

The logo for Kinetix, featuring the word "kinetix" in a lowercase, sans-serif font. The letters "kinetix" are in a dark grey color, while the letter "i" is in a bright orange color. The background of the entire page is a light grey with a complex, geometric pattern of overlapping lines and shapes, creating a sense of depth and movement.

kinetix

Kinetix Systems Holdings Limited

捷冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

A large, stylized graphic of a gear or a circular mechanical component, rendered in shades of orange and grey. The gear is positioned in the lower half of the page, and its teeth are represented by various geometric shapes and lines. The text "2021 Annual Report" is centered within the gear's inner circle.

2021

Annual Report

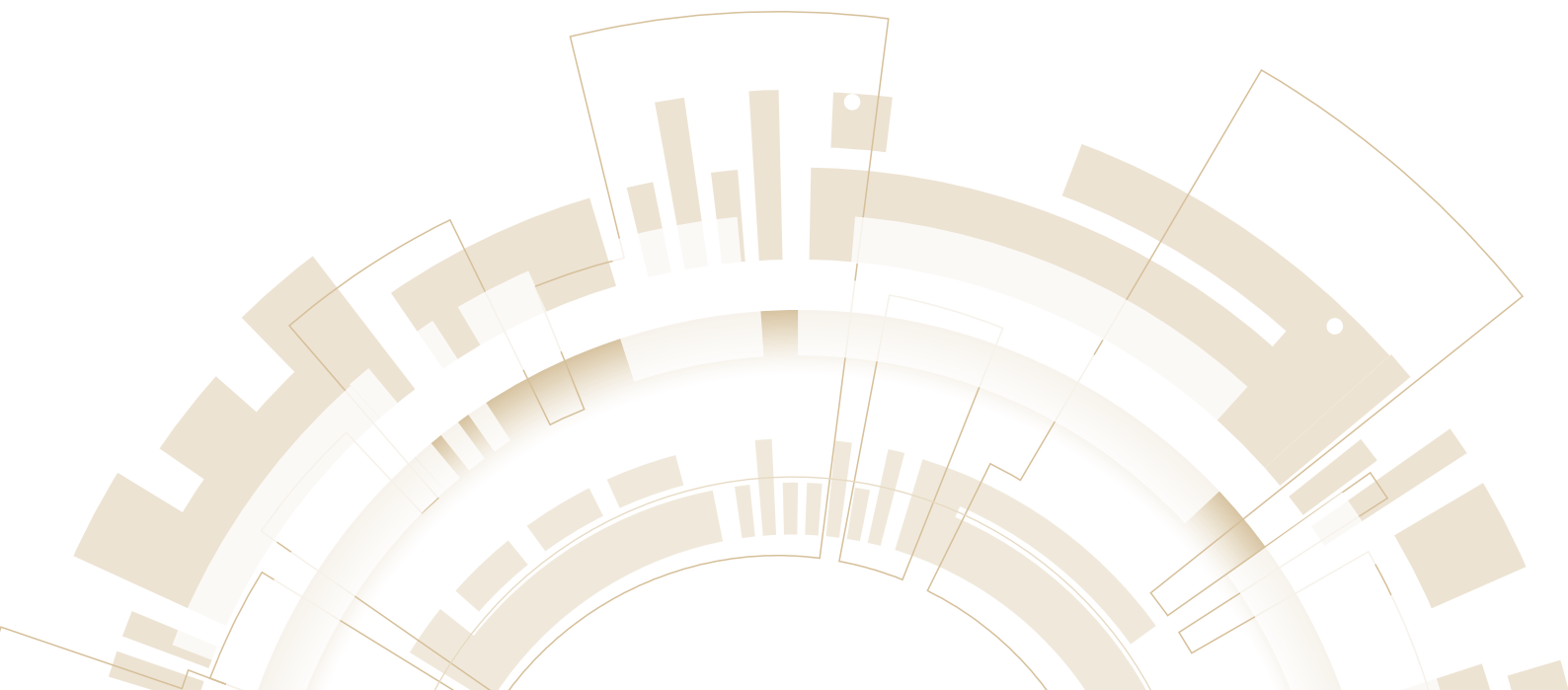
CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

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This report for which the directors (collectively the “Directors” or individually a “Director”) of Kinetix Systems Holdings Limited (the “Company”, together with its subsidiaries, the “Group”, “we”, “our” or “us”) 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 (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report 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 report misleading.



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Yu Larry
(*Chairman and Chief Executive Officer*)
(formerly known as Yu Pak Lun Larry)
Mr. Law Cheung Moon
Mr. Leung Patrick Cheong Yu

Non-executive Directors

Mr. Cheng Kwan Ngai
(resigned on 11 November 2021)
Ms. Chen Jie
(appointed on 9 February 2021)
Mr. Tang Biao
(appointed on 6 August 2021)

Independent Non-executive Directors

Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin (retired on 29 June 2021)
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Dr. He Dazhi (appointed on 1 April 2021)
Mr. Li Xiaoping (appointed on 6 August 2021)
Mr. Tong Tsz Kwan (appointed on 28 September 2021)

BOARD COMMITTEES

Audit Committee

Mr. Lam Yau Hin (*Chairman*) (retired on 29 June 2021)
Mr. Tong Tsz Kwan (*Chairman*)
(appointed on 28 September 2021)
Mr. Yeung Wai Keung (resigned on 1 March 2021)
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Mr. Cheng Kwan Ngai
(resigned on 11 November 2021)
Mr. Li Xiaoping (appointed on 6 August 2021)

Remuneration Committee

Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
(appointed as Chairman on 1 March 2021)
Mr. Yeung Wai Keung (*Chairman*)
(resigned on 1 March 2021)
Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Mr. Lam Yau Hin (retired on 29 June 2021)
Mr. Li Xiaoping (appointed on 6 August 2021)

Nomination Committee

Ms. Lam Shun Ka (*Chairman*) (formerly known as
Lam Yuk Shan)
Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin (retired on 29 June 2021)
Mr. Li Xiaoping (appointed on 6 August 2021)

COMPANY SECRETARY

Ms. Lam Wai Yan (resigned on 9 July 2021)
Mr. Fung Kui Kei (appointed on 9 July 2021)

REGISTERED OFFICE

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS

Room 2702
Rykadan Capital Tower
135 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

AUDITOR

Linksfeld CPA Limited
Public Accountants and Chartered Accountants
and Registered Public Interest Entity Auditor
Units 2001-2, 20th floor
Podium Plaza, 5 Hanoi Road
Tsim Sha Tsui, Kowloon

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Ocorian Trust (Cayman) Limited
Windward 3, Regatta Office Park
P.O. Box 1350
Grand Cayman
KY1-1108
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Ms. Lam Wai Yan (resigned on 9 July 2021)
Mr. Fung Kui Kei
(appointed on 9 July 2021)

COMPLIANCE OFFICER

Mr. Leung Patrick Cheong Yu

LEGAL ADVISOR

ZHONG LUN LAW FIRM LLP
4/F., Jardine House,
1 Connaught Place, Central
Hong Kong

PRINCIPAL BANKER

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Bank Corporation Limited
1 Queen's Road Central
Hong Kong

STOCK CODE

8606

WEBSITE

www.kinetix.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Director") of the Company, I am pleased to present the annual report of the Group for the year ended 31 December 2021 ("FY2021") to the shareholders of the Company (the "Shareholders").

Established in 1998, we are currently a well-established and traditional information technology ("IT") services provider with business portfolio including provision of IT infrastructure solutions services, IT development solutions services, and IT maintenance and support services and entertainment products, with approximately 23 years of experience in the IT consulting services industry in Hong Kong. The Group provided IT services to both private and public sectors and our customers include government and statutory bodies, banks and financial institutions, technology, media and telecom companies, and transportation & logistic companies, etc.

The world faced unprecedented challenges during FY2021 as a result of the continue spread of the coronavirus ("COVID-19") pandemic and the rising uncertainty of the macro-economic environment. The storm brought by the COVID-19 has had a significant impact on people and economies worldwide, that adjourned countless ongoing projects and putting businesses worldwide at an all-time low. The extensive and recurring lockdowns imposed have curtailed business activities and dampened revenues. Faced with these negative business sentiment of recent global economic uncertainty, we continue to demonstrate a consistent and solid track record in achieving sales and profit growth by implementing clear strategies to balance short-term results and long-term goals. The Group has achieved business growth in overall performance in this year. During FY2021, the Group recorded (i) revenue of approximately HK\$254.1 million, a decrease of approximately 10.0%; and (ii) gross profit of approximately HK\$49.7 million, a slightly increase of approximately 4.4% as compared with the year ended 31 December 2020 ("FY2020"). The Group recorded a consolidated net loss attributable to owners of the Company of approximately HK\$20.3 million for FY2021.

The Group believes that the global and Hong Kong economic uncertainties and the COVID-19 pandemic may keep adversely affect our business and overall short-term performance in the foreseeable future. The Group will be cautious in managing different business risk under the unstable macro-economic environment; be prepared to respond the changes and challenges in the Hong Kong's business environment, especially different government policies and measurements implied to fight COVID-19 pandemic. The Group will carefully plan and formulate strategies to manage these risk factors and mitigate adverse impacts, continues to seek new business opportunities and diversify its business segments. The Group has officially set up its PRC's headquarters in 2021 and will accelerate the integration of its IT infrastructure and IT development solutions services to participate in Internet of Things ("IoT") smart city infrastructure project in the People's Republic of China (the "PRC"), overseeing as well as venturing into the realm of smart mobility through the development of Mobility-as-a-Service ("MaaS") with the aim to deliver the best possible results to our Shareholders. The Group has also acquired the Exclusive LED Products Agency Selling Rights in which will allow us to diversify the business segment and gain exposure in the selling of LED products. The Group believes there is huge potential in integrating the Exclusive LED Products Agency Selling Rights and LED products with the existing IT consulting services business of the Group in order to create potential synergy and growth of revenue and profits for the Group in the future.

On behalf of the Board, I would like to express our sincere gratitude to our Shareholders, bankers, customers and business partners for their support and trust placed in us. I would also like to thank our staff for their tremendous effort and contribution. With our competent management and professional teams, I believe the Group will succeed in achieving our business goals.

Yours sincerely,

Kinetix Systems Holdings Limited

Yu Larry

Chairman, Chief Executive Officer and Executive Director
Hong Kong, 31 March 2022

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yu Larry (余漢堦) (formerly known as Yu Pak Lun Larry (余柏麟)) (“Mr. Yu”), aged 50, is the Chairman, Chief Executive Officer (“CEO”) and an executive Director. Mr. Yu is also a member of the Nomination Committee and the Remuneration Committee. He joined the Group in 1998. He has been involved in the day-to-day management of the Group. Mr. Yu is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations. Mr. Yu has over 23 years of experience in the IT industry and business management.

Mr. Yu graduated from the University College London in the United Kingdom with a bachelor’s degree in computer science with electronic engineering in August 1993. He obtained his master degree in computer science from The Hong Kong University of Science and Technology in November 1995 and master degree in law from Renmin University of China (中國人民大學) in the PRC in June 2011.

Mr. Law Cheung Moon (羅章滿) (“Mr. Law”), aged 42, is an executive Director. He joined the Group as the associate consultant in May 2001. Mr. Law was promoted to the project manager in February 2008, the senior project manager in April 2010, the head of professional resources in November 2015, the head of enterprise services in October 2019 and the head of project management office in May 2021 in which he is primarily responsible for project governance and supervising the service delivery of projects of our Group. Mr. Law has over 20 years of experience in the IT industry.

Mr. Law graduated from The Chinese University of Hong Kong with a bachelor’s degree in engineering in November 2001.

Mr. Leung Patrick Cheong Yu (梁昌豫) (“Mr. Leung”), aged 52, is an executive Director and Compliance officer. He joined the Group as senior consultant in February 2004. Mr. Leung was promoted to the Standing Offer Agreement for Quality Professional Services (the “SOA-QPS”) programme manager in February 2011, senior manager in March 2014, sales director in November 2015, where he is primarily responsible for management of the SOA-QPS programme and sales coverage of products. Mr. Leung has over 26 years of experience in the IT industry.

Mr. Leung graduated from the Purdue University in the United States of America (the “USA”) with a bachelor’s degree in mechanical engineering in December 1992. He obtained his master degree in mechanical engineering from the Massachusetts Institute of Technology in the United States of America in September 1994.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Cheng Kwan Ngai (鄭君毅) (“Mr. Cheng”), aged 36, was a non-executive Director. He was primary responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. He had over 10 years of experience in accounting, audit assurance and corporate governance. He joined the Group as finance manager from June 2017 to December 2018. Mr. Cheng was promoted to our finance director since January 2019 and resigned on October 2020. He resigned as a non-executive Director and the member of Audit Committee of the Company with effect from 11 November 2021.

Mr. Cheng graduated from Deakin University in Australia with a bachelor of commerce with distinction, majoring in accounting and commercial law in April 2011. Mr. Cheng obtained his graduate diploma in English and Hong Kong Law (Common Professional Examination) from Manchester Metropolitan University (United Kingdom) in July 2018 and a bachelor of laws (Hons) from Manchester Metropolitan University (United Kingdom) in July 2019.

Mr. Cheng is the member of the Institute of Public Accountants in Australia, the member of the Institute of Certified Management Accountants in Australia and associate member of the Institute of Financial Accountants in the United Kingdom. Mr. Cheng is currently working in Asset Dynamic Management Limited, which is a registered institution under the Securities and Futures Commission of Hong Kong (the “SFC”) as an associate director, advising on securities and asset management. Mr. Cheng is a licensed representative under the SFC, who is eligible to perform certain types of regulated activities, including Type 4 (advising on securities) and Type 9 (asset management) regulated activities.

Ms. Chen Jie (陳洁) (“Ms. Chen”), aged 48, is appointed as our non-executive Director with effect from 9 February 2021. She is primary responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required.

Ms. Chen obtained a doctorate degree in management from Shanghai Jiao Tong University in December 2002 and the teaching qualification in higher education issued by the Ministry of Education of the PRC in December 2003. Ms. Chen was appointed as the executive council member of the Marketing Management Professional Committee of the Chinese Academy of Management in April 2016. In 2018, Ms. Chen becomes the professional committee member of the Chinese Society of Technology Economics and Neuroeconomics. In 2020, Ms. Chen becomes a leading researcher of Think Tanks at Shanghai Jiao Tong University, responsible for the research on technological breakthrough pathways in the field of intelligent connected vehicles and others related topic.

Ms. Chen is a professor and doctoral supervisor at Antai College of Economics and Management, Shanghai Jiao Tong University. In April 2020, Ms. Chen has been appointed as an expert of the China Consumer Quality and Safety Promotion Association (Automotive) and the executive officer of the Innovation and Policy Research Institute on smart travel chain industry by the Shanghai Intelligent and Connected Vehicle Research and Development (“R&D”) Center Company Limited. Ms. Chen has been appointed as an expert of the Automobile Working Committee of China Association of Productivity Promotion Centers in March 2021.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tang Biao (湯彪) (“Mr. Tang”), aged 65, is appointed as our non-executive Director with effect from 6 August 2021. He has more than 40 years of working experience in Chinese government departments. He started his career as a soldier in national defense in 1974. After retiring from active service in 1992, he has transferred to Hangzhou Customs department under jurisdiction of China Customs. Served as the director and first deputy director of the anti-smuggling branch of Wenzhou Customs, Jiaxing Customs and Shaoxing Customs, and also served as office director (section chief) of the bureau. Mr. Tang made a significant contribution in decades of work in Customs department. He has awarded with the Second-class collective merit by the Customs General Administration twice. In 2014, Mr. Tang became to researcher till he retired in 2016.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Yau Hin (林佑顯) (“Mr. Lam”), aged 39, was an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Lam is also the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee. He resigned as an independent non-executive Director, the chairman of the Audit Committee, a member of the Nomination Committee and the Remuneration Committee of the Company with effect from 29 June 2021. Mr. Lam has over 15 years of experience in accounting, auditing and corporate governance.

Mr. Lam graduated from the City University of Hong Kong with an Associate of Business Administration in Accountancy in November 2006. Mr. Lam was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in May 2011.

Ms. Lam Shun Ka (林汛珈) (formerly known as Lam Yuk Shan (林玉珊)) (“Ms. Lam”), aged 50, is an independent non-executive Director. She is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Ms. Lam is also the chairman of the Nomination Committee and the Remuneration Committee, and a member of the Audit Committee.

Ms. Lam has more than 15 years of experience in sales channel development. Ms. Lam was an administrative specialist at IBM China/Hong Kong Limited from January 2005 to November 2005, a sales operation at the same company from April 2006 to March 2007 and a business operations professional in IBM Software Sales Department of IBM China/Hong Kong Limited from March 2007 to February 2016. Ms. Lam is currently a contract agent and a licensed representative (Type 1) of Nerico Brothers Limited (formerly known as Glory Sky Global Markets Limited), a licensed entity in Hong Kong regulated by the SFC.

Ms. Lam obtained a bachelor of social science degree, majoring in government and public administration from The Chinese University of Hong Kong in December 1995. She obtained a bachelor of laws degree from the Manchester Metropolitan University (United Kingdom) through distance learning in September 2004.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Dr. He Dazhi (何大治) (“Dr. He”), aged 44, is an independent non-executive Director with effect from 1 April 2021. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required.

He has over 22 years of research experience in intelligent network and communications engineering. Dr. He graduated with a Bachelor’s degree in Information Engineering from the Department of Electrical Engineering, Tongji University in July 1999. He obtained a doctorate degree in Communication and Information Systems from Shanghai Jiao Tong University in June 2009. Dr. He was a chip algorithm manager of Chip Development Department in Shanghai High Definition Digital Technology Industry Corporation (HDIC) from April 2010. He was an associate researcher in the School of Electronic Information and Electrical Engineering of Shanghai Jiao Tong University from January 2008 to December 2020. He is currently an expert of the Science and Technology Expert Database of the National Radio and Television Administration.

In recent years, Dr. He has carried out technical research work in network big data, artificial intelligence and Internet of Vehicles (“IoV”). His research includes but not limited to safety mode modulator of live broadcast satellite, the architecture solutions for the convergence of 5G broadcast television network and mobile communication network, and intelligent media convergence network, etc.

Mr. Yeung Wai Keung (楊偉強) (“Mr. Yeung”), aged 50, was an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. He resigned as an independent non-executive Director, the chairman of remuneration committee and a member of each of the audit committee and nomination committee of the Company with effect from 1 March 2021. Mr. Yeung has over 26 years of experience in the IT industry.

Mr. Yeung graduated from The Hong Kong Polytechnic University with a bachelor’s degree in arts in November 1994, majoring in computing studies, and graduated from The University of Hong Kong with master of science in electronic commerce and internet computing in December 2003. Mr. Yeung also graduated from RMIT University in Australia with a bachelor’s degree in business in November 2004, majoring in economics and finance. He graduated from the Manchester Metropolitan University in England with a postgraduate diploma in English and Hong Kong Law (Common Professional Examination) in July 2005. He also obtained a master degree in business administration from the University of Chicago in the USA in March 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Xiaoping (李小平) (“Mr. Li”), aged 50, is appointed as our independent non-executive Director with effect from 6 August 2021. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Li is also the member of the Nomination Committee, the Remuneration Committee and the Audit Committee. Mr. Li has over 27 years of experience in the legal field. He is currently a practicing partner of Zhejiang Maidi Law Firm* (浙江麥迪律師事務所) in the PRC. He has served in several law firms in PRC since 1994, and was promoted to partner in 1997. He is also a member of the company and security profession committee of the Lawyers Association of Zhejiang Province* (浙江省律師協會公司與證券專業委員會) and a member of the Finance and Insurance Committee of Zhejiang Province* (浙江省金融與保險專業委員會). Mr. Li obtained a certificate of lawyer qualification in the PRC in 1996 and he passed the Self-taught Higher Education Examination (高等教育自學考試) in law at the Zhengzhou University (鄭州大學) in 2003.

In 2015, Mr. Li was elected as one of the most influential lawyers in the Xihu district by the Political and Legal Affairs Commission of the Xihu District of Hangzhou City (杭州市西湖區委政法委) and the Justice Bureau of the Xihu District of Hangzhou City (杭州市西湖區司法局) of Zhejiang Province, the PRC. In 2017, he was accredited as an excellent lawyer by the Justice Bureau of the Xihu District of Hangzhou City (杭州市西湖區司法局).

Mr. Tong Tsz Kwan (唐旨均) (“Mr. Tong”), aged 42, is appointed as our independent non-executive Director with effect from 28 September 2021. He is primary responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Tong is also the chairman of the Audit Committee. He has over 10 years of accounting, auditing and corporate financing experiences. Mr. Tong joined Sing Lee Software (Group) Limited (stock code: 8076) since June 2007 and is currently its chief financial officer and company secretary, responsible for accounting, corporate financing and company secretarial duties.

Mr. Tong graduated with a Master of Business Administration Degree in Finance from University of Southern Queensland in May 2008. He is a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. Mr. Tong is a Chartered Secretary, a Chartered Governance Professional and a fellow member of The Chartered Governance Institute and a fellow member of The Hong Kong Chartered Governance Institute.

Mr. Tong is the member of the Anxi County, Fujian Province Committee of Chinese People’s Political Consultative Conference. Mr. Tong is also the director of the Hong Kong Fukien Chamber of Commerce and Hong Kong Fukien Chamber of Commerce Education Fund Limited, member of the Youth Affairs Working Committee of China Star Light Charity Fund Association, executive vice president of the Hong Kong Quarry Bay Residents Association. Mr. Tong is also the Vice General Secretary of the 5th Committee of Quanzhou Overseas Friendship Association and director of An Kwei Clans Association (H.K.) Limited. He is the member of Vocational Training Council Accountancy Training Board, External Academic Advisor of Master of Science in Professional Accounting and Corporate Governance in City University of Hong Kong, External Advisor of the Department of Accountancy and Law of Hong Kong Baptist University and advisor of Business Association, Business and Economics Association, the Hong Kong University Students’ Union.

* For identification purpose only

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lam Tai Wai, David (林大為) (“Mr. David Lam”), aged 48, joined our Group as the managing consultant in February 2000 and was promoted as the chief operating officer in November 2015 in which he is primarily responsible for participating in the day-to-day management and supervision of business operations, mainly sales, projects delivery and administration and human resources of the Group. Mr. David Lam has over 22 years of experience in the IT industry.

Mr. David Lam graduated from The Hong Kong University of Science and Technology with a bachelor’s degree in computer science in November 1995. He obtained his master degree in computer science from The Hong Kong University of Science and Technology in November 1996.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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

MANAGEMENT DISCUSSION AND ANALYSIS

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	Amount expected to be used up to 31 December 2021	Amount actually used up to 31 December 2021	Balance as at 31 December 2021	Expected timeline to fully utilise the remaining net proceeds
	HK\$'million	HK\$'million	HK\$'million	HK\$'million	
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	

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

- (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.

MANAGEMENT DISCUSSION AND ANALYSIS

- (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 doses 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 report, 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).

MANAGEMENT DISCUSSION AND ANALYSIS

EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, 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 report.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Directors believe that good corporate governance provides a framework for effective management, successful business growth and a healthy corporate culture, which will benefit the Company's stakeholders. Therefore, the importance of good corporate governance in management and internal control procedures is critical to achieving transparency and accountability. The Company has long been committed to the pursuit a high standard of corporate governance and has adopted and complied with the code provisions of the CG Code as set out in Appendix 15 to the GEM Listing Rules and, the Board considers that the Company has complied with the CG Code for FY2021, except for the deviation as stated below.

Code Provision C.1.8

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. 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 IT 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.

Code Provision C.2.1

Under the CG Code provision C.2.1, 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.

The Directors will continue to review their corporate governance practices to enhance their corporate governance standards. The Company will from time to time comply with increasingly stringent regulatory requirements and meet the growing expectations of our investors and regulators.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the Group's business and the long-term success of the Company to ensure that it is managed in the best interests of the Company and delivery of sustainable value to the Shareholders.

The Board focuses on formulating the overall business strategy, reviewing and monitoring the business performance, internal controls and risk management of the Group, approving the consolidated financial statements and directing and supervising the management of the Company. Implementation of the strategies set by the Board is delegated to the management which is led by the Chief Executive Officer of the Group. The management is responsible for the daily management and operation of the Group. The Board is provided with a management update report to regularly assess the performance of the Group, and recent development and prospects of the Group.

CORPORATE GOVERNANCE REPORT

Regarding the Company's corporate governance, the Board as a whole is responsible for performing the following corporate governance duties including:

- (i) to develop and review the Company's policies and practices on corporate governance and make recommendations;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;
- (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employee and Directors; and
- (v) to review the Company's compliance with the CG Code and disclosure in its corporate governance report.

All Directors bring valuable business experience, knowledge and professionalism to the Board to perform board functions effectively and efficiently. Independent non-executive Directors are invited to serve on the company's Audit Committee, Remuneration Committee and Nomination Committee and a non-executive Director is invited to serve on the Audit Committee of the Company and resigned during FY2021.

The Board delegates to the Audit Committee the responsibilities for the corporate governance functions including professional development of the Directors and the senior management, and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The delegated functions and work tasks are periodically reviewed by the Board.

Composition of the Board

The composition of the Board as at the date of this annual report is set out as follows:

Executive Directors:

Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Mr. Law Cheung Moon
Mr. Leung Patrick Cheong Yu

Non-executive Directors:

Mr. Cheng Kwan Ngai (resigned on 11 November 2021)
Ms. Chen Jie (appointed on 9 February 2021)
Mr. Tang Biao (appointed on 6 August 2021)

Independent non-executive Directors:

Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin (retired on 29 June 2021)
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Dr. He Dazhi (appointed on 1 April 2021)
Mr. Li Xiaoping (appointed on 6 August 2021)
Mr. Tong Tsz Kwan (appointed on 28 September 2021)

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 6 to 11 of this annual report.

CORPORATE GOVERNANCE REPORT

According to Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed four independent non-executive Directors representing not less than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each an independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

All Directors, including non-executive Directors and independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Besides, a non-executive Director is invited to serve on the Audit Committee of the Company and resigned during FY2021.

To the best knowledge of the Board members, there are no other relationship (including financial, business, family, and other material/relevant relationships) among the members of the Board.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years and shall continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The emolument of executive Directors was determined by the Remuneration Committee and approved by the Board by reference to the Company's operating results, his performance, seniority, experience, duties and responsibilities within the Group and comparable market statistics and shall be reviewed annually by the Remuneration Committee. Executive Directors may also receive a discretionary bonus in respect of each completed calendar year of service. The amount of such bonus will be determined by the Remuneration Committee and the Board.

The non-executive Directors (including independent non-executive Directors) are appointed for a specific term of three years, subject to renewal after the expiry of the current term. Save for directors' fees, none of the non-executive Directors and independent non-executive Directors is expected to receive any other remuneration for holding his/her office as an independent non-executive Director. The emolument of non-executive Directors and independent non-executive Directors was determined by the Remuneration Committee and approved by the Board by reference to the Company's operating results, his/her performance, seniority, experience, duties and responsibilities within the Group and comparable market statistics and shall be reviewed annually by the Remuneration Committee. The service contracts may be renewed in accordance with our Articles and the applicable GEM Listing Rules.

CORPORATE GOVERNANCE REPORT

According to our Articles, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall be subject to re-election at annual general meeting at least once every three years. Any Director who is appointed by the Board to fill casual vacancy shall hold office until the first general meeting after his/her appointment, and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

PERMITTED INDEMNITY OF DIRECTORS

At no time during the year and up to the date of this report was any permitted indemnity provision being in force for the benefit of any of the Directors.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

According to Code Provision C.1.4 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. Every newly appointed Director has received comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

All Directors understand the importance of continuous professional development and are committed to participating in any suitable training to develop and refresh their knowledge and skills. They have provided the Company with their respective training records pursuant to the CG Code.

BOARD COMMITTEE

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website www.hkgem.com and the Company's website at <http://www.kinetix.com.hk>. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Audit Committee comprises the Chairman, Mr. Lam Yau Hin, an independent non-executive Director, had retired on 29 June 2021, whereas Mr. Tong Tsz Kwan, an independent non-executive Director, has been appointed on 28 September 2021, together with other members include Ms. Lam Shun Ka (formerly known as Lam Yuk Shan), an independent non-executive Director and Mr. Li Xiaoping, an independent non-executive Director, has been appointed on 6 August 2021 whereas Mr. Yeung Wai Keung had resigned on 1 March 2021 and Mr. Cheng Kwan Ngai, a non-executive Director, had resigned on 11 November 2021. None of the members of the Audit Committee is a former partner of the Company's existing external auditor. The written terms of reference of the Audit Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

The main objective of the Audit Committee is to assist the Board in fulfilling its fiduciary responsibilities to the Company and each of its subsidiaries to act in the interest of the Shareholders as a whole.

Its primary duties include: (a) to consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences; (d) to develop and implement policy on engaging an external auditor to supply non-audit services; (e) to make recommendations to the Board as it deems appropriate on any area within its remit where action or improvement is needed; and (f) to monitor integrity of the Company's financial statements and the annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them.

The Company has complied with Rule 5.28 of the GEM Listing Rules in that the Audit Committee must comprise a minimum of three members and must be chaired by an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise as required in Rule 5.05(2) of the GEM Listing Rules.

In addition to the five meetings held as set forth in the section headed "Number of Meetings and Directors' Attendance", the Audit Committee met the external auditor four times for the year ended 31 December 2021.

The Group's financial statements for the year ended 31 December 2021 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2021 comply with the applicable accounting standards and the GEM Listing Rules.

The Audit Committee also performed the following:

- reviewed and obtained an explanation from management and the external auditor for financial reporting matters, including the causes of changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the GEM Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;
- reviewed the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the Code of Conduct, and made recommendations to the Board;
- reviewed and monitored the training and continuous professional development of Board members;

CORPORATE GOVERNANCE REPORT

- reviewed the Company's compliance with the CG Code and disclosure in annual report on corporate governance and sustainable development;
- considered and proposed to the Board the re-appointment of Linkfield CPA Limited as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;
- received and reviewed the internal audit reports from the independent internal control consultant;
- held meetings with the external auditor in the absence of management to discuss any material audit issues; and
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, training programs, and the Company's procedures for financial reporting and internal audit.

Remuneration Committee

The former chairman of the Remuneration Committee was Mr. Yeung Wai Keung, an independent non-executive Director who had been resigned on 1 March 2021. Ms. Lam Shun Ka (formerly known as Lam Yuk Shan), an independent non-executive Director who was a member of the Remuneration Committee has been appointed as the chairman of the Remuneration Committee on 1 March 2021. Other members of Remuneration Committee include Mr. Yu Larry (formerly known as Yu Pak Lun Larry), our Chief Executive Officer and executive Director, Mr. Li Xiaoping, an independent non-executive Director has been appointed on 6 August 2021, whereas Mr. Lam Yau Hin, an independent non-executive Director had been retired on 29 June 2021. The written terms of reference of the Remuneration Committee as suggested under the CG Code are posted on the GEM website and the Company's website.

The main functions of the Remuneration Committee include: (a) to make recommendations to the Board on the Company's policy and structure for all of the Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (c) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; (d) to make recommendations to the Board on the remuneration of the independent non-executive Directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (f) to review and approve compensation payable to the executive Directors and the senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and (g) to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate.

Regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to the GEM Listing Rules are set out in Note 9 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

During FY2021, the number of senior management members whose remuneration fell within the following band is as follows:

Remuneration band	Number of individuals
Nil to HK\$1,000,000	1

The major work performed by the Remuneration Committee included the following:

- made recommendations to the Board on the Company's remuneration policy and structure for all Board members and senior management;
- determined the remuneration packages for individual executive Board members and senior management, including benefits in kind, pension rights, and compensation payments; and
- made recommendations to the Board on the remuneration of the non-executive Directors and independent non-executive Directors.

Nomination Committee

The chairman of the Nomination Committee is Ms. Lam Shun Ka (formerly known as Lam Yuk Shan), an independent non-executive Director and other members include Mr. Li Xiaoping, an independent non-executive Director has been appointed on 6 August 2021, and Mr. Yu Larry, Chief Executive Officer and executive Director. Mr. Yeung Wai Keung had resigned as a member of the Nomination Committee on 1 March 2021 and Mr. Lam Yau Hin, an independent non-executive Director, had retired on 29 June 2021. The written terms of reference of the Nomination Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

The main objectives of the Nomination Committee are to implement a formal, transparent and objective procedure for appointing the Board members and to provide clear disclosure of the Company's policies on the nomination and evaluation of the Board members in the Company's annual report. Its primary functions include: (a) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) to identify individuals suitably qualified to become the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (c) to assess the independence of the independent non-executive Directors; and (d) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive.

The major work performed by the Nomination Committee for FY2021 included the following:

- reviewed the Board Diversity Policy and its implementation;
- reviewed the structure, size and diversity of the Board;
- assessed the independence of the independent non-executive Directors; and

CORPORATE GOVERNANCE REPORT

- made recommendations to the Board on the selection of individuals nominated for directorship with reference to qualifications and related expertise, and the re-election of retiring Board members at the annual general meeting.

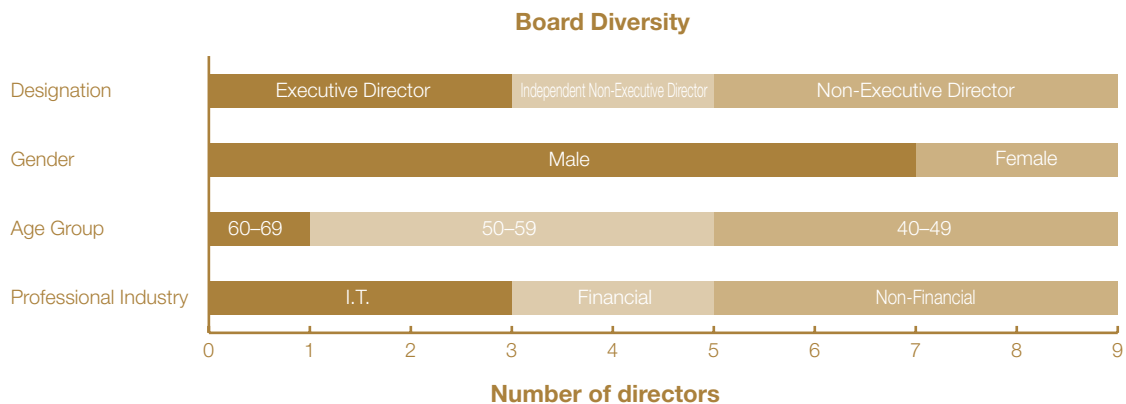
BOARD DIVERSITY POLICY

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board. The Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. If it involves the appointment of an independent non-executive Director of the Board, the Nomination Committee shall also consider the perspectives, skills and experience that the person can bring to the Board, and how the person would contribute to the diversity of the Board. The Company shall take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

NOMINATION PROCEDURE

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs (including the needs for board diversity) and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules. Qualified candidates will then be recommended to the Board for approval.

As at the date of this report, the Board's composition under major diversified perspectives was summarised as follows:



CORPORATE GOVERNANCE REPORT

NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The Board has met regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

The individual attendance record of the Board meetings and Board committee meetings for the year ended 31 December 2021 is set out as follows.

	Number of Board Meetings attended/ eligible to attend	Number of Audit Committee Meetings attended/ eligible to attend	Number of Remuneration Committee Meetings attended/ eligible to attend	Number of Nomination Committee Meetings attended/ eligible to attend
Executive Directors:				
Mr. Yu Larry (formerly known as Yu Pak Lun Larry)	10/10	N/A	1/1	1/1
Mr. Law Cheung Moon	5/10	N/A	N/A	N/A
Mr. Leung Patrick Cheong Yu	10/10	N/A	N/A	N/A
Non-executive Directors:				
Mr. Cheng Kwan Ngai ¹	7/9	4/4	N/A	N/A
Ms. Chen Jie ²	7/9	N/A	N/A	N/A
Mr. Tang Biao ³	3/3	N/A	N/A	N/A
Independent non-executive Directors:				
Mr. Yeung Wai Keung ⁴	1/2	1/1	N/A	N/A
Mr. Lam Yau Hin ⁵	5/7	3/3	1/1	1/1
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)	8/10	5/5	1/1	1/1
Dr. He Dazhi ⁶	5/6	N/A	N/A	N/A
Mr. Li Xiaoping ⁷	3/3	2/2	1/1	1/1
Mr. Tong Tsz Kwan ⁸	2/2	1/1	N/A	N/A

1. Mr. Cheng Kwan Ngai resigned as non-executive Director on 11 November 2021.
2. Ms. Chen Jie was appointed as non-executive Director on 9 February 2021.
3. Mr. Tang Biao was appointed as non-executive Director on 6 August 2021.
4. Mr. Yeung Wai Keung resigned as an independent non-executive Director on 1 March 2021.
5. Mr. Lam Yau Hin retired as an independent non-executive Director on 29 June 2021.
6. Dr. He Dazhi was appointed as an independent non-executive Director on 1 April 2021.
7. Mr. Li Xiaoping was appointed as an independent non-executive Director on 6 August 2021.
8. Mr. Tong Tsz Kwan was appointed as an independent non-executive Director on 28 September 2021.

CORPORATE GOVERNANCE REPORT

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiries of all Directors, each of the Directors has confirmed that he/she has complied with the Standard of Dealings and the code of conduct regarding securities transactions for FY2021 and up to the date of this annual report.

COMPANY SECRETARY

The Company has engaged Ms. Lam Wai Yan ("Ms. Lam") as the company secretary of the Company and has resigned on 9 July 2021. Following the resignation of Ms. Lam, the Company has engaged Mr. Fung Kui Kei ("Mr. Fung") as the Company Secretary on 9 July 2021. During FY2021, Mr. Fung has taken no less than 15 hours of relevant professional training to update his skills and knowledge pursuant to Rule 5.15 of the GEM Listing Rules.

INDEPENDENT AUDITOR'S REMUNERATION

The amount of fees charged by Moore Stephens CPA Limited (resigned on 21 January 2022) and Linkfield CPA Limited, the external auditors, generally depends on the scope and volume of the external auditor's work performed.

For FY2021, the remuneration paid or payable to the external auditor of the Company in respect of audit services and non-audit services for the Group are as follows:

	Fees paid/ payable for the services rendered HK\$'000
Audit services	700
Non-audit services – Agreed-upon procedures services	180

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements which gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the consolidated financial statements of the Group. As at 31 December 2021, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 64 to 70 of this annual report.

CORPORATE GOVERNANCE REPORT

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that the Group oversees the risk management and internal control structure and maintains a sound and effective internal control system to manage risks and safeguard the Group's shareholder investments and assets. For the year ended 31 December 2021, the Company appointed an independent internal control consultant to review the adequacy and effectiveness of its internal control system. The Group has fully implemented all internal control enhancements recommended by the consultant.

The Group has also established a set of risk management policies and measures, that have been incorporated into and adopted by their policies. Such policies and measures are designed to manage and minimize the risks faced by the Group. The system can only provide reasonable but not absolute assurance to prevent material misstatement or loss. The objective of the Group's risk management policies and measures is to manage the risks in its business operations. The Group has adopted risk management procedures to identify, evaluate and manage significant risks associated with its business, industry and market in the ordinary course of business.

The Board and senior management reviewed and prepared a report on the implemented system and procedures, covering financial, operational and compliance controls and risk management functions annually. The report is to enable the Board to assess and evaluate the effectiveness and efficiency of its operations and provide reasonable assurance. The Audit Committee and the Board have also reviewed the report and supervise the implementation of the Group's risk management policies and measures.

The Directors consider that the Group has implemented effective and adequate procedures to protect the Group's assets from unauthorised use or misappropriation, maintain appropriate accounting records and execute them with appropriate authorisation and compliance with relevant laws and regulations.

In relation to the handling and dissemination of inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to Directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHT AND INVESTOR RELATIONS

As one of the measures to safeguard Shareholders' interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be published on the GEM website and the Company's website after the relevant meeting.

Extraordinary general meeting may be convened by the Board on the written requisition of Shareholders holding not less than one-tenth of the paid up capital of the Company or by such Shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article 64 of the Articles. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company's principal place of business in Hong Kong.

The Company has adopted shareholders' communication policy with the objective of providing the Shareholders with information about the Company and enabling them to engage actively with the Company and exercise their rights as Shareholders in an informed manner.

The Company has established several channels to communicate with the Shareholders as follows:

- (I) Information shall be communicated to Shareholders through the Company's financial reports (quarterly reports, interim reports and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the (i) corporate communication documents including, but not limited to, copy of annual reports, interim reports, notices of meeting, circulars, proxy forms ("Corporate Communication"); (ii) other documents issued by the Company which are published on the website of the Stock Exchange for the information or action of holders of any of its securities, including announcements, monthly returns on movements in the Company's securities for each month and next day disclosure returns; (iii) constitutional documents of the Company and board committees; (iv) corporate information including list of Directors; and (v) other corporate publications including the procedures Shareholders can use to propose a person for election as a Director on the Company's website;
- (II) annual and special general meetings provide a forum for the Shareholders to comment and exchange views with the Directors and the senior management; and
- (III) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

CORPORATE GOVERNANCE REPORT

The Company welcomes enquiries and proposals from investors, stakeholders and the public. Enquires to the Board may be sent by post to the Company's principal place of business in Hong Kong.

Address: Room 2702, Rykadan Capital Tower,
135 Hoi Bun Road,
Kwun Tong, Kowloon,
Hong Kong

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

ARTICLES OF ASSOCIATION

During the year ended 31 December 2021, the Company has not made any amendment to its Memorandum and Articles of Association.

The Company's Articles are available on the Company's website and the Stock Exchange's website.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for FY2021.

PRINCIPAL ACTIVITIES

The Company is an investment holding company while its subsidiaries' principal businesses are provision of IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and entertainment products. Details of the principal activities of the principal subsidiaries are set out in Note 15 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during FY2021.

BUSINESS REVIEW

The business review of the Group for FY2021 is set out in the section headed "Management Discussion and Analysis" on page 12 of this report.

A discussion and analysis of the activities of the Company as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's businesses, and the compliance with relevant laws and regulations, as well as the Group's environmental policies and performance which have a significant impact on the Company, can be found in the "Management Discussion and Analysis" on pages 12 to 23 and "Corporate Governance Report" on pages 24 to 36 of this report. Such discussion forms part of this Report of the Directors.

RESULTS AND DIVIDENDS

The results of the Group for FY2021 are set out in the consolidated income statement and consolidated statement of comprehensive income of this report. The Board does not recommend the payment of a final dividend in respect of the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, is set out in the financial summary section on page 144 of this report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Group during FY2021 are set out in Note 16 to the consolidated financial statements. There were no investment properties of the Group during FY2021.

SHARE CAPITAL

Details of movements in the share capital of the Company during FY2021 are set out in Note 27 to the consolidated financial statements.

During FY2021, the Company has issued 160.0 million ordinary shares to Lam Sze Chun Jackson, Goldlink Hong Kong Investment Limited and Rich Trend Hong Kong Investment Limited in relation to conversion of convertible bonds on 10 May 2021 of HK\$48.0 million. The Company also issued 3.9 million ordinary shares in relation to the exercise of share option on 28 December 2021.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing Shareholders.

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 the year.

RESERVES

Details of movements in the reserves of the Group during FY2021 are set out in the consolidated statement of changes in equity.

As at 31 December 2021, the Company's reserves available for distribution to the Shareholders were approximately HK\$78.8 million. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Articles and provided that immediately following the distribution or dividend payment, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the articles of association of the Company, dividends shall be distributed out of the retained earnings, including the share premium, of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 25.9% of the total sales for the year and sales to the largest customer included therein amounted to approximately 6.4%. Purchases from the Group's five largest suppliers accounted for approximately 50.1% of the total purchases for the year and purchase from the largest supplier included therein amounted to approximately 21.1%. None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group as at 31 December 2021 are set out in the Note 29 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2021.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during FY2021 are set out in Note 32 to the consolidated financial statements and none of them constituted a connected transaction as defined under the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS

The Directors during the year and up to the date of this report were:

Executive Directors:

Mr. Yu Larry (*Chairman*) (formerly known as Yu Pak Lun Larry)

Mr. Leung Patrick Cheong Yu (*Compliance Officer*)

Mr. Law Cheung Moon

Non-executive Directors:

Mr. Cheng Kwan Ngai (resigned on 11 November 2021)

Ms. Chen Jie (appointed on 9 February 2021)

Mr. Tang Biao (appointed on 6 August 2021)

Independent non-executive Directors:

Mr. Yeung Wai Keung (resigned on 1 March 2021)

Mr. Lam Yau Hin (retired on 29 June 2021)

Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)

Dr. He Dazhi (appointed on 1 April 2021)

Mr. Li Xiaoping (appointed on 6 August 2021)

Mr. Tong Tsz Kwan (appointed on 28 September 2021)

Pursuant to Article 112 of the Company's Articles of Association (the "Articles"), the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director appointed by the Board to fill a casual vacancy shall hold office only until the first general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Directors so appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108 of the Articles, Mr. Tang Biao, Mr. Li Xiaoping and Mr. Tong Tsz Kwan shall retire by rotation at the forthcoming annual general meeting ("AGM") of the Company, and being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from independent non-executive Directors and as at the date of this report, they are considered to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 11 of the annual report.

CHANGE TO THE INFORMATION RELATING TO THE DIRECTOR DURING HIS TENURE

Mr. Yu Larry has abandoned to use his former name Mr. Yu Pak Lun Larry on 29 June 2021. Save as disclosed above, there is no other significant change to the information of the Directors during their tenure required to be disclosed under rule 17.50A(1) of the GEM Listing Rules.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the Remuneration Committee.

Details of the remuneration of the Directors and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in Note 9 to the consolidated financial statements.

No director has waived or agreed to waive any emoluments during FY2021 (2020: Nil).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

None of the Directors of the Company or an entity connected with such Director is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance subsisting during or at the end of FY2021 in which the Company, or any of its subsidiaries or fellow subsidiaries was a party.

CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Save as disclosed in the related party transactions disclosed in Note 32 to the consolidated financial statements of this annual report, neither the Company nor any of its subsidiaries had entered into any contract of significance with the Company's controlling shareholders or their subsidiaries, or any contract of significance for the provision of services to the Company or any of its subsidiaries by the Company's controlling shareholders or their subsidiaries, during the year ended 31 December 2021.

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") has been conditionally adopted pursuant to resolutions in writing passed by our shareholders passed on 22 June 2018 for the purpose of recognising and acknowledging the contributions of eligible participants have had or may have with us. The Share Option Scheme provides the eligible participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:

- (i) motivating the eligible participants to optimise their performance efficiency for our benefit; and
- (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to our long-term growth.

REPORT OF THE DIRECTORS

Details of the principal terms of the Share Option Scheme are set out in paragraph headed “Share Option Scheme” in section headed “Statutory and General Information” in Appendix IV to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:

Subject to the terms of the Share Option Scheme, the Board may, at its discretion, offer to grant an option to any person belonging to any of the following classes of participants (the “Eligible Participants”), to take up options to subscribe for such number of new Shares as the Board may determine:

- (i) any full-time or part-time employees, executives or officers of our Group;
- (ii) any Directors (including independent non-executive Directors) of our Group;
- (iii) any advisers, consultants, suppliers, customers and agents to our Group; and
- (iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to us, the assessment criteria of which are contribution to our development and performance, quality of work performed for us, initiative and commitment in performing his/her duties, and length of service or contribution to us.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time must not exceed 30% of the total number of Shares in issue from time to time.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the date the Company was listed unless the Company seeks the approval of the shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

The Share Option Scheme was adopted for a period of 10 years commencing on 22 June 2018 and remains in force until 21 June 2028. The Company may, by resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:

- (1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option (“Date of Grant”) which must be a day on which the Stock Exchange is open for the business of dealing in securities;
- (2) the average closing prices of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and
- (3) the nominal value of a Share.

Upon acceptance of the options, the grantee shall pay HK\$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the Date of Grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

REPORT OF THE DIRECTORS

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its Shareholders in accordance with the GEM Listing Rules.

Details of the movement in the share options granted under the Scheme during the year ended 31 December 2021 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					Outstanding as at 31 December 2021
				At 1 January 2021	Granted during the FY2021	Exercised during FY2021	Lapsed during the FY2021	Cancelled during FY2021	
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	-	47,040,000	(3,900,000)	(9,600,000)	-	33,540,000
Other Employees	20 August 2021	20 August 2021 – 19 August 2031	0.154	-	30,570,000	-	-	-	30,570,000
				-	80,000,000	(3,900,000)	(9,600,000)	-	66,500,000

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

A total of 48,000,000 share options were granted under the Share Option Scheme on 16 August 2021 and a total of 32,000,000 share options were granted under the Share Option Scheme on 20 August 2021. During the FY2021 and up to date of this report, there were 3,900,000 share options exercised, no share options cancelled and 9,600,000 share options lapsed under the Share Option Scheme.

Apart from the aforesaid share option schemes, at no time during FY2021 was any of the Company and its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such right.

REPORT OF THE DIRECTORS

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

The Shares were listed on the Stock Exchange on 16 July 2018. As at the date of this report, 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 share	100%

Save as disclosed above, as at the date of this report, 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 be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

REPORT OF THE DIRECTORS

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at the date of this report, so far as the Directors are 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 the date of this report, the Directors were not aware of any persons who/entities which had an interest or short position in the shares or underlying shares of the Company, 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.

REPORT OF THE DIRECTORS

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Share Option Scheme and as disclosed under the section “Interests of Directors and Chief Executive” above, at no time during the year and up to the date of this report, neither the Company or any of its subsidiaries, or any of its fellow subsidiaries, was a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

INTEREST IN COMPETING BUSINESSES

The controlling shareholders (as defined under GEM Listing Rules) of the Company have entered into the deed of non-competition dated 22 June 2018 (the “Deed of Non-competition”) in favour of the Company, details of which were set out in the Prospectus. Pursuant to the Deed of Non-competition, the controlling shareholders have undertaken to the Company (for itself and as trustee for each of our subsidiaries from time to time) that with effect from the Listing Date, they would not and would procure that none of their close associates (except for any members of the Group) shall, except through their interests in our Company, whether as principal or agent and whether undertaken directly or indirectly, either on their own account or in conjunction with or on behalf of any person, corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, among other things, carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, directly or indirectly, any business which is, directly or indirectly, in any respect in competition with or similar to or is likely to be in competition with the business of the Group in Hong Kong or such other places as the Group may conduct or carry on business from time to time.

During the year and up to the date of this report, none of the Directors, the controlling shareholders of the Company or their respective close associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

The controlling shareholders of the Company have confirmed to the Company that for FY2021 and up to the date of this report, they and their respective close associates (as defined under GEM Listing Rules) have complied with the undertakings contained in the Deed of Non-competition.

Save as disclosed above, during the year, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment.

The Group understands that a better future depends on everyone’s participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

REPORT OF THE DIRECTORS

The Group maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

The details of environmental, social and governance policies and performance of the Group will be disclosed in the “Environmental, Social and Governance Report”, which are set out on pages 47 to 63 of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH STAKEHOLDERS

The Group is committed to operate in a sustainable manner while balancing the interests of its various stakeholders including customers, suppliers and employees. Through regular stakeholder engagement via different channels, the stakeholders are encouraged to give their opinions regarding the environmental, social and governance policies of the Group. The Group maintains strong relationships with its employees and offers them with safe working environments. The Group has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

PERMITTED INDEMNITY OF DIRECTORS

At no time during the year and up to the date of this report was any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules during FY2021 and up to the date of this report.

AUDITOR

Moore Stephens CPA Limited resigned as the auditors of the Group with effect from 21 January 2022 as the Company could not reach a consensus in respect of the audit fee of the Company for the financial year ended 31 December 2021. The Board has resolved that, with the recommendation of the audit committee of the Board, to appoint Linkfield CPA Limited as the new auditor of the Company with effect from 21 January 2022 to fill the casual vacancy following the resignation of Moore Stephens CPA Limited.

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

Hong Kong, 31 March 2022

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

INTRODUCTION

The Group believes sustainability to be an essential element in their business success. The Group is committed to building an environmental-friendly corporation while maintaining high quality standards in the service and operations. The Board of the Group leads the Group's Environmental, Social and Governance ("ESG") strategy and has continued to drive appropriate measures and to ensure internal control systems are in place to address relevant ESG issues. ESG report highlights its ESG performance and refers to the ESG reporting principles set out in Appendix 20 of the GEM Listing Rules.

The Group believe that understanding the views of our stakeholders lay a solid foundation to the long-term growth and success of the Group. The Group continues to maintain an open dialogue with its stakeholders through staff briefing sessions, customer service channel, Annual General Meeting, regular supplier reviews, community donations, etc. to help better align business and sustainability strategy. With regular communication and interaction with stakeholders, the Group can better maintain a balance between its business practices and sustainability strategies in line with stakeholders' needs and expectations.

The Group's materiality assessment, which includes discussions on materiality aspects of ESG, indicates that, from its stakeholder's perspective, the areas "product responsibility", "anti-corruption" and "supply chain management", in order of priority, are considered to be of most material areas and may have significant influence over the Group's ESG performance. If the key performance indicators (KPIs) have been established, they must be measurable and applicable to valid comparisons under appropriate conditions. They must also be able to describe the purpose and impacts of quantitative information. This Report has fully applied the principle of balance. This ESG Report should use consistent and disclose statistical methodologies to allow meaningful comparisons of related data over time. Any changes to the methods used must be specified in the ESG Report.

The overall performance of the two subject areas, namely Environmental and Social for the business operations of all entities (including the Group) operating in our office in Hong Kong and Shanghai during the year ended 31 December 2021. For corporate governance information, please refer to the "Corporate Governance Report" on pages 24 to 36 of this annual report.

Report Preparation

This Report truthfully and objectively introduces how the Group fulfil corporate social responsibility in 2021 and focuses on disclosing the information in the three major areas of environment, society and governance (ESG). The report reflects objective facts while disclosing positive and negative indicators.

Materiality: The report identifies and responds to important social responsibility issues affecting the Group's sustainability based on stakeholder survey, data analysis, etc. In order to gain a better understanding of the expectations, perceptions and concerns of our stakeholders, we have engaged our management team and employees in identifying the Group's material ESG issues. With the identified material ESG aspects, we strive to ensure proper measures on significant issues are addressed adequately throughout our business activities.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Quantitative principle: The Group's quantitative key social responsibility performance has been disclosed in this report.

Balance principle: The ESG report provide an unbiased picture of the Group's performance.

Consistency principle: The report keeps indicators used in different reporting periods as consistent as possible and explains changed indicators to present changes in key performance.

Statement of the Board of Directors

The Group and the Board of Directors attaches great importance to the development of ESG responsibility. We have established the ESG governance structure, and integrated ESG concepts into all aspects of our daily operations. The Board of Directors is responsible for the oversight, deliberation and decision-making of major ESG-related issues; the management comprehensively arranges the implementation of ESG strategies, prepares the ESG report and reports to the Board of Directors.

To identify important ESG issues and determine management policies, the Group conducts the research and analysis of substantive issues once a year. By understanding the important issues of concern to internal and external stakeholders, the Board of Directors and senior management discuss and analyze the importance of each issue to the Group's social responsibility, and then determine the key issues and strategy, including the process used to evaluate, prioritise and manage material ESG-related issues for the annual social responsibility report and disclose them. In 2021, the Group and the Board of Directors paid great attention to ESG compliance operations, and continued to follow up the implementation of key ESG work with regular meetings to review progress made against ESG-related goals and target.

In terms of setting ESG targets, the Group continued to improve its operation level while actively responding to national strategies, integrating the concept of green development into its own green operations and business activities, promoting economic transformation to the low-carbon mode and the implementation of the "double carbon" target, laying a sustainable foundation for the Group's long-term green operation goal.

Reporting Period

The ESG Report describes the ESG activities, challenges and measures taken by the Group during the financial year ended 31 December 2021 (the "FY2021").

Stakeholder Engagement

In relation to the Group's business operation and the ESG aspects, the Group place a high priority to its stakeholders and their feedback. To facilitate in understanding and addressing their key concerns, the Group maintains a close communication with its key stakeholders, including but not limited to investors and shareholders, government and regulatory authorities, customers, suppliers and contractors, employees, as well as non-government organisations ("NGOs") and the community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Group make an assessment on stakeholders' expectations regularly through the diversification of the engagement methods and communication channels as shown below:

Stakeholders	Engagement Methods	Expectations
Investors and shareholders	<ul style="list-style-type: none"> • General meetings and other shareholders' meeting • Announcements and circulars • Financial reports • Company website 	<ul style="list-style-type: none"> • Return on investment • Corporate governance • Business compliance
Government and regulatory authorities	<ul style="list-style-type: none"> • Written or electronic correspondences • Compliance inspections • Conferences and seminars 	<ul style="list-style-type: none"> • Compliance with relevant laws and regulations • Stable business operations • Business ethics
Customers	<ul style="list-style-type: none"> • Frequent communication by direct and virtual meetings • Customer feedback by email and telephone 	<ul style="list-style-type: none"> • Protection of customer information • Customer satisfaction • Premium services
Suppliers and contractors	<ul style="list-style-type: none"> • Frequent communication by direct and virtual meetings • Business correspondences 	<ul style="list-style-type: none"> • Open and fair procurement • Stable business relationship
Employees	<ul style="list-style-type: none"> • Training activities, and briefings sessions • Annual performance appraisal • Two-way dialogue 	<ul style="list-style-type: none"> • Health and safety working environment • Career development • Remuneration and benefits
NGOs and the community	<ul style="list-style-type: none"> • Company website • Charity and community activities • ESG reports 	<ul style="list-style-type: none"> • Environmental issues awareness • Communities involvement • Giving back to society

The Group endeavours to collaborate with its stakeholders in improving its ESG performance and create greater value for the community sustainably.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Materiality Assessment

To consider the feedback from various stakeholders on relevant ESG issues, the Group has assessed its importance to its businesses and stakeholders by summarising in below table:

ESG Index	Material ESG Issues	Materiality
A. Environmental		
A1: Emissions	Air Emissions	Low
	Greenhouse Gases Emissions	Medium
	Waste Management	Low
A2: Use of Resources	Energy Consumption	Medium
	Water Consumption	Medium
	Use of Packaging Material	Low
A3: The Environment and Natural Resources	Impact on environment and natural resources	Low
A4: Climate Change	Climate Change	Low
B. Social		
B1: Employment	Recruitment, Promotion and Dismissal	Medium
	Remuneration and Benefits	Medium
	Diversity and Equal Opportunity	Medium
B2: Health and Safety	Working environment	Medium
	Employees' health	High
B3: Development and Training	Staff Development and Training	Medium
B4: Labour Standards	Prevention of child and forced labour	High
B5: Supply Chain Management	Fair and Open Procurement	Medium
	Relationship with major suppliers	Medium
B6: Product Responsibility	Product health and safety	High
	Advertising and labelling	Low
	Protection of intellectual property rights	High
	Data privacy protection	High
B7: Anti-corruption	Whistleblowing policy and Anti-corruption seminars	Medium
B8: Community Investment	Community involvement and resources Contribution	Medium

During FY2021, the Group confirmed that it has established appropriate and effective management policies and internal control systems for ESG issues, and confirmed that the disclosed contents are in compliance with the requirements of the ESG Reporting Guide.

CONTACT US

We value your feedback and suggestion to help us improve our ESG performance. You are welcome to contact us by:

Email: info@kinetix.com.hk

Post: Room 2702, Rykadan Capital Tower, 135 Hoi Bun Road, Kwun Tong, Kowloon, Hong Kong

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

SECTION A. ENVIRONMENTAL

A1: Emissions

The Group is principally engaged in the provision of IT solutions and services and entertainment products. It does not involve in direct emission of large amounts of polluted air, discharge of pollutants into water and land, and generation of hazardous and nonhazardous waste. Therefore, there are no laws and regulations related to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste that have a significant impact on the Group. On the other hand, the Group's operations involve indirect emissions of greenhouse gases, which are mainly due to the use of electricity and paper consumption. In terms of the energy consumption, carbon dioxide is the main greenhouse gas produced by the Group. The Group does not use other forms of energy and natural resources for its operation and it have no direct and significant impact on the environment.

Air Emissions

The principal business activity of the Group is providing IT solution services and entertainment products, the Group considers that air emissions does not form a significant level during 31 December 2021.

Greenhouse Gases Emissions

The consumption of petrol usage for the vehicle (Scope 1) and the consumption of electricity at the office (Scope 2) are the major sources of greenhouse gases emissions of the Group.

Scope 1 – Direct Greenhouse Gases Emissions

The Group aware the direct greenhouse gases emissions from petrol consumed by vehicles will be one of the important sources of global warming, several mitigation measures have adopted:

- Maintaining vehicles regularly to avoid low-efficiency petrol consumption or abnormal operation; and
- Switching off engine whenever the vehicle is idle.

Scope 2 – Energy Indirect Greenhouse Gases Emissions

Electricity consumption accounted for the largest percentage of greenhouse gases emissions within the Group. The Group has formulated a series of policies and measures to achieve electricity conservation.

Scope 3 – Other Indirect Greenhouse Gases Emissions

Paper waste disposal accounted for the other indirect greenhouse gases emissions. The Group has encouraged our staff on reducing paper consumption.

Paper Consumption

Despite the reduction in greenhouse gas emissions caused by paper consumption, the Group will continue to promote the reduction of paper printing and encourage the use of electronic communications and electronic records. Single-sided paper is reused as scrap paper or used to print internal document. Notices have been posted in the office to remind employees to use paper wisely to reduce the consumption of paper.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Business Air Travel

Business air travel is inevitable in some circumstances as the Group is seeking to expand its business beyond Hong Kong. Nevertheless, the staff of the Group travelled only when necessary and travelled in economy class to reduce carbon footprints. In FY2021 and FY2020, the carbon footprint of employees is immaterial as almost all business is delivered in Hong Kong. In addition, the Group believes that in order to reduce carbon emissions from air travel, the Group encourages employees to use video conference calls and participate in online meetings. During FY2021, except for the business travel is essential for management to understand Shanghai's business operation, no carbon emission from air travel was recorded as a result of getting close to zero carbon footprints.

For the year ended 31 December 2021, the Group's quantitative information on greenhouse gases emissions and its intensity is as follows:

Indicator	Unit	2021	2020
Scope 1 – Direct GHG Emissions	tCO ₂ e		
• Petrol consumption		11.2	–
Scope 2 – Energy Indirect GHG Emissions	tCO ₂ e		
• Electricity consumption		88.9	70.7
Scope 3 – Other Indirect GHG Emissions	tCO ₂ e		
• Paper Consumption		1.3	1.7
• Business Air Travel		0.5	–
Total emission of greenhouse gases	tCO ₂ e	101.9	72.4
Intensity (Total emission of greenhouse gases per square metre of floor area)	tCO ₂ e/m ²	0.135	0.172

Notes:

1. tCO₂e is defined as tonnes of carbon dioxide equivalent.
2. Intensity is measured by grouping each type of greenhouses gases emission in each office square meter.

Waste Management

Hazardous Waste Management

In relation of the business nature of the Group is office-based, it did not generate material amount of hazardous waste during FY2021.

Non-hazardous Waste Management

The Group adheres to the 5R's principle – Refuse, Reduce, Reuse, Repurpose and Recycle and is committed to proper management and disposal of the non-hazardous waste generated from its operations. The non-hazardous wastes generated by the Group's operations mainly consist of office paper usage. During the FY2021, the Group continues to educate its employees on the importance of reducing waste production in its greatest effort. The Group strives to achieve the target of reducing the amount of waste generated and targets to have waste management from the source by monitoring the volume consumption continuously.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the year ended 31 December 2021, the Group's quantitative information on the performance of non-hazardous waste disposal performance and its intensity is as follows:

Category of waste	Unit	2021	2020
Total non-hazardous waste	Tonnes	0.268	N/A
• Office paper		0.268	N/A
Intensity (per floor area)	Tonnes/m ²	0.0003	N/A

Note:

1. Intensity is measured by grouping every office waste of office paper in each office square meter.

A2: Use of Resources

The Group has introduced several measures to reduce environmental impact arising from its business operations by promoting the awareness of the need for resources conservation and achieving efficient utilization of resources to our employees.

In utilising the reservation of meeting rooms, our Group encourage staff to reserve the rooms by making scheduled appointment and release to others if their meeting reservations cancelled.

Energy Consumption

As a responsible environmental company, our goal is to reduce emission of greenhouse gases and energy consumption as much as possible. The Group's energy consumption is mainly composed of petrol consumption by vehicles and electricity consumption. In order to avoid excessive energy consumption, we have imposed measures to reduce use of electricity and petrol. Nevertheless, the Group will continue to implement energy saving measures as follows:

- Staff are required to turn on power saving mode for computers, printers and monitors when idle;
- Switch off air conditioners and power of computers by the end of the working day; and
- Encourage employees to host telephone conferences or video conferences where possible to reduce the use of vehicles.

Through the implementation of such measures, employees' awareness of reducing energy consumption has been continued to improve. The total energy consumption in 2021 has increased by approximately 96.4% from 2020 mainly due to expansion of Shanghai office and higher use of petrol in 2021.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the year ended 31 December 2021, the total electricity consumption and its intensity of the Group is as follows:

Types of energy	Unit	2021	2020
Total Energy Consumption	kWh	171,403	87,263
Direct Energy Consumption – Petrol		46,144	–
Indirect Energy Consumption – Electricity		125,259	87,263
Intensity (per floor area)	kWh/m ²	202	209

Water Consumption

Water consumption is used primarily for two purposes, including drinking water and daily cleaning. The water consumption of the Group's office in Kwun Tong is managed by the office's building management office and water usage data is not available in FY2021 and FY2020. Other than that, the Group uses tap water for daily cleaning purpose in Kwun Tong office and orders distilled water from suppliers for staff's drinking, which the water consumption is immaterial in Hong Kong. With the establishment of Shanghai headquarter in FY2021, the Group's water consumption amount has increased to approximately 290.0 m³. In order to reduce the water consumption of the Group, the office has issued a notice to remind the employee to turn off the taps after use as well as using it wisely. In addition, the office has also issued a notice to remind employees to cherish drinking water.

For the year ended 31 December 2021, the total water consumption performance and its intensity of the Group is as follows:

Water consumption	2021	2020
Water consumption (m ³)	290.0	–
Intensity (per floor area m ³ /m ²)	0.14	–

Use of Packaging Material

Given the business nature of the Group, the Group does not use packaging materials to customers in our daily operation. However, we still encourage our suppliers to use less packaging material when they delivering the hardware/software.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

A3: The Environment and Natural Resources

Although the business of the Group has a limited adverse impact on the environment and natural resources, as an ongoing commitment to good corporate social responsibility, the Group recognises its responsibility in minimizing the negative environmental impacts in its operations in order to achieve sustainable development and to generate greatest value for our stakeholders and the our community in long term. We strives to enhance the awareness among employees to participate in different kinds of recycling activities and minimizing the use of natural resources by participating different activities organised in the Group.

The Group regularly assesses the environmental risks of its business and implements preventive measures to reduce the risks in ensuring relevant laws and regulations are complied.

A4: Climate Change

Regarding energy use and reducing carbon emissions to address climate change, the Group has taken effective measures to create an atmosphere of energy saving and carbon reduction to cope with the impact of climate change. We are constantly improving the level of energy management, and have taken targeted measures to promote energy saving and emission reduction in the main energy consumption aspects such as fuel use of official vehicles, electricity consumption in data center and offices. The management has issued notice to remind the employee to turn off idle laptop, lights and air-conditioner after working hours.

As green office has become an inevitable choice in the low-carbon era, the Group actively advocates green management and green operation, and consciously integrates the concept of green development into its business and daily operations. In 2021, the Group promoted paperless transformation in its services and daily operations. We held meetings by means of video and voice, and conducted electronic process and approval through online approval system, e-mail, online Teams meeting and so on, effectively reducing dependence on resources while improving management efficiency.

The Group targets to reduce greenhouse gases emissions intensity by at least 10% and maintain or reduce the intensity of waste, petrol and electricity consumption in FY2022.

SECTION B. SOCIAL

B1: Employment

The Group develops employment policies regarding recruitment, compensation, promotion, dismissal, leave entitlements and other benefits and welfare. Employment and benefits provisions are communicated to staff through staff's handbooks. The Group is committed to creating an equal opportunity and a diverse work environment. All staff are assessed on the basis of their performance without discrimination against age, gender, pregnancy, disability, race, marital status or family status. The Group targets to maintain zero incidents of discrimination and harassment.

During FY2021, the Group was not aware of any material non-compliance with employment-related laws and regulations that would have a significant impact on the Group, including but not limited to the Employment Ordinance, the Sex Discrimination Ordinance, the Employees' Compensation Ordinance of Hong Kong, Macau Employment Laws and Regulations and the Regulation of Shanghai Municipality on Labor Contracts.

As at 31 December 2021, the Group had 141 full-time employees and 4 part-time employee, 122 of which are located in Hong Kong, 11 are located in Macau and 12 are located in Shanghai. Approximately 69% of the employees were male and 31% were female.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

As at 31 December 2021, the staff gender and age distribution by position is as follows:

Position	No. of employees	Male	Female	Aged under 30	Aged 30 to 40	Aged 41 to 50	Aged above 50
Manager or above	40	31	9	3	12	16	9
General staff	105	69	36	40	32	27	6

Staff turnover during the year ended 31 December 2021 is as follows:

Category	No. of employees	Male	Female	Aged under 30	Aged 30 to 40	Aged 41 to 50	Aged above 50
New staff	91	60	31	29	38	21	3
Staff turnover	85	63	22	34	25	21	5

B2: Health and Safety

The Group provides a safe and healthy working environment for its employees and sub-contractors and take all reasonable steps to prevent accidents and injuries during their work. There is a first aid kit in office. The Group also provides medical insurance for long-term employees. The health and safety policy of the Group states that one of the prime responsibilities of the management at all levels is to ensure all reasonably practicable actions are taken to comply with the Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) and the policy itself.

Besides, the Group strives to encourage the staff to exercise and maintain a healthy lifestyle. For the year ended 31 December 2021, the health and safety performances are periodically monitored and reviewed. The Group has implemented a sponsor to staff for having body check at least annually. Due to the continuous spread of the coronavirus pandemic, the Group has implemented special work arrangements, including working from home, shift rotation and flexible lunch arrangement. In addition, the Group provides additional protection for colleagues including both financial and personal protection during the COVID-19 pandemic. We have purchased a special "COVID-19 Care insurance plan" for all current employees. We adopted work from home arrangements to prevent a community-wide COVID-19. The Group requires all colleagues and visitors to strictly follow hygiene measures. The Group did not note any material non-compliance with laws and regulations in relation of employee health and safety during FY2021.

Additionally, we have implemented precautionary measures, such as arranging virtual meetings for clients instead of physical meetings, to minimize the transmission of germs and viruses. Such policies and measures are constantly updated to keep in line with the government's latest guidelines and target to maintain zero incidents of work-related fatalities or serious physical injury.

B3: Development and Training

Provide regular training to employees to ensure they have the appropriate skills to handle their daily job responsibilities. Employees are encouraged to participate in a variety of self-development training courses tailored to both general and managerial staff. The Group also sponsors employees to participate in external training courses required for their work. Encourage team leaders to work closely with employees to understand their development needs.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B4: Labour Standards

The Group strictly complies with the labour legislation on prevention of child and forced labour. In compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), there was no child nor forced labour in the Group's operation during FY2021 and FY2020. During the recruitment process, there is a procedure for collecting and reviewing identity and age verification documents. The Group did not note any material non-compliance with laws and regulations regarding employment and labour standards during FY2021 and FY2020.

B5: Supply Chain Management

The Group maintains a long term and stable relationship with major suppliers. All suppliers are carefully evaluated and regularly monitored. During the year ended 31 December 2021, the Group was not aware that any major suppliers' actions or practices that had a significant negative impact on business ethics, environmental protection, human rights and labour practices.

B6: Product Responsibility

Product responsibility is one of the Group's priorities. We are committed to delivering high connectivity, reliability and excellent customer services. During FY2021, the Group did not note any cases of material non-compliance regarding health and safety, advertising and labelling related to products and services provided as required by relevant laws and regulations, including but not limited to the Supply of Services (Implied Terms) Ordinance (Cap. 457, Laws of Hong Kong) and the Personal Data (Privacy) Ordinance (Cap. 486, Laws of Hong Kong) and Trade Descriptions Ordinance (Cap. 362, Laws of Hong Kong). During the Reporting Period, the Group did not receive any cases of product or service-related complaints, nor was it subjected to any product recalls.

The Group's policy is to respect intellectual property rights and prohibit the use of infringing articles in the business. All employees must strictly follow to the relevant laws such as the Copyright Ordinance. During FY2021, the Group did not find any significant non-compliance with relevant laws and regulations.

Additionally, the Group respects IP rights and therefore is committed to purchasing genuine copyrighted products such as computer software and firewalls. Fundamental guidelines are also provided to the employees to ensure they do not infringe upon any IP rights such as trademark and copyrights. Disciplinary or legal actions may be taken against the employee should he/she be found to be in breach of such rights.

The continuous support of our customers has always been one of the key factors for the success of the Group. Therefore, The Group is committed to providing quality service to its customers. Customer complaints (if any) will be reviewed by the appropriate technical team member to resolve. If necessary, the team will also report complaints to management for follow-up action.

Protecting customer data privacy is a priority in our relationship with customers. The Group is committed to preventing customer data leakage or loss by adopting stringent physical security measures and good industry practices. The Group has a comprehensive security policy to safeguard its assets and information. The Group's security and confidentiality guideline requires its staff to comply with regulations in relation to physical security, access control security, data security, application security, network and communication, and password management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Regarding data privacy, the Group requires its staff to follow the applicable laws such as Personal Data (Privacy) Ordinance when handling both customers' and internal personal data. Staff are required to agree to hold all confidential information in trust and confidence upon contract signing, during and after the staff's period of service. For governmental projects, the Group treats all information received from the Government as confidential and agrees to use the confidential information solely for the purposes of assignment contracts.

Due to the Group's business nature, the Group is not involved in material advertising, labelling and health and safety-related risks.

B7: Anti-corruption

The Group adheres to high standards of conduct and integrity. Each of our employees has an obligation and encourages them to report concerns about any misconduct and misconduct they have noticed. These include, but are not limited to, violations of legal or regulatory requirements, misconduct, misconduct or fraud that may adversely affect the group's reputation and image, as well as violations of the Code of Conduct.

We implement policies and procedures to minimise risks of fraud, corruption and bribery. Our whistleblowing policy in place allows our employees to report suspected irregularities at a high level, including direct reporting to the Chairman and CEO, the Board or the Audit Committee. Reporting can be conducted through various channels such as written report or email. For reported cases where an investigation is warranted, the outcomes and recommendations of the investigation will be reported to the Chairman and CEO. Our policies and practices aim at treating all disclosures in a confidential and sensitive manner and protecting our employees from any form of intimidation and retaliation.

Our principle on conduct and integrity is well conveyed to our employees through daily communication, seminars and training. Employees are encouraged to attend business ethics seminars given by Hong Kong Independent Commission Against Corruption, arranged by the human resources department of the Company under the anti-corruption training programme of our parent company. Our requirements on conduct and integrity are also communicated to our contractors and service providers who are expected to comply with the same.

B8: Community Investment

Apart from caring for its employees, the Group cares for its community and discharges its corporate social responsibilities by actively participating in voluntary services. With its care for people and the environment, the Group has long been recognised by the Hong Kong Council of Social Service with the "Caring Company Award" for seven consecutive years. Additionally, the Group also received the "Partner Employer Award", organized by The Hong Kong General Chamber of Small and Medium Business in recognition of our contribution in offering job opportunity to local university students and graduates and the Group are targeting to participate in at least 2 community events in FY2022.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

THE ESG REPORTING GUIDE CONTENT INDEX OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A1: Emissions		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to Exhaust Gas and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Emissions
KPI A1.1 (“comply or explain”)	The types of emissions and respective emissions data.	Emissions – Air and Greenhouse Gas Emissions, Business Air Travel, Waste Management
KPI A1.2 (“comply or explain”)	Direct (Scope 1), energy indirect (Scope 2) and other indirect (Scope 3) greenhouse gas emissions in total (in tonnes) and intensity.	Emissions – GHG Emissions
KPI A1.3 (“comply or explain”)	Total hazardous waste produced (in tonnes) and intensity.	Emissions – Waste Management Not applicable – Explained
KPI A1.4 (“comply or explain”)	Total non-hazardous waste produced (in tonnes) and intensity.	Emissions – Waste Management
KPI A1.5 (“comply or explain”)	Description of reduction initiatives and results achieved.	Emissions – GHG Emissions, Waste Management
KPI A1.6 (“comply or explain”)	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Emissions – Waste Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect A2: Use of Resources		
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	Use of Resources
KPI A2.1 (“comply or explain”)	Direct and/or indirect energy consumption by type in total and intensity.	Use of Resources – Energy Consumption
KPI A2.2 (“comply or explain”)	Water consumption in total and intensity.	Use of Resources – Water Consumption
KPI A2.3 (“comply or explain”)	Description of energy use efficiency initiatives and results achieved.	Use of Resources – Energy Consumption
KPI A2.4 (“comply or explain”)	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	Use of Resources – Water Consumption
KPI A2.5 (“comply or explain”)	Total packaging material used for finished products (in tonnes) and with reference to per unit produced.	Use of Resources – Use of Packaging Material Not applicable – Explained
Aspect A3: The Environment and Natural Resources		
General Disclosure	Policies on minimizing the issuer’s significant impact on the environment and natural resources.	The Environment and Natural Resources
KPI A3.1 (“comply or explain”)	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	The Environment and Natural Resources
Aspect A4: Climate Change		
General Disclosure	Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer.	Climate Change
KPI A4.1	Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them.	Climate Change

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B1: Employment		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Employment
KPI B1.1 (“Recommended Disclosures”)	Total workforce by gender, employment type, age group and geographical region.	Employment
Aspect B2: Health and Safety		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	Health and Safety
Aspect B3: Development and Training		
General Disclosure	Policies on improving employees’ knowledge and skills for discharging duties at work. Description of training activities.	Development and Training

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects,

General Disclosures and KPIs

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B4: Labour Standards		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Labour Standards
KPI B4.1 ("Recommended Disclosures")	Description of measures to review employment practices to avoid child and forced labour.	Labour Standards
Aspect B5: Supply Chain Management		
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management
Aspect B6: Product Responsibility		
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Product Responsibility
KPI B6.1 ("Recommended Disclosures")	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Product Responsibility
KPI B6.2 ("Recommended Disclosures")	Number of products and service related complaints received and how they are dealt with.	Product Responsibility
KPI B6.3 ("Recommended Disclosures")	Description of practices relating to observing and protecting intellectual property rights.	Product Responsibility – Protection of IP Rights
KPI B6.5 ("Recommended Disclosures")	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility – Data Privacy Protection

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B7: Anti-corruption	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Community Investment

INDEPENDENT AUDITOR'S REPORT



LINKSFIELD
CPA LIMITED

To the Shareholders of

Kinetix Systems Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of Kinetix Systems Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 71 to 144, which comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- revenue from certain IT Solutions Services which are treated as one performance obligation and recognised over time; and
- impairment for finance lease receivables, trade receivables, unbilled receivables and contract assets.

Key Audit Matters

How our audit addressed the Key Audit Matters

Revenue from IT Solutions Services which are treated as one performance obligation and recognised over time

We performed the following procedures to address the key audit matter:

Refer to Notes 2.23, 4(f) and 6 to the consolidated financial statements for related disclosures.

For the year ended 31 December 2021, the Group's revenue from IT infrastructure solutions services and IT development solutions services (collectively, the "IT Solutions Services") of approximately HK\$2.2 million and HK\$160.0 million, respectively, are treated as one performance obligation and are recognised over time because the Group considered these IT Solutions Services require the Group to carry out configuration, customisation, and integration of the hardwares and softwares in accordance with clients' requirements and specifications, which are highly interdependent with each other and involve significant integration activities.

The revenue arising from IT Solution Services should be recognised by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. The progress was measured by the input method, with reference to the proportion that contract costs incurred for work performed to date compared to the estimated total budgeted costs. The Group has determined that an input method is an appropriate method to measure the Group's progress towards complete satisfaction of a performance obligation satisfied over time.

- Obtained an understanding of management's internal control and processed of revenue from IT Solutions Services which are treated as one performance obligation and recognised over time and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as complexity, subjectivity, changes and susceptibility to management bias or fraud;
- Evaluated the design, implementation and operating effectiveness of key internal controls which govern revenue from IT Solution Services which are treated as one performance obligation and recognised over time;
- Tested the key controls, on a sample basis, over estimating costs to complete and budgeted margin of services contracts;
- Discussed with the project managers the status of the projects, to identify any variations, claims and provision on loss-making contracts, and to obtain explanations for fluctuations in margins and the expected recovery of variations;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters

We focused on this area because the magnitude of revenue from IT Solutions Services which are treated as one performance obligation and recognised over time are significant and determining the value of the services completed to date for the purpose of recognising revenue over time involved significant judgment and estimates.

How our audit addressed the Key Audit Matters

- Reviewed the content of the contracts of these IT Solutions Services and correspondence with customers to understand the nature of the services provided by the Group to their customers and assessed whether the promises to customers were distinct, highly interdependent with each other and involved significant integration activities, based on the facts and substances and the applicable accounting standard;
- Assessed the basis for estimation the budgeted costs by checking to the related contracts of the IT Solutions Services to the budgets prepared and performed retrospective review on budgeted costs;
- Tested, on a sample basis, the actual costs incurred on IT Solutions Services during the reporting period by tracing to the supporting documents; and
- Checked the mathematical accuracy of the calculation of cost allocation and completion progress of the IT Solutions Services.

Based upon the above, we found that management's judgment in determining the amount and timing of revenue from IT Solutions Services which are treated as one performance obligation and recognised over time were supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters

Impairment for finance lease receivables, trade receivables, unbilled receivables and contract assets

Refer to Notes 2.11.4, 3.1(b), 4(b), 19, 21 and 24 to the consolidated financial statements for related disclosures.

As at 31 December 2021, the Group had total gross finance lease receivables, trade receivables, unbilled receivables and contract assets (collectively, the "Receivables and Contract Assets") of approximately HK\$110.6 million and total loss allowance of approximately HK\$0.4 million. Loss allowance is made for lifetime expected credit losses ("ECLs") on these balances.

Management applied judgment in assessing the expected credit losses. Expected credit losses are estimated by grouping the Receivables and Contract Assets based on shared credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customer, its geographical location and its ageing category, and applying expected credit loss rates to the respective gross carrying amounts of the Receivables and Contract Assets. The expected credit loss rates are determined based on historical credit losses experienced from the past 2 years and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the Receivables and Contract Assets.

We focused on this area due to the magnitude of the balances of Receivables and Contract Assets, and the higher degree of estimation and judgment involved in determining the ECLs allowance of Receivables and Contract Assets. The inherent risk in relation to the determining of the ECLs allowance of Receivables and Contract Assets is considered significant due to subjectivity of significant assumptions used, and significant judgments involved in selecting data.

How our audit addressed the Key Audit Matters

We performed the following procedures to address the key audit matter:

- Understood, evaluated and validated, on a sample basis, the key control procedures over the management's estimation of ECLs allowance and periodic review of aged Receivables and Contract Assets and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors associated with estimating the ECLs;
- Obtained management's assessment on the ECLs allowance of Receivables and Contract Assets. We corroborated and validated, on a sample basis, management's assessment based on the historical credit losses experienced from the past 2 years, correspondence with the customers, evidence from external sources including the relevant market research regarding the relevant forward-looking information such as macroeconomic factors used in management's assessment;
- Involved our internal valuation expert to develop an auditor's point estimate in assessing the ECLs allowance including forward-looking information;
- Tested, on a sample basis, the accuracy of ageing profile of Receivables and Contract Assets by checking to the underlying sales invoices;
- Tested, on a sample basis, the subsequent settlement of receivables against bank receipts and the subsequent billing of unbilled receivables and contract assets.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (CONTINUED)

Key Audit Matters

How our audit addressed the Key Audit Matters

Based upon the above, we found that the estimation and judgment made by management in respect of the ECLs allowance and the collectability of Receivables and Contract Assets were supported by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSA's, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Kwok Chi Kan.

Linksfield CPA Limited

Certified Public Accountants

Hong Kong, 31 March 2022

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Revenue	6(a)	254,121	282,362
Cost of sales	8	(204,444)	(234,805)
Gross profit		49,677	47,557
Other income and gains	7	1,607	8,154
Selling expenses	8	(11,711)	(8,990)
(Provision for)/reversal of expected credit losses, net		(23)	743
Administrative and general expenses	8	(60,041)	(35,702)
Operating (loss)/profit		(20,491)	11,762
Finance costs	11	(1,609)	(437)
(Loss)/profit before income tax		(22,100)	11,325
Income tax credit/(expense)	12	656	(1,686)
(Loss)/profit for the year		(21,444)	9,639
Attributable to:			
Owners of the Company		(20,344)	10,316
Non-controlling interest		(1,100)	(677)
(Loss)/profit for the year		(21,444)	9,639
(Loss)/earnings per share for the (loss)/profit attributable to owners of the Company (in cents)			
Basic and diluted	13	(2.25)	1.29

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2021

	2021 HK\$'000	2020 HK\$'000
(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	(10)	–
Other comprehensive loss for the year, net of tax	(10)	–
Total comprehensive (loss)/income for the year	(21,454)	9,639
Attributable to:		
Owners of the Company	(20,354)	10,316
Non-controlling interest	(1,100)	(677)
	(21,454)	9,639

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
ASSETS			
<i>Non-current assets</i>			
Property, plant and equipment	16	10,884	1,224
Right-of-use assets	17(a)	15,709	1,733
Intangible asset	18	45,067	–
Financial lease receivables	19	2,392	7,240
Deposits and prepayments	21	747	2,931
Deposit and prepayment for a life insurance	22	6,712	6,747
Deferred income tax assets	26	–	96
		81,511	19,971
<i>Current assets</i>			
Inventories	23	11,855	15,303
Finance lease receivables	19	4,848	4,658
Trade and other receivables	21	84,391	85,939
Contract assets	24	28,066	24,904
Amount due from immediate holding company	32(b)	57	17
Amounts due from non-controlling shareholders	32(b)	243	243
Current income tax assets		766	–
Cash and cash equivalents	25(a)	29,966	35,793
		160,192	166,857
Total assets		241,703	186,828
EQUITY			
Share capital	27	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		129,603	97,902

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
LIABILITIES			
<i>Non-current liabilities</i>			
Lease liabilities	17(a)	15,489	4,331
Deferred income tax liabilities	26	61	–
		15,550	4,331
<i>Current liabilities</i>			
Trade and other payables	28	68,344	61,825
Contract liabilities	24	7,353	8,285
Bank borrowings	29	11,717	6,778
Amounts due to non-controlling shareholders	32(b)	3,044	1,684
Lease liabilities	17(a)	6,092	4,472
Current income tax liabilities		–	1,551
		96,550	84,595
Total liabilities		112,100	88,926
Total equity and liabilities		241,703	186,828

The consolidated financial statements on pages 71 to 144 were approved by the Board of Directors on 31 March 2022 and were signed on its behalf.

Yu Larry
Executive Director

Law Cheung Moon
Executive Director

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Attributable to the owners of the Company									
	Share capital HK\$'000	Share premium HK\$'000 (note i)	Other reserve HK\$'000 (note ii)	Share-based payment reserve HK\$'000	Convertible bonds equity reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
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 (Note 30)	-	-	-	-	10,149	-	-	10,149	-	10,149
Issuance of shares upon conversion of convertible bonds (Note 27)	1,600	46,914	-	-	(10,149)	-	-	38,365	-	38,365
Share-based payments (Note 10)	-	-	-	4,048	-	-	-	4,048	-	4,048
Exercise of share options (Note 10)	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:

- Share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued.
- 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.

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2021

	Notes	2021 HK\$'000	2020 HK\$'000
Cash flows from operating activities			
Cash generated from/(used in) operations	31(a)	9,502	(18,289)
Bank interest received		8	178
Hong Kong Profits tax paid		(1,504)	(1,798)
Net cash generated from/(used in) operating activities		8,006	(19,909)
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,181)	(501)
Payment for a life insurance policy		–	(6,935)
Repayments from non-controlling shareholders		–	15
Advances to immediate holding company		(40)	(9)
Net cash used in investing activities		(12,221)	(7,430)
Cash flows from financing activities			
Principal elements of lease payments	31(b)	(5,962)	(3,185)
Interest elements of lease payments	31(b)	(995)	(245)
Finance cost paid	31(b)	(100)	(192)
Proceeds from bank loans	31(b)	11,200	24,434
Repayment of bank loans	31(b)	(6,261)	(17,656)
Exercise of share option	10	593	–
Net cash (used in)/generated from financing activities		(1,525)	3,156
Net decrease in cash and cash equivalents		(5,740)	(24,183)
Cash and cash equivalents at the beginning of the year		35,793	59,976
Effect of foreign exchange rate changes		(87)	–
Cash and cash equivalents at the end of the year		29,966	35,793

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

1 GENERAL 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are in note 4.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation (continued)

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for business combinations by the Group. Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated income statement, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position respectively.

2.3 Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred,
- liabilities incurred to the former owners of the acquired business,
- equity interests issued by the Group,
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Business combinations (continued)

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration payable is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

2.4 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment in the separate financial statements of the Company. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the investments in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.5 Foreign currency translation

(i) *Functional and presentation currency*

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar ("HK\$"), which is the Company's functional currency and the Group's presentation currency.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.5 Foreign currency translation (continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in profit or loss. Foreign exchange gains and losses are presented in the consolidated income statement on a net basis within other income and gains.

(iii) Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position,
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

2.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

– Leasehold improvements	over the shorter of remaining lease term on 20%–25% per annum
– Furniture and fixtures	20% per annum
– Equipment	20%–30% per annum
– Motor vehicles	10% per annum

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Property, plant and equipment (continued)

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gains and losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised within "Other income and gains" in the consolidated income statement.

2.7 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker (the "CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors, who makes strategic decisions.

2.8 Intangible assets – exclusive LED products agency selling rights

Separately acquired exclusive LED products agency selling rights are shown at historical cost. Exclusive LED products agency selling rights are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on a first-in, first-out basis and includes all costs of purchase, costs of conversion, and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2.10 Impairment of non-financial assets

Assets that have an indefinite useful life or assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there is separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets to be measured at amortised costs.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

2.11.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.11.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

2.11.4 Impairment of financial assets

The Group assesses on a forward looking basis the expected credit losses ("ECLs") associated with its financial assets measured at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For finance lease receivables, trade receivables, unbilled receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in event of default, insolvency or bankruptcy of the Group or the counterparty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.13 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair values and subsequently measured at amortised cost using the effective interest method, less allowance for impairment.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

2.15 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.16 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business, if longer). If not, they are presented as non-current liabilities.

Trade and other payables are initially recognised at fair value, and subsequently carried at amortised cost using the effective interest method.

2.17 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses. Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Current income tax

Current income tax for current and prior periods is recognised at the amount expected to be paid to or recovered from the tax authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the consolidated statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.17 Current and deferred income tax (continued)

(ii) *Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the financial year period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in foreign operations where the company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the Group has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

(iii) *Investment allowances and similar tax incentives*

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets or in relation to qualifying expenditure. The group accounts for such allowances as tax credits, which means that the allowance reduces current income tax payable, current income tax expense and deferred income tax assets.

2.18 Employee benefits

(i) *Retirement benefit costs*

Payments to the state-managed retirement benefit scheme or the Mandatory Provident Fund Scheme are recognised as expense when employees have rendered services entitling them to the contributions.

The employees of the Group are members of state-managed retirement benefit scheme operated by the People's Republic of China (the "PRC") government or members of the Mandatory Provident Fund Scheme in Hong Kong. The Group are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit schemes is to make the required contributions under the schemes. For the year ended 31 December 2021, there was no forfeiture of retirement benefits schemes contributions (by employers on behalf of employees who leave the scheme prior to vesting fully in such contributions) in the Group. As at 31 December 2021, no forfeited contribution under the retirement benefits schemes of the Group is available to reduce the contribution payable in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Employee benefits (continued)

(ii) *Employee leave entitlements*

Employee entitlements to annual leave are recognised when they accrue to employees. Accrual is made for the estimated liability for annual leave as a result of services rendered by employees up to the consolidated statement of financial position date.

(iii) *Employee long service payment*

Under the Hong Kong Employment Ordinance, the Group is required to make long service payments to its employees upon the termination of their employment or retirement on ground of old age when the employee fulfils certain conditions and the termination meets the required circumstances. Further, where accrued benefits (excluding any part attributable to the employee's contributions) have been paid to the employee, or is being held in a mandatory provident fund scheme by the employee, which is the case for most of the eligible employees of the Group, the long service payment is offset against the aforementioned amount of benefits to the extent that they relate to the employee's years of service for which the long service payment is payable.

The Group makes its estimates of its obligations to make long service payments to its employees in the event of termination of their employment or retirement. The Group's obligations to make such long service payments are recognised in the consolidated income statement as long service payment liabilities at the present value (where the effect of discounting is material) of the long service payment obligations, which are estimated after deducting the entitlements accrued under the Group's defined contribution retirement scheme that are attributable to contributions made by the Group. Service cost, net interest on the long service payment liabilities (where discounting to present value is adopted because the effect of discounting is material) and remeasurements of the long service payment liabilities are recognised in consolidated income statement.

2.19 Provisions

Provisions for legal claims, service warranties and make good obligations are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.20 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

2.21 Convertible bonds

The convertible bonds have been recognised as compound financial instruments. The compound financial instruments issued by the Company are convertible bonds that can be converted into share capital at the option of the holder, and the number of shares to be issued does not change with its fair value.

If the convertible bonds holders convert the convertible bonds to share capital, and the number of shares to be issued does not vary with changes in their fair value, the convertible bonds are classified as compound financial instruments. The liability component of a compound financial instrument is recognised initially at the fair value then measured by amortised cost of a similar liability that does not have an equity conversion option. The equity component is recognised initially at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component, which is included in shareholders' equity in convertible bonds equity reserve. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

Other borrowing costs are expensed in the period in which they are incurred.

2.23 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the rendering of services in the ordinary course of the Group's activities.

If contracts involve the sale of multiple elements, the transaction price will be allocated to each performance obligation based on their relative stand-alone selling prices. If the stand-alone selling prices are not directly observable, they are estimated based on expected cost plus a margin or adjusted market assessment approach, depending on the availability of observable information.

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point of time.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Details of the Group's revenue and other income recognition policies are as follows:

(a) Revenue from IT infrastructure solution services

Certain revenue from IT infrastructure solutions services that require the Group to carry out installation, testing and integration works is recognised over time using the input method by reference to the progress towards complete satisfaction of the relevant performance obligation, as the Group's performance creates and enhances an asset that the customer controls as the Group performs the services at its customers' premises. However, revenue arising from contracts for IT infrastructure solutions which involves just sales of hardwares and/or softwares are recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from these types of services is recognised when the hardwares and/or softwares are delivered and accepted by the customers, which is a point in time when customers have the ability to direct the use of the hardwares and/or softwares and obtain substantially all of the remaining benefits of the hardwares and/or softwares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

(a) Revenue from IT infrastructure solution services (continued)

The Group's IT infrastructure solutions services contracts include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits, when the Group receives a deposit before IT infrastructure solutions services commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the IT infrastructure solutions services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional.

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which is within one year from the date of the practical completion of the IT infrastructure solutions services. The relevant amount of contract assets is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the IT infrastructure solutions services performed comply with agreed-upon specifications and such assurance cannot be purchased separately.

(b) Revenue from IT development solution services

Revenue from IT development solutions services is recognised over time using the input method by reference to the progress towards complete satisfaction of the relevant performance obligation, as the Group's performance creates and enhances an asset that the customer controls as the Group performs the services at its customers' premises.

The Group's IT development solutions services contracts include payment schedules which require stage payments over the service period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits, when the Group receives a deposit before IT development solutions services commence, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the specific contract exceeds the amount of the deposit.

A contract asset, net of contract liability related to the same contract, is recognised over the period in which the IT development solutions services are performed representing the Group's right to consideration for the services performed because the rights are conditioned on the Group's future performance in achieving specified milestones. The contract assets are transferred to trade receivables when the rights become unconditional.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Revenue recognition (continued)

(b) Revenue from IT development solution services (continued)

Retention receivables, prior to expiration of defect liability period, are classified as contract assets, which is within one year from the date of the practical completion of the IT development solutions services. The relevant amount of contract assets is reclassified to trade receivables when the defect liability period expires. The defect liability period serves as an assurance that the IT development solutions services performed comply with agreed-upon specifications and such assurance cannot be purchased separately.

(c) Revenue from IT maintenance and support services

Revenue relating to the IT maintenance and support services is recognised over time as the customers simultaneously receive and consume the benefits provided by the Group when the Group renders the services. The transaction price is recognised as a contract liability at the time of the initial transaction and is released on a straight-line basis over the period of service.

(d) Entertainment products

The Group sells entertainment products to the distributors.

Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the distributors. Following the delivery, the distributors have full discretion over the manner of distribution and price to sell the goods, have the primary responsibility when on selling the goods and bear the risks of obsolescence and loss in relation to the goods.

(e) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method.

2.24 Share-based payments

The Company adopted a share option scheme to directors, company secretary, employees. The fair value of the options granted is recognised as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions.

The total expense is recognised over the vesting period which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Company revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the consolidated income statement, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.25 Earnings per share

(i) **Basic earnings per share**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year and excluding treasury shares.

(ii) **Diluted earnings per share**

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

2.26 Leases – as a lessee

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the fixed lease payments. Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions. To determine the incremental borrowing rate, the Group, where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received and makes any adjustments specific to the lease, e.g. term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.26 Leases – as a lessee (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of premises and all leases of low-valued assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Group's finance statements in the period in which dividends are approved by the Group's shareholders or directors, where appropriate.

2.28 Government grants

Government grants are recognised at their fair value when there is reasonable assurance that the grant will be received and the Group will comply with all the attached conditions.

Government grants are recognised as income over the period necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to market risk (including foreign exchange and interest rate), credit risk and liquidity risk. The Group's overall risk management programme focuses on the analysis, evaluation, acceptance and monitoring of such risks which are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimise potential adverse effect on the Group's financial performance.

3.1 Financial risk factors

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions, recognised assets or liabilities denominated in a currency that is not the functional currency of the relevant group entity. The Group mainly operates in Hong Kong and the PRC. The majority of the transactions at each location are settled in the respective local currencies, namely HK\$ and Renminbi ("RMB").

Management closely monitors foreign currency exchange exposure and will take measures to minimise the currency translation risk. The Group manages its foreign exchange risk by performing regular reviews of the Group's net foreign exchange exposure. The Group has not used any hedging arrangement to hedge its foreign exchange risk exposure as management considers its exposure is not significant.

For the companies with HK\$ as their functional currency, transactions conducted in foreign currencies are mainly in United States dollars ("US\$") and Euros ("EUR").

The Group has minimal exposure to foreign exchange risk between US\$ and HK\$ as they are linked between each other under the Linked Exchange Rate System. Accordingly, no sensitivity analysis is performed.

As at 31 December 2021, if HK\$ had weakened/strengthened by 5% (2020: 10%) against EUR with all other variables held constant, pre-tax loss for the year would have been approximately HK\$300 lower/higher (2020: pre-tax profit for the year would have been approximately HK\$8,100 higher/lower), mainly as a result of foreign exchange gains/losses on the financial assets that are denominated in EUR.

The functional currency of the PRC reporting entities is RMB and the transactions are mostly denominated in RMB, the conversion of RMB into foreign currencies is subject to the rules and regulations of the foreign exchange control promulgated by the PRC government.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(i) Interest rate risk

The Group has no significant interest-bearing assets and liabilities other than cash at bank, deposits for a life insurance policy, and bank borrowings, which carried interest at floating rates and are exposed to cash flow interest rate risk.

In the opinions of the directors, the interest income derived from the bank balances is insignificant and the Group's income and operating cash flows are substantially independent of changes in market interest rates. Accordingly, no sensitivity analysis is performed.

At 31 December 2021, if interest rate on deposit for a life insurance policy had been 50 basis points (2020: 50 basis points) higher/lower with all other variables held constant, pre-tax loss for the year would have been approximately HK\$19,000 lower/higher (2020: pre-tax profit for the year would have been approximately HK\$18,000 higher/lower), as a result of higher/lower interest income on deposit for a life insurance policy.

At 31 December 2021, if interest rate on bank borrowings had been 50 basis points (2020: 50 basis points) higher/lower with all other variables held constant, pre-tax loss for the year would have been approximately HK\$59,000 higher/lower (2020: pre-tax profit for the year would have been approximately HK\$34,000 lower/higher), as a result of higher/lower interest expenses on bank borrowings.

(b) Credit risk

Credit risk refer to the risk that the counter-party fails to meet its contractual obligations resulting in financial loss to the Group. The credit risk of the Group mainly arises from finance lease receivables, trade receivables, unbilled receivables, contract assets, other receivables, deposits, deposit for a life insurance policy, amounts due from immediate holding company/non-controlling shareholders of subsidiaries and bank balances. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position.

The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and other items.

The Group applies the simplified approach in HKFRS 9 to measure the ECLs for finance lease receivables, trade receivables, unbilled receivables, and contract assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

The Group applies the general approach in HKFRS 9 to measure the ECLs for financial assets at amortised cost that are not qualified for simplified approach, which uses a three-stage model to calculate the loss allowances. According to the changes of credit risk of financial instruments since the initial recognition, the Group calculates the ECLs by three stages:

- Stage 1: A financial instrument of which the credit risk has not significantly increase since initial recognition. The amount equal to 12-month ECLs is recognised as loss allowance.
- Stage 2: A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECLs is recognised as loss allowance.
- Stage 3: A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECLs is recognised as loss allowance.

Assessment of significant increase in credit risk

Significant increase in credit risk is assessed by comparing the risk of default of an exposure at the reporting date with the risk of default at origination (after considering the passage of time). 'Significant' does not mean statistically significant nor is it reflective of the extent of the impact on the Group's financial statements. Whether a change in the risk of default is significant or not is assessed using quantitative and qualitative criteria, e.g. payment being past due by more than 30 days, the weight of which will depend on the type of product and counterparty.

Assessment of credit-impaired

Credit-impaired financial assets comprise those assets that have experienced an observed credit event and are in default. Default represents those assets that are at least 90 days past due and/or where the assets are otherwise considered unlikely to pay, such as bankruptcy, fraud or death. This definition is consistent with internal credit risk management and the regulatory definition of default.

Bank balances

The credit risk on deposits with banks is limited because the counterparties are several reputable and creditworthy banks. Management does not expect any losses from non-performance by these banks and financial institutions as they have no default history in the past. Therefore, expected credit loss rate of cash at bank is assessed to be immaterial and no provision was made as at 31 December 2021 and 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Finance lease receivables, trade receivables, unbilled receivables and contract assets

As at 31 December 2021, the Group is exposed to concentration of credit risk as 6% (2020: 22%), 38% (2020: 39%) and 9% (2020: nil) of the total trade receivables, unbilled receivables and contract assets were due from the largest customer respectively. The major customers of the Group are reputable organisations. For finance lease receivables, they are due from a reputable company and listed on Main Board of Stock Exchange (2020: same). Management considers that the credit risk is limited in this regard.

The Group applied HKFRS 9 simplified approach to measure the ECL for finance leases receivables, trade receivables, unbilled receivables, and contract assets, which uses a lifetime expected credit loss allowance. In order to measure their ECLs, they have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the historical credit losses experienced from the past 2 years and the corresponding historical credit losses experienced within the period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified factors such as the Gross Domestic Product index to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Finance lease receivables, trade receivables, unbilled receivables and contract assets (continued)

The loss allowance for finance leases receivables, trade receivables, unbilled receivables, and contract assets as at 31 December 2021 and 2020 was determined as follows:

	Expected loss rate	Gross carrying amount HK\$'000	Lifetime expected credit loss HK\$'000	Net carrying amount HK\$'000
As at 31 December 2021				
Not yet due or within 180 days	0.06%	102,888	(64)	102,824
181–360 days past due	1.69%	7,562	(128)	7,434
361–540 days past due	–	–	–	–
541–720 days past due	97.0%	199	(193)	6
More than 720 days past due	–	–	–	–
		110,649	(385)	110,264
As at 31 December 2020				
Not yet due or within 180 days	0.31%	116,469	(361)	116,108
181–360 days past due	0.16%	640	(1)	639
361–540 days past due	100%	7,879	(7,879)	–
541–720 days past due	–	–	–	–
More than 720 days past due	–	–	–	–
		124,988	(8,241)	116,747

Impairment losses on finance leases receivables, trade receivables, unbilled receivables, and contract assets are presented as “(Provision for)/reversal of expected credit losses, net” in the consolidated income statement. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are recognised as in the consolidated income statement.

Other receivables, deposits, deposit for a life insurance policy, and amounts due from immediate holding company/non-controlling shareholders of subsidiaries

The Group adopted general approach for expected credit loss of other receivables, deposits, deposit for a life insurance policy, and amounts due from immediate holding company/non-controlling shareholders of subsidiaries. The Group considered these financial assets have not significantly increased in credit risk from initial recognition. Thus, these financial assets are classified in stage one and only considered 12-month ECLs. Considering the history of default and forward-looking factor, the expected credit loss is immaterial.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statement of financial position date to the contractual maturity date. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year or on demand HK\$'000	Between 1 to 2 years HK\$'000	Between 2 to 5 years HK\$'000	Total contractual undiscounted cash flows HK\$'000	Total carrying amount HK\$'000
As at 31 December 2021					
Trade and other payables	45,312	–	–	45,312	45,312
Bank borrowings	11,917	–	–	11,917	11,717
Amounts due to non- controlling shareholders	3,044	–	–	3,044	3,044
Lease liabilities	7,064	6,231	10,704	23,999	21,581
	67,337	6,231	10,704	84,272	81,654
As at 31 December 2020					
Trade and other payables	25,625	–	–	25,625	25,625
Bank borrowings	6,955	–	–	6,955	6,778
Amounts due to non- controlling shareholders	1,684	–	–	1,684	1,684
Lease liabilities	4,763	2,692	1,765	9,250	8,803
	39,027	2,692	1,765	43,514	42,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Bank borrowings with a repayment on demand clause are included in the “Less than 1 year or on demand” time band in the above maturity analysis. The table below summarises the maturity analysis of bank borrowings based on agreed scheduled repayments set out in the loan agreements. The amounts include interest payables computed using contractual rates. As a result, these amounts were greater than the amounts disclosed in the “Less than 1 year or on demand” time band above. Taking into account the Company’s financial position, the directors do not consider that it is probable that the bank will exercise its discretion to demand immediate repayment. The directors believe that such term loans will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

	2021	2020
Bank borrowings subject to a repayment on demand clause based on scheduled repayments		
Within one year	9,327	3,339
Within a period of more than one year but not exceeding two years	1,106	1,143
Within a period of more than two years but not exceeding five years	1,484	2,473
	11,917	6,955

(d) Fair value estimation

Fair value measurements by level of a fair value measurement hierarchy are not disclosed as no financial assets are stated at fair value on the three level hierarchy basis in the consolidated statement of financial position.

The carrying amounts of the Group’s financial assets and financial liabilities recorded at amortised cost in the consolidated statement of financial position approximate to their fair values. The fair value for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments, unless the discounting effect is insignificant.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to the shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group's overall strategy remains unchanged throughout the year.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The capital structure of the Group represents equity attributable to owners of the Company, comprising issued share capital, retained earnings, and other reserves. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to the member, return capital to the members, issue new shares or sell assets to reduce debt.

The Group monitors capital with reference to its debt position. The Group's strategy was to maintain the equity and debt in a balanced position and ensure there was adequate working capital to service its debt obligations. At 31 December 2021, the ratio of the Group's total liabilities over its total assets was 46% (2020: 48%).

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2021 and 2020.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Useful lives of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or nonstrategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charges in the future periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Loss allowance of finance lease receivables, trade receivables, unbilled receivables, deposits and other receivables, and contract assets

The Group estimated the ECL based on historical credit loss experience and forward-looking information and an assessment of both the current as well as the forecast conditions at the year end, including time value of money where appropriate. At each year end, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The Group uses judgment in making these assumptions and selecting the inputs to the impairment calculation, based on the number of days that an individual receivable is outstanding as well as the debtor's historical repayment history and forward-looking information at the year end. Changes in these assumptions and estimates could materially affect the result of the assessment and it may be necessary to make additional loss allowance to the consolidated income statement.

(c) Termination date of a life insurance policy

The Group entered into a life insurance policy to insure the Chairman of the Group during the year. The Group estimates the termination date of such life insurance policy is at the end of the twenty-first policy year in 2041.

This estimate is based on the assumption that such life insurance policy would only be terminated at the age of the retirement of the Chairman of the Group. The actual retirement age of the Chairman may differ from estimation. Periodic review could result in a change in the amortisation of premium charges on a life insurance policy and imputed interest income from a deposit for a life insurance policy. As at 31 December 2021, the carrying amounts of deposit and prepayments for the life insurance policy are HK\$6,872,000 (2020: HK\$6,907,000) (Note 22).

(d) Income and deferred income taxes

The Group is subject to income taxes in Hong Kong and the PRC. Significant judgment is required in determining the provision for income taxes and the recognition of deferred tax assets. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. In addition, there are cumulative taxation losses and other temporary differences carried forward. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. The Group does not recognise deferred taxation assets because, in the opinion of the directors, it is not probable that sufficient future taxable profit will be available.

(e) Share-based compensation

HKFRS 2 "Share-based payment" requires the Group to account for share options granted to the employees of the Group based on the estimated fair value on the date of grant. The estimated fair value is calculated based on Black-Scholes pricing model using assumptions and estimates that the Group believes are reasonable. The use of different assumptions and estimates for the pricing model could produce materially different estimated fair values for share options and related expense.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(f) Revenue recognition from certain provision of IT Solutions Services which are treated as one performance obligation and over time

Revenue arising from IT infrastructure solutions services which involved configuration, customisation and integration of the hardwares and softwares in accordance with clients' requirements and specifications. Revenue arising from IT development solutions services is involved tailor-made IT development solution services that cater for clients' own requirements. IT development solutions services usually entail system analysis and design, system development and technology consultancy depending on the project requirements which can customise clients' needs.

The management assessed and concluded that there are significant integration activities for the above mentioned IT solutions services. Also, these solutions provided were customised for the Group's customers and they were highly interdependent with each other. Therefore, the above mentioned services are treated as one performance obligation. Under HKFRS 15, one of the criteria for revenue to be recognised overtime is when control of the asset is transferred over time when the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced. Based on the assessment by the directors of the Company, the customer controls the asset as it is created or enhanced as the Group performs the services at its customers' premises. Accordingly, the revenue from the above mentioned IT solutions services is considered to be one performance obligation satisfied over time.

For the revenue from IT solutions services recognised over time, the Group recognised revenue by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. The progress was measured by the percentage of completion, with reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and no profit is recognised. Management reviewed and revised the estimates of contract revenue and contract costs for each contract as the contract progresses. Management used significant judgments and estimations to determine the progress towards complete satisfaction of the performance obligation at the reporting date.

In respect of transactions where the related consideration are concluded to be recognised as revenue over time, the Group has determined that an input method is an appropriate method to measure the Group's progress towards complete satisfaction of a performance obligation satisfied over time, which is based on contracts costs incurred for work performed to date compared to the estimated total budgeted costs.

Significant judgments are required in determining whether the above mentioned IT solutions services should be treated as one performance obligation and the progress towards complete satisfaction of the performance obligation at the reporting date. The recognition is sensitive to changes in total budget costs. For the year ended 31 December 2021, revenue from the related IT infrastructure solutions services of HK\$2,159,000 (2020: HK\$576,000) and IT development solutions services of HK\$105,969,000 (2020: HK\$74,586,000) were recognised over time. The information about the revenue from IT solutions over time is disclosed in Note 6.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(g) Lease

The Group entered into 3-year contracts with a customer for the right to use of security systems, with a bundle of hardware and software and their specifications explicitly specified in the contract. Customer has the right to control the use of the security systems throughout the 3-year period of use because the customer has the right to obtain substantially all the economic benefits from the use of the security systems and has the right to direct how and for what purpose the assets are used throughout the period of use.

The customer controlled the specifications and design of that bundle of hardware and software, which, in effect, control the use of the security systems to be provided by the Group.

The customer has exclusive use of the security systems.

The customer made the decision about how and for what purposes the security systems are used by deciding (1) where to install the security systems (2) how to make use of the security systems to avoid loss of assets. Customer has the right to change these decisions during the 3-year period of use.

Although the Group retained decisions about maintaining the security systems which are essential to their efficient use, those decisions do not give the Group the right to direct and for what purpose the security systems are used. The Group does not control the use of security systems during the period of use. The directors of the Company concluded that the contract contained a lease (the “sublease contract”).

Since the security systems were originally leased by the Group by a 3-year lease contract from a supplier (“head lease”) and re-leased to the above-mentioned customer (“sublessee”), the directors of the Company regarded this as a sublease arrangement (“sublease arrangement”), recognised as finance lease.

5 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

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, 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				
	IT solutions services			Entertainment products	Total
	IT infrastructure solutions services	IT development solutions services	IT maintenance and support services		
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	26,416	13,107	8,528	1,626	49,677
Corporate and unallocated expenses, net					(71,777)
Loss before income tax					(22,100)
Income tax credit					656
Loss for the year					(21,444)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

	For the year ended 31 December 2020				Total HK\$'000
	IT solutions services		IT maintenance and support services	Entertainment products	
	IT infrastructure solutions services	IT development solutions services			
	HK\$'000	HK\$'000	HK\$'000	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	17,564	17,013	9,783	3,197	47,557
Corporate and unallocated expenses, net					(36,232)
Profit before income tax					11,325
Income tax expenses					(1,686)
Profit for the year					9,639

(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	2,267	7,571
	254,121	282,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

5 SEGMENT INFORMATION (CONTINUED)

(b) Geographic information (continued)

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	23,176	–
	71,660	2,957

(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 HK\$'000	2020 HK\$'000
Customer A	–	38,416
Customer B	–	34,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

(a) Disaggregation of revenue from contracts with customers

	2021 HK\$'000	2020 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
	254,121	282,362

	For the year ended 31 December 2021				
	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	
At a point in time	101,976	–	–	15,886	117,862
Over time	2,159	105,969	25,431	2,700	136,259
	104,135	105,969	25,431	18,586	254,121

	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	
At a point in time	132,692	–	–	46,854	179,546
Over time	576	74,586	27,654	–	102,816
	133,268	74,586	27,654	46,854	282,362

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

(b) Assets and liabilities related to contracts with customers

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

	2021 HK\$'000	2020 HK\$'000
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)
	28,066	24,904
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)
	(7,353)	(8,285)

7 OTHER INCOME AND GAINS

	2021 HK\$'000	2020 HK\$'000
Bank interest income	8	178
Government grants (Note (i))	5	5,762
Finance lease interest income	391	283
Gain on finance lease arrangement (Note (ii))	–	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
	1,607	8,154

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

8 EXPENSES BY NATURE

	2021 HK\$'000	2020 HK\$'000
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 (Note 17(b))	342	87
Depreciation of property, plant and equipment (Note 16)	2,440	735
Depreciation of right-of-use assets (Note 17(b))	4,922	2,262
Amortisation of intangible asset (Note 18)	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 (Note 9)	70,351	54,304
Insurance expenses	531	405
Provision for onerous contracts, net of reversal	–	645
Other expenses	6,078	2,612
Total cost of sales and selling and administrative and general expense	276,196	279,497

9 EMPLOYEE BENEFIT COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2021 HK\$'000	2020 HK\$'000
Wages and salaries	64,071	52,454
Employer's contribution to defined contribution plans	2,232	1,850
Equity-settled share-based payments (Note 10)	4,048	–
	70,351	54,304

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

	2021 HK\$'000	2020 HK\$'000
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	–
Total compensation paid to key management personnel	5,166	4,093

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9 EMPLOYEE BENEFIT COSTS, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(a) Benefits and interest of directors

(i) Directors' emoluments

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

	Fees HK\$'000	Salaries, allowances, and benefits in kind HK\$'000	Employer's contribution to defined contribution plans HK\$'000	Discretionary bonuses HK\$'000	Equity-settled share-based payments HK\$'000	Total HK\$'000
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)	-	-	-	-	-	-
	271	3,132	54	-	143	3,600

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9 EMPLOYEE BENEFIT COSTS, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(a) Benefits and interest of directors (continued)

(i) Directors' emoluments (continued)

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

	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>					
<i>Yu Larry</i>					
(Chief executive officer)	-	1,179	30	-	1,209
<i>Law Cheung Moon</i>					
(Head of enterprise services)	-	664	22	-	686
<i>Leung Patrick Cheong Yu</i>					
(Sales director)	-	972	18	-	990
<i>Independent non-executive directors</i>					
<i>Yeung Wai Keung (Note iii)</i>					
	60	-	-	-	60
<i>Lam Yau Hin (Note v)</i>					
	60	-	-	-	60
<i>Lam Shun Ka</i>					
	60	-	-	-	60
<i>Non-executive directors</i>					
<i>Cheng Kwan Ngai (Note i)</i>					
	7	-	-	-	7
	187	2,815	70	-	3,072

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9 EMPLOYEE BENEFIT COSTS, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(a) Benefits and interest of directors (continued)

(i) Directors' emoluments (continued)

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.

There was no arrangement under which a director has waived or agreed to waive any emolument during the year.

The remuneration shown above represents remuneration received from the Group by these directors in their capacity as employees to the Group or Operating Subsidiaries and no directors waived or agreed to waive any emolument during each of the years ended 31 December 2021 and 31 December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

9 EMPLOYEE BENEFIT COSTS, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(a) Benefits and interest of directors (continued)

(ii) Directors' retirement and termination benefits

No retirement benefits were paid to or receivable by any directors in respect of their other services in connection with the management of the affairs of the Group or its subsidiaries undertaking during the year ended 31 December 2021 (2020: Nil).

No payment was made to the directors as compensation for early termination of the appointment during the year ended 31 December 2021 (2020: Nil).

(iii) Consideration provided to third parties for making available directors' services

No payment was made to any former employers of the directors for making available the services of them as a director of the Group during the year ended 31 December 2021 (2020: Nil).

(iv) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

Save as disclosed in Note 32(c), there were no other loans, quasi-loans and other dealings in favour of the directors, controlled bodies corporate by and connected entities with such directors during the year ended 31 December 2021 (2020: Nil).

(v) Directors' material interests in transactions, arrangements or contracts

Save as disclosed in the Note 32(c), no significant transactions, arrangements and contracts in relation to the Group's business to which the Group was a party and in which a director of the Group had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2021 (2020: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group include two directors, whose emoluments were reflected in the analysis presented in Note 9(a) during the year ended 31 December 2021 (2020: two). The emoluments paid/payable to the remaining include three individuals (2020: three) are as follows:

	2021 HK\$'000	2020 HK\$'000
Wages and salaries	3,678	3,495
Employer's contribution to defined contribution plans	55	51
Equity-settled share-based payments	614	–
	4,347	3,546

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For the year ended 31 December 2021

9 EMPLOYEE BENEFIT COSTS, INCLUDING DIRECTORS' EMOLUMENTS (CONTINUED)

(b) Five highest paid individuals (continued)

The emoluments fell within the following bands:

	Number of individuals	
	2021	2020
Emolument band		
Nil to HK\$1,000,000	1	–
HK\$1,000,001 to HK\$2,000,000	1	3
HK\$2,000,001 to HK\$3,000,000	1	–
	3	3

During the year ended 31 December 2021, no emoluments have been paid by the Group to the directors or the five highest paid individuals mentioned above as an inducement to join or upon joining the Group, or as compensation for loss of office (2020: Nil).

10 SHARE OPTION SCHEME/SHARE-BASED PAYMENT

Pursuant to an ordinary resolution passed in the Company's special general meeting held on 24 June 2018, the Company approved and adopted a share option scheme (the "Share Option Scheme") which will remain in force for a period of 10 years from the date of its adoption.

During the year ended 31 December 2021, 80,000,000 share options (2020: Nil) were granted to certain directors, the company secretary of the Company and certain employees of the Group, of which 2,390,000 share options were granted to directors.

The table below discloses movement of share options granted under the Share Option Scheme:

	Number of share options
Outstanding as at 1 January 2021	–
Granted on 16 August 2021	48,000,000
Granted on 20 August 2021	32,000,000
Exercised	(3,900,000)
Lapsed	(9,600,000)
Outstanding as at 31 December 2021	66,500,000

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For the year ended 31 December 2021

10 SHARE OPTION SCHEME/SHARE-BASED PAYMENT (CONTINUED)

The closing prices of the Company's shares immediately before 16 August 2021 and 20 August 2021, the dates of grant, were HK\$0.150 and HK\$0.142 respectively.

The fair values of the options determined at the dates of grant of 16 August 2021 and 20 August 2021 using the Binomial model were approximately HK\$2,572,000 and HK\$1,476,000 respectively.

The following assumptions were used to calculate the fair values of share options:

	Share options granted on 16 August 2021	Share options granted on 20 August 2021
Grant date share price	HK\$0.150	HK\$0.142
Exercise price	HK\$0.152	HK\$0.154
Expected life	10 years	10 years
Expected volatility	61.14%	61.14%
Dividend yield	0.00%	0.00%
Risk-free interest rate	0.981%	0.942%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the valuer's best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The share option was vested immediately at the date of grant and is exercisable at any time up to the expiring dates, i.e. 15 August 2031 and 19 August 2031. The equity-settled share-based payments, amounted to approximately HK\$4,048,000, was wholly charged to administrative expenses in profit or loss during the year ended 31 December 2021.

During the year ended 31 December 2021, 3,900,000 share options were exercised, resulting in the issue of 3,900,000 ordinary shares for a total net consideration of approximately, HK\$593,000.

11 FINANCE COSTS

	2021 HK\$'000	2020 HK\$'000
Interest expense on lease liabilities (Note 17(b))	995	245
Interest expense on bank borrowings	100	192
Interest expense on convertible bonds	514	–
	1,609	437

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12 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 HK\$'000	2020 HK\$'000
Hong Kong Profits Tax		
Current year	9	1,833
Over-provision in prior years	(822)	(51)
	(813)	1,782
Deferred income tax (Note 26)	157	(96)
	(656)	1,686

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12 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

Reconciliation between income tax (credit)/expense and accounting loss at applicable tax rates is as follows:

	2021 HK\$'000	2020 HK\$'000
(Loss)/profit before income tax	(22,100)	11,325
Calculated at the application taxation rate of the jurisdictions concerned	(3,646)	1,868
Tax effect of two-tiered tax rate	-	(165)
Tax effect of different tax rate in other jurisdictions	(830)	(92)
Effect of tax exemptions granted to Macau Subsidiaries	(69)	(89)
Income not subject to tax	(1,358)	(1,149)
Expense not deductible	4,061	481
Utilisation of deductible temporary difference not previously recognised	-	(36)
Tax losses not recognised	2,008	926
Over-provision in prior years	(822)	(51)
Utilisation of tax losses not previously recognised	-	(7)
	(656)	1,686

At the end of the reporting period, the Group has unused tax losses of HK\$17,779,000 (2020: HK\$5,607,000) which are available offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses may be carried forward indefinitely.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

13 (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 (HK\$'000)	(20,344)	10,316
Weighted average number of ordinary shares in issue (thousands)	903,452	800,000
Basic (loss)/earnings per share (Hong Kong cents)	(2.25)	1.29

(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.

14 DIVIDENDS

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

15 SUBSIDIARIES

- (a) Details of the principal subsidiaries of the Group as at 31 December 2021 and 2020 are as follows. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

Name of subsidiaries	Place of incorporation	Particulars of share capital	Equity interest attributable to the Group		Principal activities
			2021	2020	
Directly held by the Company:					
Kinetix Limited	BVI	US\$2	100%	100%	Investment holding
Indirectly held by the Company:					
Kinetix Systems Limited	Hong Kong	HK\$10,000	100%	100%	IT solutions and IT maintenance and supporting services
Rise Talent Limited	Hong Kong	HK\$10,000	100%	100%	Human resources services
Kinetix Information Systems (Macao) Limited	Macau	MOP100,000	51%	51%	IT infrastructure solutions and IT maintenance and support services
D&C Consulting Company Ltd.	Macau	MOP30,000	51%	51%	IT solutions and IT maintenance and support services
VizionX Limited	Hong Kong	HK\$100	51%	51%	IT solutions and IT maintenance and support services
Digital Plus Asia Limited	Hong Kong	HK\$100	51%	51%	IT solutions and entertainment products
Kisoforce Limited	Hong Kong	HK\$100	51%	51%	IT solutions and IT maintenance and support services
Vizoforce Limited	Hong Kong	HK\$100	70%	70%	IT solutions and IT maintenance and support services
Shanghai Kinetix New Energy Automobile Company Limited (formerly known as "Shanghai Kinetix Systems Company Limited")	The PRC	–	100%	N/A	IT solutions and IT maintenance and support services
E-Tech Limited	Hong Kong	HK\$1	100%	N/A	Investment holding
Falcon Limited	BVI	US\$100	100%	N/A	Investment holding

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15 SUBSIDIARIES (CONTINUED)

(b) Material non-wholly owned subsidiaries

The table below shows details of non-wholly-owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation/ registration and operations	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) attributable to non-controlling interests		Other comprehensive income attributable to non-controlling interests		Accumulated non-controlling interests	
		2021	2020	2021	2020	2021	2020	2021	2020
		%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
D&C Consulting Company Ltd.	Macau	49%	49%	320	865	-	-	1,210	890
VizionX Limited	Hong Kong	49%	49%	(61)	(752)	-	-	(708)	(647)
Digital Plus Asia Limited	Hong Kong	49%	49%	(265)	463	-	-	178	443
Kisoforce Limited	Hong Kong	49%	49%	(828)	(1,207)	-	-	(3,017)	(2,189)
				(834)	(631)	-	-	(2,337)	(1,503)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

15 SUBSIDIARIES (CONTINUED)

(c) Summarised financial information in respect of each of the Group's subsidiaries that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	D&C Consulting Company Ltd.		VizionX Limited		Digital Plus Asia Limited		Kisoforce Limited	
	2021	2020	2021	2020	2021	2020	2021	2020
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	460	240	-	-	60	89	-	-
Current assets	6,789	4,130	125	1,392	15,290	18,381	1,723	1,379
Current liabilities	(4,701)	(2,553)	(1,569)	(2,712)	(14,987)	(17,566)	(7,881)	(5,846)
Non-current liabilities	(77)	-	-	-	-	-	-	-
Net assets/(liabilities)	2,471	1,817	(1,444)	(1,320)	363	904	(6,158)	(4,467)
Revenue	24,359	17,087	240	1,101	18,586	44,691	456	3,897
Other income	13	73	-	162	83	561	-	1,080
Expenses	(23,710)	(15,238)	(364)	(2,798)	(19,210)	(44,117)	(2,147)	(7,440)
Income tax expenses	(8)	(156)	-	-	-	(191)	-	-
Profit/(loss) for the year	654	1,766	(124)	(1,535)	(541)	944	(1,691)	(2,463)
Total comprehensive income/(loss) for the year	654	1,766	(124)	(1,535)	(541)	944	(1,691)	(2,463)
Net cash inflow/ (outflow) from operating activities	(328)	3,579	(453)	578	(3,280)	4,976	593	83
Net cash inflow/ (outflow) from investing activities	(135)	(2,780)	-	-	-	(100)	-	-
Net cash inflow/ (outflow) from financing activities	(152)	(106)	-	-	-	-	-	-
Net cash inflow/ (outflow)	(615)	693	(453)	578	(3,280)	4,876	593	83

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Equipment HK\$'000	Total HK\$'000
At 1 January 2020				
Cost	1,459	65	2,133	3,657
Accumulated depreciation	(567)	(42)	(1,588)	(2,197)
Net book amount	892	23	545	1,460
Year ended 31 December 2020				
Opening net book amount	892	23	545	1,460
Additions	47	28	426	501
Written off				
– Cost	–	(3)	–	(3)
– Accumulated depreciation	–	1	–	1
Depreciation	(366)	(10)	(359)	(735)
Closing net book amount	573	39	612	1,224
At 31 December 2020				
Cost	1,506	90	2,559	4,155
Accumulated depreciation	(933)	(51)	(1,947)	(2,931)
Net book amount	573	39	612	1,224

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For the year ended 31 December 2021

16 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Year ended 31 December 2021					
Opening net book amount	573	39	612	-	1,224
Additions	6,139	481	3,913	1,648	12,181
Written off					
- Cost	-	-	(64)	-	(64)
- Accumulated depreciation	-	-	64	-	64
Depreciation	(887)	(63)	(1,398)	(92)	(2,440)
Exchange alignment	(58)	(4)	(3)	(16)	(81)
Closing net book amount	5,767	453	3,124	1,540	10,884
At 31 December 2021					
Cost	7,582	566	6,405	1,631	16,184
Accumulated depreciation	(1,815)	(113)	(3,281)	(91)	(5,300)
Net book amount	5,767	453	3,124	1,540	10,884

Depreciation expense of approximately HK\$2,440,000 (2020: HK\$735,000) has been charged in administrative and general expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

This note provides information for leases where the Group is a lessee.

(a) Amounts recognised in the consolidated statement of financial position

	2021 HK\$'000	2020 HK\$'000
Right-of-use assets		
Leased properties	15,709	1,733
Lease liabilities		
Current	6,092	4,472
Non-current	15,489	4,331
	21,581	8,803

(b) Amounts recognised in the consolidated income statement

	2021 HK\$'000	2020 HK\$'000
Depreciation charge of right-of-use assets:		
– Office	4,922	2,262
Interest expenses (included in finance cost) (Note 11)	995	245
Expenses relating to short-term leases (included in administrative and general expenses)	342	87

Additions to the right-of-use assets during the year were HK\$18,805,000 (2020: nil). The total cash outflow for leases during the year was approximately HK\$7,299,000 (2020: HK\$3,517,000).

(c) The Group's leasing activities and how these are accounted for

The Group leases offices in Hong Kong and PRC (2020: Hong Kong). Rental contracts for offices are typically made for fixed periods of 2–5 years but may have extension options as described below. Lease terms are negotiated on an individual basis and contain different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

(d) Extension and termination options

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

18 INTANGIBLE ASSET

	Exclusive LED products agency selling rights
	HK\$'000
At 1 January 2020, 31 December 2020 and 1 January 2021	
Cost	–
Accumulated amortisation	–
Net book amount	–
Year ended 31 December 2021	
Opening net book amount	–
Additions	48,000
Amortisation	(2,933)
Closing net book amount	45,067
At 31 December 2021	
Cost	48,000
Accumulated amortisation	(2,933)
Net book amount	45,067

The consideration is settled by way of issuing convertible bonds of the Company in February 2021. These convertible bonds were fully converted into 160,000,000 ordinary shares in May 2021.

Amortisation expense of approximately HK\$2,933,000 (2020: nil) has been charged in administrative and general expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

19 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 HK\$'000	2020 HK\$'000
Finance lease receivables		
Current	4,848	4,658
Non-current	2,392	7,240
	7,240	11,898

	As at 31 December 2021		As at 31 December 2020	
	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000	Minimum lease payments HK\$'000	Present value of minimum lease payments HK\$'000
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
	7,476	7,240	12,525	11,898
Less: unearned finance income	(236)	–	(627)	–
Present value of minimum lease payment receivables	7,240	7,240	11,898	11,898

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2021 HK\$'000	2020 HK\$'000
Financial assets		
<i>Financial assets at amortised cost</i>		
– Finance lease receivables	7,240	11,898
– Trade and other receivables	78,420	85,699
– Deposits for a life insurance policy	3,813	3,688
– Amount due from immediate holding company	57	17
– Amounts due from non-controlling shareholders	243	243
– Cash and cash equivalents	29,966	35,793
	119,739	137,338
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
– Trade and other payables	45,312	25,625
– Bank borrowings	11,717	6,778
– Amounts due to non-controlling shareholders	3,044	1,684
– Lease liabilities	21,581	8,803
	81,654	42,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

21 TRADE AND OTHER RECEIVABLES

	Notes	2021 HK\$'000	2020 HK\$'000
Trade receivables	(a)	48,347	47,387
Less: provision for loss allowance		(358)	(8,127)
		47,989	39,260
Unbilled receivables	(b)	26,994	40,797
Less: provision for loss allowance		(25)	(112)
		26,969	40,685
Deposits		2,453	5,546
Prepayments		6,558	3,011
Prepayment for a life insurance policy (Note 22)		160	160
Others		1,009	208
		85,138	88,870
Less: non-current portion of deposits and prepayments		(747)	(2,931)
Current portion of trade and other receivables		84,391	85,939

(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 HK\$'000	2020 HK\$'000
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	4,337	725
	47,989	39,260

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (Continued)

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

	2021 HK\$'000	2020 HK\$'000
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	4,271	638
	47,989	39,260

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

22 DEPOSIT AND PREPAYMENT FOR A LIFE INSURANCE

	2021 HK\$'000	2020 HK\$'000
Deposit for a life insurance	3,813	3,688
Prepayment for a life insurance policy	3,059	3,219
	6,872	6,907
Less: current portion of deposit and prepayment for a life insurance (Note 21)	(160)	(160)
Non-current portion of deposit and prepayment for a life insurance	6,712	6,747

In March 2020, the Group entered into a life insurance policy (the "Policy") to insure the Chairman of the Group. Under the Policy, the beneficiary and policy holder is the Group and the total insured sum is approximately US\$3,500,000 (equivalent to approximately HK\$27,300,000). At the inception of the Policy, the Group paid an upfront gross premium of approximately US\$889,000 (equivalent to approximately HK\$6,935,000). The insurer will pay the Group a variable return per annum (with guaranteed minimum interest rate of 2.30% per annum) during the effective period of the Policy. The Group can terminate the Policy at any time and can receive cash back at the date of termination based on the account value of the Policy (the "Account Value"), which is determined by the gross premium paid plus accumulated guaranteed interest earned and minus any charges made in accordance with the terms and conditions of the Policy. If termination is made between the first policy year to the end of surrender period stated in the Policy, there is a specified amount of surrender charge deducted from the Account Value.

At the date of initial recognition, the directors of the Company expected that the Policy would be terminated at the end of the twenty-first policy year in 2041, and accordingly, there would be free of surrender charge in accordance with the Policy. The estimated Account Value at the end of the twenty-first policy year is approximately US\$926,000 (equivalent to approximately HK\$7,223,000).

The Policy provides the Group with coverage for significant insurance risk. The gross premium paid at inception of the Policy consists of a deposit placed element and a prepayment for life insurance element. These two elements are recognised on the consolidated statement of financial position at the aggregate of the amount of gross premium paid plus interest earned, and after deducting the annual cost of insurance and other applicable charges.

The directors of the Company consider that the expected life of the Policy remains unchanged from the date of initial recognition and the financial impact of the option to terminate the Policy was not significant.

The effective interest rate of the deposit is 3.32% per annum for (2020: 3.32%).

As at 31 December 2021, deposit and prepayment for the life insurance policy amount to approximately US\$860,000 (equivalent to approximately HK\$6,872,000) (2020: US\$885,000 (equivalent to approximately HK\$6,907,000)) in aggregate, of which HK\$6,712,000 (2020: HK\$6,747,000) and HK\$160,000 (2020: HK\$160,000) are classified as non-current assets and current assets respectively.

The Policy is used to secure a banking facility agreement of the Group as detailed in Note 29.

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23 INVENTORIES

	2021 HK\$'000	2020 HK\$'000
Finished goods	11,855	15,303

The cost of merchandise recognised as an expense and included in cost of sales amounted to HK\$16,960,000 (2020: HK\$43,657,000).

24 CONTRACT ASSETS/(LIABILITIES)

	2021 HK\$'000	2020 HK\$'000
Contract assets arising from:		
IT solutions services		
– IT infrastructure solutions services	165	3
– IT development solutions services	27,903	24,903
	28,068	24,906
Less: provision for loss allowance	(2)	(2)
	28,066	24,904

The contract assets primarily relate to the Group's right to consideration for work completed and not billed.

Typical payment terms which impact on the amount of contract assets recognised are as follows:

- IT solutions services contracts

The Group's IT solutions services contracts include payment schedules which require stage payments over the IT solution services period once certain specified milestones are reached. The contract assets are transferred to trade receivables or unbilled receivables when specified milestones of IT solutions services are reached.

The Group also typically agrees to a retention period for a specified percentage of the contract value agreed by the customers. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional on the IT solutions services performed comply with agreed-upon specifications. The Group typically reclassified contract assets to trade receivables when the defect liability period expires.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24 CONTRACT ASSETS/(LIABILITIES) (CONTINUED)

The increase in contract assets is resulted from the increase in ongoing IT solutions services during the year.

The Group classifies these contract assets as current because the Group expects the date of completion of the services will be within 12 months.

	2021 HK\$'000	2020 HK\$'000
Contract liabilities arising from:		
IT solutions services		
– IT infrastructure solutions services	(398)	(93)
– IT development solutions services	(3,881)	(6,814)
IT maintenance and support services	(3,074)	(1,378)
	(7,353)	(8,285)

Contract liabilities that are not expected to be settled within the Group's normal operating cycle are classified as current and non-current based on the Group's earliest obligation to transfer goods or services to the customers.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

- IT solutions services and IT maintenance and support services contracts

When the Group receives a deposit before the IT solutions services or IT maintenance and support services commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

Revenue recognised in relation to contract liabilities

Revenue of approximately HK\$5,841,000 (2020: HK\$5,305,000) was recognised in the current reporting period from performance obligations satisfied related to carried forward contract liabilities in relation to provision for IT solutions services and IT maintenance and support services mainly due to the changes in estimate of the transaction price of certain IT solutions services contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25 CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents

	2021 HK\$'000	2020 HK\$'000
Cash at banks	29,962	35,793
Cash on hand	4	—*
	29,966	35,793

* Less than HK\$1,000.

The Group's cash and cash equivalents are denominated in the following currencies:

	2021 HK\$'000	2020 HK\$'000
HK\$	24,760	29,210
US\$	4,866	5,671
EUR	6	81
Macau Pataca	151	6
RMB	183	825
	29,966	35,793

(b) Margin deposits

As at 31 December 2021, the margin deposits of the Group amounting to HK\$254,000 (2020: HK\$340,000) were pledged to a bank as a guarantee in favour of a Group's customer for performance security. If the Group fails to provide satisfactory performance to their customers to whom performance guarantee have been given, such customers may demand the bank to pay them the sum or sum stipulated in such demand. The margin deposits will be forfeited or deducted to compensate the bank accordingly. The margin deposits will be released upon completion of the contract work.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

26 DEFERRED INCOME TAX (LIABILITIES)/ASSETS

	2021 HK\$'000	2020 HK\$'000
Deferred income tax (liabilities)/assets:		
– To be settled after one year	(61)	96

The movements in deferred income tax assets/(liabilities) in respect of decelerated/(accelerated) depreciation during the year are as follows:

	Decelerated/ (accelerated) depreciation HK\$'000
At 1 January 2020	–
Credited to the consolidated income statement (Note 12)	96
At 31 December 2020 and 1 January 2021	96
Credited to the consolidated income statement (Note 12)	(157)
At 31 December 2021	(61)

27 SHARE CAPITAL

	2021 HK\$'000	2020 HK\$'000
Authorised 10,000,000,000 shares at HK\$0.01 each	100,000	100,000
	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 (Note 30)	160,000,000	1,600
Exercise of share options (Note 10)	3,900,000	39
At 31 December 2021	963,900,000	9,639

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

28 TRADE AND OTHER PAYABLES

	Notes	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
		68,344	61,825

(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
	39,033	22,559

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

29 BANK BORROWINGS

	2021 HK\$'000	2020 HK\$'000
Bank loans – secured	11,717	6,778

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

- 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
- 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 HK\$'000	2020 HK\$'000
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	1,336	2,427
	11,717	6,778

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

30 CONVERTIBLE BONDS

In February 2021, the Group had issued convertible bonds to Dalian Luminary Technology Inc. to settle the acquisition of exclusive LED products agency selling rights at a consideration of approximately HK\$48,000,000. These convertible bonds were fully converted into 160,000,000 ordinary shares in May 2021 (Note 27).

The convertible bonds contain an equity component that can be converted into ordinary shares at the option of the purchaser, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds equity reserve until either the bonds are converted or redeemed. If the bonds are converted, the convertible bonds equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the convertible bonds equity reserve is released directly to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from/(used in) operations

	Notes	2021 HK\$'000	2020 HK\$'000
(Loss)/profit before income tax		(22,100)	11,325
Adjustments for:			
Depreciation of property, plant, and equipment	8	2,440	735
Depreciation of right-of-use assets	8	4,922	2,262
Amortisation of intangible asset	8	2,933	–
Gain on derecognition of right-of-use assets under sublease arrangement		–	(1,563)
Loss on write-off of property, plant and equipment		–	2
Finance lease interest income	7	(391)	(283)
Premium charges on a life insurance policy		160	129
Bank interest income	7	(8)	(178)
Finance costs	11	1,609	437
Provision for/(reversal of) expected credit losses, net		23	(743)
Imputed interest income from a deposit for a life insurance policy	7	(124)	(101)
Equity-settled share-based payments	10	4,048	–
Provision for onerous contracts, net of reversal		–	645
		(6,488)	12,667
Changes in working capital:			
Inventories		3,448	(17,215)
Finance lease receivables		5,049	2,623
Trade and other receivables		3,708	71
Contract assets		(3,162)	(6,707)
Trade and other payables		6,519	(13,025)
Contract liabilities		(932)	1,613
Amounts due to non-controlling shareholders		1,360	1,684
Cash generated from/(used in) operations		9,502	(18,289)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

31 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

(b) Net debt reconciliation

Liabilities from financing activities

	Bank borrowings <i>(Note 29)</i> HK\$'000	Convertible bonds <i>(Note 30)</i> HK\$'000	Lease liabilities <i>(Note 17(a))</i> HK\$'000
As at 1 January 2020	–	–	4,418
Proceeds from bank loans	24,434	–	–
Repayment of bank loans	(17,656)	–	–
Addition in lease liabilities	–	–	7,570
Interest paid	(192)	–	–
Repayment of lease liabilities			
– Principal portion	–	–	(3,185)
– Interest portion	–	–	(245)
Other charge			
– Interest expenses <i>(Note 11)</i>	192	–	245
Net debt as at 31 December 2020 and 1 January 2021	6,778	–	8,803
Proceeds from bank loans	11,200	–	–
Repayment of bank loans	(6,261)	–	–
Issuance of convertible bonds <i>(Note 30)</i>	–	37,800	–
Conversion of convertible bonds <i>(Note 30)</i>	–	(38,314)	–
Addition in lease liabilities	–	–	19,059
Interest paid	(100)	–	–
Repayment of lease liabilities			
– Principal portion	–	–	(5,962)
– Interest portion	–	–	(995)
Foreign exchange adjustment	–	–	(319)
Other charge			
– Interest expenses <i>(Note 11)</i>	100	514	995
As at 31 December 2021	11,717	–	21,581

(c) Major non-cash transaction

During the year ended 31 December 2021, the Group entered into an agreement to the acquisition of exclusive LED products agency selling rights. In February 2021, no cash consideration was delivered, as the consideration was settled by way of issuing convertible bonds of the Company for approximately HK\$48,000,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

32 RELATED PARTY TRANSACTIONS

(a) Names and relationships with related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, to joint control over the party or exercise significant influence over the other party in making financial and operation decisions, or vice versa. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals. Parties are also considered to be related if they are subject to common control. The ultimate controlling shareholder of the Group is Yu Larry, who is also the Executive Director and Chairman of the Group.

The directors of the Group are of the view that the following parties/companies were related parties with nil/with transactions or balances with the Group during the years ended 31 December 2021 and 2020:

Name of related parties	Relationship with the Group
Vigorous King Limited	Immediate holding company of the Company
Chan Siu Kee	Non-controlling shareholder of subsidiaries
Achiever Technology Limited	Non-controlling shareholder of subsidiaries
Grand Top Technology Limited	Non-controlling shareholder of subsidiaries
Tong Po Ki, Vicky	Spouse of the Chairman

(b) Outstanding balance with related parties

Amounts due from/(to) immediate holding company and non-controlling shareholders of subsidiaries are non-trade in nature, unsecured, interest-free and are repayable on demand.

The amounts due from immediate holding company and non-controlling shareholders have not past due. Details of the credit risk and the expected credit loss are set out in Note 3(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

32 RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Transactions with related parties

Other than those disclosed elsewhere in the consolidated financial statements, the Group had the following transactions with related parties during the year:

	2021 HK\$'000	2020 HK\$'000
Transactions		
Employee benefit expense and retirement fund scheme contributions to the spouse of the Chairman	–	113

(d) Key management compensation

The executive directors of the Group are regarded as key management. Details of the key management compensation are disclosed in Note 9(a) to the consolidated financial statements.

33 CAPITAL COMMITMENTS

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

	2021 HK\$'000	2020 HK\$'000
Contracted for, but not provided for:		
Acquisition of equipment	–	320

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

Note	2021 HK\$'000	2020 HK\$'000
ASSETS		
Non-current assets		
Investment in a subsidiary	36,763	36,763
Current assets		
Amount due from the immediate holding company	—*	—*
Amount due from a subsidiary	92,129	45,846
Prepayments	135	230
Cash and cash equivalents	400	53
	92,664	46,129
Total assets	129,427	82,892
EQUITY		
Share capital	9,639	8,000
Reserves	34(a) 118,863	74,661
Total equity	128,502	82,661
LIABILITIES		
Current liabilities		
Other payables and accruals	895	231
Amounts due to subsidiaries	30	—*
Total liabilities	925	231
Total equity and liabilities	129,427	82,892

* Less than HK\$1,000.

The statement of financial position of the Company was approved by the Board of Directors on 31 March 2022 and was signed on its behalf.

Yu Larry
Director

Law Cheung Moon
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2021

34 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(a) Share capital and reserve movement of the Company

	Share capital	Share premium	Other reserve	Share option reserve	Convertible bonds equity reserve	Accumulated losses	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2020	8,000	43,199	36,763	-	-	(3,386)	84,576
Loss and total comprehensive loss for the year	-	-	-	-	-	(1,915)	(1,915)
Balances as at 31 December 2020 and 1 January 2021	8,000	43,199	36,763	-	-	(5,301)	82,661
Loss and total comprehensive loss for the year	-	-	-	-	-	(7,314)	(7,314)
Transactions with owners in their capacity as owners:							
Issuance of convertible bonds	-	-	-	-	10,149	-	10,149
Issuance of shares upon conversion of shares	1,600	46,914	-	-	(10,149)	-	38,365
Share-based payments	-	-	-	4,048	-	-	4,048
Exercise of share options	39	752	-	(198)	-	-	593
Lapse of share options	-	-	-	(486)	-	486	-
	1,639	47,666	-	3,364	-	486	53,155
Balance as at 31 December 2021	9,639	90,865	36,763	3,364	-	(12,129)	128,502

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				2021 HK\$'000
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	
Revenue	180,970	193,518	215,641	282,362	254,121
Profit/(loss) before tax	8,054	(7,193)	2,684	11,325	(22,100)
Income tax	(2,069)	(1,829)	(1,076)	(1,686)	656
Profit/(loss) for the year	5,985	(9,022)	1,608	9,639	(21,444)
Attributable to:					
Owners of the Company	5,985	(9,008)	2,179	10,316	(20,344)
Non-controlling interests	–	(14)	(571)	(677)	(1,100)
	5,985	(9,022)	1,608	9,639	(21,444)

ASSETS AND LIABILITIES

	As at 31 December				2021 HK\$'000
	2017 HK\$'000	2018 HK\$'000	2019 HK\$'000	2020 HK\$'000	
Total assets	115,340	162,719	175,125	186,828	241,703
Total liabilities	(70,788)	(75,944)	(86,862)	(88,926)	(112,100)
	44,552	86,775	88,263	97,902	129,603
Equity attributable to owners of the Company	44,552	86,743	88,802	99,118	131,919
Non-controlling interests	–	32	(539)	(1,216)	(2,316)
	44,552	86,775	88,263	97,902	129,603