systems Holdings Limited
Yu Larry
Chairman

Hong Kong, 31 March 2022

As at the date of this announcement, the Board comprises Mr. Yu Larry, Mr. Leung Patrick Cheong Yu and Mr. Law Cheung Moon as executive Directors; Ms. Chen Jie and Mr. Tang Biao as non-executive Directors; Ms. Lam Shun Ka, Dr. He Dazhi, Mr. Li Xiaoping and Mr. Tong Tsz Kwan as independent non-executive Directors.

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

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company's website at www.kinetix.com.hk.