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kinetix

KINETIX SYSTEMS HOLDINGS LIMITED

捷冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

**FIRST QUARTERLY RESULTS ANNOUNCEMENT
FOR THE THREE MONTHS ENDED 31 MARCH 2022**

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.

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2022

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2022, together with the unaudited comparative figures for the corresponding period in 2021 as follows:

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

For the three months ended 31 March 2022

| | Notes | Three months ended | |
|--|-------|------------------------|----------------------|
| | | 2022 | 2021 |
| | | (Unaudited) | (Unaudited) |
| | | HK\$'000 | HK\$'000 |
| Revenue | 5(a) | 64,319 | 59,111 |
| Cost of sales | | <u>(54,577)</u> | <u>(45,622)</u> |
| Gross profit | | 9,742 | 13,489 |
| Other income, other gains or losses | 5(b) | 222 | 188 |
| Selling expenses | | (3,632) | (2,891) |
| Administrative and general expenses | | (15,998) | (11,431) |
| (Allowance for)/reversal of expected credit losses | | (192) | 245 |
| Finance costs | | (282) | (184) |
| Loss before tax | 6 | (10,140) | (584) |
| Income tax | 7 | – | (197) |
| Loss for the period | | <u>(10,140)</u> | <u>(781)</u> |
| Attributable to: | | | |
| Owners of the Company | | (9,844) | (410) |
| Non-controlling interests | | (296) | (371) |
| Loss for the period | | <u>(10,140)</u> | <u>(781)</u> |
| | | <i>HK cents</i> | <i>HK cents</i> |
| Loss per share | | | |
| – Basic and diluted | 9 | <u>(1.02)</u> | <u>(0.05)</u> |

| | Three months ended | |
|--|---------------------------|---------------------|
| | 31 March | |
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss for the period | (10,140) | (781) |
| Other comprehensive loss | | |
| <i>Item that may be reclassified subsequently to profit or loss:</i> | | |
| Exchange difference arising on translation of foreign operations | <u>(474)</u> | <u>–</u> |
| Other comprehensive loss for the period, net of tax | <u>(474)</u> | <u>–</u> |
| Total comprehensive loss for the period | <u>(10,614)</u> | <u>(781)</u> |
| Attributable to: | | |
| Owners of the Company | <u>(10,318)</u> | <u>(410)</u> |
| Non-controlling interest | <u>(296)</u> | <u>(371)</u> |
| | <u>(10,614)</u> | <u>(781)</u> |

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the three months ended 31 March 2022

| | Attributable to owners of the Company | | | | | | | | | |
|--|---------------------------------------|---------------|---------------|--------------|---------------|------------------|-------------------|----------------|--------------------------|----------------|
| | Share capital | Share premium | Other reserve | Share- based | | Exchange reserve | Retained earnings | Total | Non-controlling interest | Total equity |
| | | | | payment | Convertible | | | | | |
| | | | | reserve | bonds | | | | | |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | |
| At 1 January 2021 (audited) | 8,000 | 43,199 | 10 | - | - | - | 47,909 | 99,118 | (1,216) | 97,902 |
| Loss for the period | - | - | - | - | - | - | (410) | (410) | (371) | (781) |
| Other comprehensive income for the period | - | - | - | - | - | - | - | - | - | - |
| Total comprehensive loss for the period | - | - | - | - | - | - | (410) | (410) | (371) | (781) |
| Recognition of equity component of convertible bonds | - | - | - | - | 10,149 | - | - | 10,149 | - | 10,149 |
| At 31 March 2021 (unaudited) | <u>8,000</u> | <u>43,199</u> | <u>10</u> | <u>-</u> | <u>10,149</u> | <u>-</u> | <u>47,499</u> | <u>108,857</u> | <u>(1,587)</u> | <u>107,270</u> |
| At 1 January 2022 (audited) | 9,639 | 90,865 | 10 | 3,364 | - | (10) | 28,051 | 131,919 | (2,316) | 129,603 |
| Loss for the period | - | - | - | - | - | - | (9,844) | (9,844) | (296) | (10,140) |
| Exchange difference arising from translation of foreign operations | - | - | - | - | - | (474) | - | (474) | - | (474) |
| Total comprehensive loss for the period | - | - | - | - | - | (474) | (9,844) | (10,318) | (296) | (10,614) |
| At 31 March 2022 (unaudited) | <u>9,639</u> | <u>90,865</u> | <u>10</u> | <u>3,364</u> | <u>-</u> | <u>(484)</u> | <u>18,207</u> | <u>121,601</u> | <u>(2,612)</u> | <u>118,989</u> |

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2022

1. GENERAL

The Company was incorporated in the Cayman Islands on 16 September 2016 as an exempted company with limited liability. The registered office of the Company is Windard 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

The Company is an investment holding company while its subsidiaries' principal businesses are provision of information technology ("IT") infrastructure solutions services, IT development solutions services, IT maintenance and support services and entertainment products.

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited quarterly condensed consolidated financial statements for the three months ended 31 March 2022 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The principal accounting policies used in preparing the unaudited quarterly condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2021.

The unaudited quarterly condensed consolidated financial statements have been prepared under the historical cost basis and presented in Hong Kong dollars ("HK\$"). All values are rounded to the nearest thousand except when otherwise indicated. The unaudited quarterly condensed consolidated financial statements have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The accounting policies adopted in the preparation of the unaudited quarterly condensed consolidated financial statements are same as those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2021, except for the new and amendments to HKFRSs and interpretations issued by HKICPA that are first effective for the current accounting period of the Group. There has been no significant change to the accounting policy applied in these unaudited quarterly condensed consolidated financial statements for the period presented as a result of adoption of these amendments.

4. SEGMENT INFORMATION

The chief operating decision makers are identified as the executive Directors. The Group has identified its operating segment based on the regular internal financial information reported to the executive Directors for their decisions about resources allocation and review of performance. For the reporting period, the executive Directors have considered the only operating segment of the Group is the provision of IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and entertainment products.

Geographical information

The following is an analysis of the Group's revenue by the geographical locations of customers.

| | Three months ended | |
|-----------|--------------------|---------------|
| | 31 March | |
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Hong Kong | 63,158 | 58,273 |
| Macau | 1,161 | 838 |
| | <u>64,319</u> | <u>59,111</u> |

5. REVENUE, OTHER INCOME, OTHER GAINS OR LOSSES

An analysis of the Group's revenue, other income, other gains and losses is as follows:

| | Three months ended | |
|---|--------------------|---------------|
| | 31 March | |
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Revenue from contracts with customers within the scope of HKFRS 15, types of goods or services | | |
| IT solution services | | |
| IT infrastructure solutions services | 23,372 | 17,427 |
| IT development solutions services | 28,108 | 30,504 |
| IT maintenance and support services | 11,639 | 7,739 |
| Entertainment products | 1,200 | 3,441 |
| | <u>64,319</u> | <u>59,111</u> |

(a) **Information about segment revenue**

Disaggregation of revenue from contracts with customers by timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the executive Directors for the purposes of resource allocation and assessment of segment performance for the period is set out below.

| | For the three months ended 31 March 2022 | | | | |
|---|--|-----------------------------------|-------------------------------------|------------------------|---------------|
| | IT solutions services | | | Entertainment products | Total |
| | IT infrastructure solutions services | IT development solutions services | IT maintenance and support services | | |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Disaggregated by timing of revenue recognition | | | | | |
| At a point in time | 21,419 | – | 5,161 | – | 26,580 |
| Over time | 1,953 | 28,108 | 6,478 | 1,200 | 37,739 |
| Revenue from external customers | 23,372 | 28,108 | 11,639 | 1,200 | 64,319 |

| | For the three months ended 31 March 2021 | | | | |
|---|--|-----------------------------------|-------------------------------------|------------------------|---------------|
| | IT solutions services | | | Entertainment products | Total |
| | IT infrastructure solutions services | IT development solutions services | IT maintenance and support services | | |
| | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Disaggregated by timing of revenue recognition | | | | | |
| At a point in time | 17,254 | – | – | 3,441 | 20,695 |
| Over time | 173 | 30,504 | 7,739 | – | 38,416 |
| Revenue from external customers | 17,427 | 30,504 | 7,739 | 3,441 | 59,111 |

(b) **Other income, other gains or losses**

The balance mainly represents foreign exchange difference and finance lease interest income for the three months ended 31 March 2022.

For the three months ended 31 March 2021, the balance mainly represents finance lease interest income.

6. LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging/(crediting):

| | Three months ended | |
|---|--------------------|-------------|
| | 31 March | |
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Auditor's remuneration | | |
| – Non-audit services** | – | 60 |
| Amortisation of intangible assets | 800 | 533 |
| Cost of hardware and software recognised as expenses | 27,672 | 20,372 |
| Cost of IT solutions services* | 16,451 | 17,039 |
| Cost of IT maintenance and support services* | 9,454 | 4,816 |
| Cost of inventories recognised as an expense* | 1,000 | 3,248 |
| Depreciation of property, plant and equipment | 473 | 438 |
| Depreciation of right-of-use assets | 1,050 | 723 |
| Loss on disposal of property, plant and equipment | 52 | – |
| Allowance for/(reversal of) expected credit losses | 192 | (245) |
| Premium charges on a life insurance policy | 40 | 40 |
| Foreign exchange differences, net | (109) | (10) |
| Provision for onerous contracts# | – | 147 |
| Lease payments under short-term leases | | |
| – Office premises | 738 | 159 |
| – Director's quarter | 171 | 113 |
| Retirement fund scheme contributions | 743 | 500 |
| Directors' fee, salaries, allowances and other benefits in kind | | |
| – Directors of the Company | 788 | 852 |
| – Other staff | 19,425 | 13,859 |

* Included in the above costs are subcontracting costs amounting to HK\$20,337,000 for the three months ended 31 March 2022 (three months ended 31 March 2021: HK\$17,530,000).

** Non-audit services represent the AUP services provided relating to first quarterly results for the three months ended 31 March 2021.

Included in cost of sales.

7. INCOME TAX

| | Three months ended | |
|--------------|--------------------|-------------|
| | 31 March | |
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Current tax | – | 156 |
| Deferred tax | – | 41 |
| | – | 197 |

The Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2022 (31 March 2021: nil).

9. LOSS PER SHARE

| | Three months ended | |
|--|--------------------|----------------|
| | 31 March | |
| | 2022 | 2021 |
| | (Unaudited) | (Unaudited) |
| | HK\$'000 | HK\$'000 |
| Loss for the period attributable to the owners of the Company | <u>(9,844)</u> | <u>(410)</u> |
| Weighted average number of ordinary shares for the purpose of calculating basic loss per share (<i>in thousands</i>) | 963,900 | 800,000 |
| Effect of dilutive potential ordinary shares arising from convertible bonds outstanding (<i>in thousands</i>) | <u>–</u> | <u>104,889</u> |
| Weighted average number of ordinary shares for the purpose of calculating diluted loss per share (<i>in thousands</i>) | <u>963,900</u> | <u>904,889</u> |

For the three months ended 31 March 2022, diluted earnings per share is the same as the basic earnings per share as there was no potential dilutive ordinary shares.

For the three months ended 31 March 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.

10. BANK BORROWINGS

As at 31 March 2022, the Group had term loan of HK\$10,013,000 (31 December 2021: HK\$11,717,000). The banking facilities are secured by the deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company.

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, and IT maintenance and support services, 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 AND OUTLOOK

For the three months ended 31 March 2022 (“Quarterly 2022”), the Group recorded a loss of approximately HK\$10.1 million as compared to the loss of approximately HK\$0.8 million for the three months ended 31 March 2021 (“Quarterly 2021”). The increase in loss was mainly attributed to (i) the decrease in gross profit by approximately HK\$3.7 million; (ii) the increase in staff cost in administrative and selling expenses by approximately HK\$4.4 million due to the increase in number of staff and commission expenses; (iii) the increase in rental payment by HK\$0.5 million due to additional offices used by subsidiaries; and (iv) the increase in depreciation and amortisation by approximately HK\$0.6 million.

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 Quarterly 2022 amounted to approximately HK\$23.4 million, representing approximately 36.3% of the total revenue for Quarterly 2022. The revenue derived from this segment increased by approximately 34.1% from approximately HK\$17.4 million for Quarterly 2021 to approximately HK\$23.4 million for Quarterly 2022. The increase was primarily due to increase in the total number and average contract value of IT infrastructure solutions services projects undertaken in Quarterly 2022.

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 accounted for approximately 43.7% of the total revenue for Quarterly 2022. The revenue from this segment decreased by approximately 7.9% from approximately HK\$30.5 million for Quarterly 2021 to approximately HK\$28.1 million for Quarterly 2022. The decrease was primarily due to the decrease in the average amount of revenue recognised per project with an increase in total number of projects awarded in Quarterly 2022.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment amounted to approximately HK\$11.6 million, representing approximately 18.1% of the total revenue for Quarterly 2022. The revenue derived from this segment increased by approximately 50.4% from approximately HK\$7.7 million for Quarterly 2021 to approximately HK\$11.6 million for Quarterly 2022. The significant increase in revenue from this segment was primarily due to the increase in total number of projects with (i) the increase in the average amount of revenue recognised per project; and (ii) the increase in the average contract value of IT maintenance and support services projects awarded.

Entertainment products

This segment operates an e-commerce business which includes trading of entertainment products and consultant services for digital payment advisory on payment platform. The revenue generated from this segment amounted to approximately HK\$1.2 million, representing approximately 1.9% of the total revenue for Quarterly 2022. The revenue derived from this segment decreased by approximately 65.1% from approximately HK\$3.4 million for Quarterly 2021 to approximately HK\$1.2 million for Quarterly 2022. The decrease in revenue was due to both the number of orders and the average order value reduced in trading of entertainment products.

PROSPECTS AND OUTLOOK

In the first quarter of 2022, the Group recorded a decrease in profit when comparing to the same period in 2021. The shock of coronavirus disease (the “COVID-19”) still adversely affects the Group’s business and its overall short-term performance. Our orders declined and the pricing strategy was suppressed which obstruct our profitability growth in short run. The outbreak of the new wave of COVID-19 pandemic (the “Omicron”) variant drove unprecedented levels of COVID-19 infections and a temporary disruption to the Group’s business activities and sales across Hong Kong and the PRC. While the timing varied between markets, in most cases daily infections increased exponentially and different polices and lock-down restrictions implied by the government in both Hong Kong and the PRC have impacted on the Group’s profit and business activities in the Quarterly 2022. The Omicron infections have started falling substantially from its peak in Hong Kong, and we have seen sales activities rebound. The Group will keep motivated in developing its future business in the hope of recovering together with the Hong Kong economy and the macroeconomic environment. The Group will dedicate more efforts to broaden its customer base, improve cost control and actively adjust the business strategy in respond to COVID-19 and the latest market changes. At the same time, the Group will continue its effort to enhance the competitiveness within the ever-changing industry and economy, including closely monitor its cash position and continue to seek new business opportunities, with a view to achieving a sustainable growth, increasing profitability and ultimately maximising the return to our shareholders of the Company (the “Shareholders”).

FINANCIAL REVIEW

Revenue

The Group's revenue for Quarterly 2022 amounted to approximately HK\$64.3 million, representing an increase of approximately HK\$5.2 million or 8.8% compared to Quarterly 2021 of approximately HK\$59.1 million. The increase was attributable to: (i) the increase in the revenue generated from provision of IT infrastructure solutions services by approximately HK\$6.0 million; and (ii) the increase in the revenue generated from provision of IT maintenance and support services by approximately HK\$3.9 million but was partially offset by: (i) the decrease in provision of IT development solutions services by approximately HK\$2.4 million; and (ii) the decrease in entertainment products by approximately HK\$2.2 million.

Gross profit and gross profit margin

The gross profit of the Group decreased by approximately 28.1% from approximately HK\$13.5 million for Quarterly 2021 to approximately HK\$9.7 million for Quarterly 2022 as the decrease was mainly attributable to the decrease in gross profit of IT infrastructure solutions services, IT development solutions services and IT maintenance and support services. The gross profit margin of the Group decreased from approximately 22.8% for Quarterly 2021 to approximately 15.1% for Quarterly 2022. The decrease was mainly attributable to the decrease in gross profit margin of IT infrastructure solutions services projects and IT maintenance and support services projects associated with comparatively higher cost of sales and have some relatively low margin projects during Quarterly 2022.

Selling expenses

For Quarterly 2022, the Group's selling expenses amounted to approximately HK\$3.6 million, representing the increase of approximately HK\$0.7 million or 24.1% as compared to Quarterly 2021 of approximately HK\$2.9 million. Such increase was mainly attributed by the increase in sales salary expenses by approximately HK\$0.6 million due to increase in number of sales staff.

Administrative and general expenses

The Group's administrative expenses for Quarterly 2022 amounted to approximately HK\$16.0 million, representing increase of approximately HK\$4.6 million or 40.4% as compared to Quarterly 2021 of approximately HK\$11.4 million. Such increase was mainly attributed by the increase in staff cost by approximately HK\$3.6 million due to increase in number of staff; the increase in rental payment by HK\$0.5 million due to additional offices used by subsidiaries; and the increase in depreciation and amortisation by approximately HK\$0.6 million.

Loss for the period

The Group recorded loss of approximately HK\$10.1 million for Quarterly 2022, as compared to loss of approximately HK\$0.8 million for Quarterly 2021. The increase in loss was mainly attributed to the net effect of: (i) the decrease in gross profit by approximately HK\$3.7 million; (ii) the increase in staff cost in administrative and selling expenses by approximately HK\$4.4 million due to increase in number of staff and commission expenses; (iii) the increase in rental payment by HK\$0.5 million due to additional offices used by subsidiaries; and (iv) the increase in depreciation and amortisation by approximately HK\$0.6 million.

Liquidity and financial resources

The Group financed its operations primarily through cash generated from its operating activities. As at 31 March 2022, the Group had cash and cash equivalents of approximately HK\$41.3 million (31 December 2021: approximately HK\$30.0 million), which were cash at banks and in hand. Up to the date of condensed consolidated financial statements, the Group has bank borrowings of approximately HK\$10.0 million (31 December 2021: HK\$11.7 million). The Group have a credit facility from the Bank of East Asia of HK\$25.0 million as at 31 March 2022 (31 December 2021: 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 was calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was 35.2% as at 31 March 2022 (31 December 2021: 28.0%). The Group expects its liquidity position would further be strengthened by using the cash generated from its operating activities and fund raising as a result of that the shares of the Company (the "Shares") were listed on the Stock Exchange on 16 July 2018. Going forward, the Group intends to use its capital for its operations and the expansion plans as stated in the prospectus dated 30 June 2018 (the "Prospectus").

Capital structure

As at 31 March 2022, the capital structure of the Company comprised issued share capital and reserves and bank borrowings.

SIGNIFICANT INVESTMENTS

During Quarterly 2022, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During Quarterly 2022, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2022, the Group had a total of 180 employees (31 March 2021: 128). Total staff costs (including directors' emoluments) were approximately HK\$20.3 million for Quarterly 2022, as compared to approximately HK\$13.5 million for Quarterly 2021.

Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the 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.

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.

Details of the movement in the share options granted under the Scheme for the three months ended 31 March 2022 are as follows:

| Name or category of participants | Date of grant and vesting date of share options | Exercise period of share options granted | Exercise price of share options (HK\$ per share) | Number of share options | | | | | |
|----------------------------------|---|--|---|-------------------------|-----------------------------------|---------------------------------|----------------------------------|---------------------------------|---------------------------------|
| | | | | At 1 January 2022 | Granted during the Quarterly 2022 | Exercised during Quarterly 2022 | Lapsed during the Quarterly 2022 | Cancelled during Quarterly 2022 | Outstanding as at 31 March 2022 |
| Executive Directors | | | | | | | | | |
| Mr. Yu Larry | 16 August 2021 | 16 August 2021 – 15 August 2031 | 0.152 | 960,000 | - | - | - | - | 960,000 |
| Mr. Law Cheung Moon | 20 August 2021 | 20 August 2021 – 19 August 2031 | 0.154 | 715,000 | - | - | - | - | 715,000 |
| Mr. Leung Patrick Cheong Yu | 20 August 2021 | 20 August 2021 – 19 August 2031 | 0.154 | 715,000 | - | - | - | - | 715,000 |
| Other Employees | 16 August 2021 | 16 August 2021 – 15 August 2031 | 0.152 | 33,540,000 | - | - | - | - | 33,540,000 |
| Other Employees | 20 August 2021 | 20 August 2021 – 19 August 2031 | 0.154 | 30,570,000 | - | - | - | - | 30,570,000 |
| | | | | 66,500,000 | - | - | - | - | 66,500,000 |

Note: Consideration of HK\$1 was paid by each of the grantees on their acceptance of the share options granted.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, there was no other plan for material investments or capital assets as at 31 March 2022.

CHARGES ON GROUP ASSETS

As at 31 March 2022, except for the banking facilities which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and the 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 (31 December 2021: HK\$31.0 million).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

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 and PRC with most of the transactions denominated and settled in HK\$ and RMB. During Quarterly 2022, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents and trade payables which are denominated in US\$ and EUR. During Quarterly 2022 and Quarterly 2021, 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 Quarterly 2022 and Quarterly 2021.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During Quarterly 2022, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 March 2022, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, are as follows:

The Company

| Director/ Chief Executive | Nature of interest | Number and class of securities ⁽¹⁾ | Approximate percentage of interest in the Company |
|--------------------------------|---|--|--|
| Mr. Yu Larry | Interest in controlled corporations ⁽²⁾ | 415,000,000 Shares (L) | 43.05% |
| | Beneficial owner | 960,000 Shares (L) ⁽³⁾ | 0.10% |
| Mr. Law Cheung Moon | Beneficial owner | 715,000 Shares (L) ⁽³⁾ | 0.07% |
| Mr. Leung Patrick Cheong Yu | Beneficial owner | 715,000 Shares (L) ⁽³⁾ | 0.07% |
| Mr. Lam Tai Wai David | Beneficial owner | 9,600,000 Shares (L) ⁽³⁾ | 1.00% |

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) The Company is held as to approximately 43.05% by Vigorous King Limited, which in turn is held as to 100% by Mr. Yu Larry.
- (3) These shares are derived from the interests in share options granted by the Company pursuant to the Share Option Scheme adopted by the Company on 22 June 2018.

Associated Corporation – Vigorous King Limited

| Director | Nature of interest | Number and class of securities in associated corporation | Approximate shareholding percentage |
|-----------------|---------------------------|---|--|
| Mr. Yu Larry | Beneficial owner | 1 ordinary share | 100% |

Save as disclosed above, as at 31 March 2022, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 March 2022, so far as the Directors were aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the 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 which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

The Company

| Shareholders | Capacity/ Nature of interest | Number and class of securities⁽¹⁾ | Approximate percentage of interest in the Company |
|---|---|---|--|
| Vigorous King Limited ⁽²⁾ | Beneficial owner | 415,000,000 Shares (L) | 43.05% |
| Ms. Tong Po Ki Vicky ⁽³⁾ | Interest of spouse | 415,960,000 Shares (L) | 43.15% |
| Ms. Yiu Wai Ki | Beneficial owner | 73,400,000 Shares (L) | 7.61% |
| Mr. Leung Wan Hung ⁽⁴⁾ | Interest of spouse | 73,400,000 Shares (L) | 7.61% |
| Mr. Lam Sze Chun Jackson | Beneficial owner | 134,350,000 Shares (L) | 13.94% |
| Goldlink Hong Kong Investment Limited ⁽⁵⁾ | Beneficial owner | 50,000,000 Shares (L) | 5.19% |
| Rich Trend Hong Kong Investment Limited ⁽⁶⁾ | Beneficial owner | 50,000,000 Shares (L) | 5.19% |

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Vigorous King Limited is held as to 100% by Mr. Yu Larry. Therefore, Mr. Yu is deemed to be interested in the Shares which Vigorous King Limited is interested in by virtue of the SFO.
- (3) Ms. Tong Po Ki Vicky is the spouse of Mr. Yu Larry. Therefore, Ms. Tong is deemed to be interested in the Shares which Mr. Yu Larry is interested in by virtue of the SFO.
- (4) Mr. Leung Wan Hung is the spouse of Ms. Yiu Wai Ki. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Yiu Wai Ki is interested in by virtue of the SFO.
- (5) Goldlink Hong Kong Investment Limited is held as to 100% by Mr. Lam Sze Chun Jackson. Therefore, Mr. Lam is deemed to be interested in the Shares which Goldlink Hong Kong Investment Limited is interested in by virtue of the SFO.
- (6) Rich Trend Hong Kong Investment Limited is held as to 100% by Mr. Lam Sze Chun Jackson. Therefore, Mr. Lam is deemed to be interested in the Shares which Rich Trend Hong Kong Investment Limited is interested in by virtue of the SFO.

Save as disclosed above, as at 31 March 2022, the Directors were not aware of any persons who/entities which had an interest or short position in the 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 which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE PRACTICES

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 Quarterly 2022, 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 circumstances.

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 any 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.

INTERESTS IN COMPETING BUSINESS

During the Quarterly 2022, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

USE OF PROCEEDS

The 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 March 2022, the Group has utilised proceeds from the listing of approximately HK\$33.3 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 March 2022 <i>HK\$'million</i> | Amount actually used up to 31 March 2022 <i>HK\$'million</i> | Balance as at 31 March 2022 <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 | 9.08 | 0.07 | 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 | 4.48 | 0.71 | 31 December 2022 |
| Working capital and other general corporate purposes | 2.14 | 2.14 | 2.14 | – | Fully utilised |
| | ----- | ----- | ----- | ----- | |
| Total | <u>34.10</u> | <u>34.10</u> | <u>33.32</u> | <u>0.78</u> | |

Up to 31 March 2022, 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 the period, 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 the new wave of COVID-19 pandemic (the “Omicron”) and certain strict social distancing measures imposed by the government, it has considerable impact on the enhancement of management information system. It is financially prudent to prolong the timeline for the Group’s business plans (including participating in IT industry exhibitions), which would heighten the Group’s cash position and liquidity to respond future challenging economic environment.

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 the Omicron on the Group’s operation and financial performance and the plans for remaining proceeds, and to handle the changing market conditions and strive for better business performance for the Group. The remaining net proceeds are intended to applied in accordance with the proposed application set forth in the Prospectus.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the three months ended 31 March 2022 and this announcement, 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 disclosure has been made.

DIVIDENDS

The Board has resolved not to declare dividend for the three months ended 31 March 2022.

DISCLOSURE OF INFORMATION

This announcement will also be published on the websites of both the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.kinetix.com.hk>) and shall be despatched to the Shareholders timely and properly.

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as elsewhere disclosed in this announcement, there is no important event after Quarterly 2022.

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

Hong Kong, 13 May 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.