

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

kinetix

KINETIX SYSTEMS HOLDINGS LIMITED

健冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

**FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2023**

The board (the “**Board**”) of directors (the “**Directors**”) of Kinetix Systems Holdings Limited (the “**Company**”) is pleased to announce the audited condensed consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2023. This announcement, containing the full text of the 2023 Annual Report of the Group, complies with the relevant requirements of the Rules Governing the Listing of Securities on GEM of the Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (the “**GEM Listing Rules**”) in relation to information to accompany preliminary announcement of final results.

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

Hong Kong, 27 March 2024

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

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

This announcement will remain on the “Latest List Company Information” page of the Stock Exchange’s website at www.hkexnews.hk for at least 7 days from the date of its publication and on the Company’s website at www.kinetix.com.hk.

kinetix

Kinetix Systems Holdings Limited

捷冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

ANNUAL
REPORT
2023



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

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

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

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

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.



CONTENTS

Corporate Information	3
Chairman's Statement	5
Biographical Details of Directors and Senior Management	6
Management Discussion and Analysis	11
Corporate Governance Report	23
Report of the Directors	36
Environmental, Social and Governance Report	49
Independent Auditor's Report	70
Consolidated Income Statement	77
Consolidated Statement of Comprehensive Income	78
Consolidated Statement of Financial Position	79
Consolidated Statement of Changes in Equity	81
Consolidated Statement of Cash Flows	82
Notes to the Consolidated Financial Statements	83
Financial Summary	146

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

Ms. Chen Jie (resigned on 4 April 2023)
Mr. Tang Biao (resigned on 3 July 2023)

Independent Non-executive Directors

Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Dr. He Dazhi (resigned on 3 July 2023)
Mr. Li Xiaoping
Mr. Tong Tsz Kwan

BOARD COMMITTEES

Audit Committee

Mr. Tong Tsz Kwan (*Chairman*)
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Mr. Li Xiaoping

Remuneration Committee

Ms. Lam Shun Ka (*Chairman*)
(formerly known as Lam Yuk Shan)
Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Mr. Li Xiaoping

Nomination Committee

Ms. Lam Shun Ka (*Chairman*)
(formerly known as Lam Yuk Shan)
Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Mr. Li Xiaoping

COMPANY SECRETARY

Mr. Fung Kui Kei

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

6/F, SML Tower
165 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

AUDITOR

Linksfield CPA Limited
Certified Public 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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road
Hong Kong

AUTHORISED REPRESENTATIVES

Mr. Yu Larry (formerly known as Yu Pak Lun Larry)
Mr. Fung Kui Kei

COMPLIANCE OFFICER

Mr. Leung Patrick Cheong Yu

LEGAL ADVISOR

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

CORPORATE INFORMATION

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 2023 ("FY2023") 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 25 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 and logistics companies, etc.

Hong Kong situation of COVID-19 has been released during FY2023 with the Hong Kong Government and the PRC Government's removal of all the precautionary measures regarding the pandemic. Along with the implementation of various economy revitalisation policies, the economy in Hong Kong has been stably resuming to the pre-pandemic level. The Group began to take the initiative in seeking for potential business opportunities and resuming our cooperation with our current business partners, and we continued to demonstrate a consistent and solid track record in achieving profit growth and cost efficiency by implementing targeted strategies to balance short-term results and long-term goals. The Group has achieved a satisfactory business growth in overall performance this year. During FY2023, the Group recorded (i) revenue of approximately HK\$309.1 million, an increase of approximately 4.9%; and (ii) gross profit of approximately HK\$59.2 million, a considerable increase of approximately 17.6% as compared with the year ended 31 December 2022 ("FY2022"). The Company recorded a consolidated total comprehensive loss attributable to owners of the Company of approximately HK\$15.0 million for FY2023, a decrease of approximately 77.6% as compared with FY2022.

The Group will remain cautious to the situation in Hong Kong and the PRC for the bounce-back of the pandemic. However, the Group also believes that the relief of the pandemics policies and the reopen of the PRC and Hong Kong broader will benefit the Group in establishing new businesses in the PRC. Following the Rights Issue on 9 March 2023, the Group consider implementing the expansion project in the PRC by expanding the technical and development solution services and cultivating in the new energy vehicle industry. The Group believes that the expansion in these segments will ensure the Group to delve into the new era technology and enhance the sustainability of the Group's long-term development. This will widen the geographic coverage of the Group's revenue base and strength our competitiveness in the existing market. The Group will continue to monitor and report the situation in these PRC's segments in the forthcoming.

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 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, 27 March 2024

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yu Larry (余漢棟) (formerly known as Yu Pak Lun Larry (余柏麟)) (“Mr. Yu”), aged 52, 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 25 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 44, 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 July 2023, he is transferred to senior project manager of the professional services team, in which primarily responsible for project governance and supervising the service delivery of projects of our Group. Mr. Law has over 22 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 54, 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 28 years of experience in the IT industry.

Mr. Leung graduated from the Purdue University in the United States of America 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

Ms. Chen Jie (陳洁) (“Ms. Chen”), aged 50, was appointed as our non-executive Director. She 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. She resigned as a non-executive Director with effect from 4 April 2023.

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.

Mr. Tang Biao (湯彪) (“Mr. Tang”), aged 67, was appointed as our non-executive Director. He had more than 41 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. He resigned as a non-executive Director with effect from 3 July 2023.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Lam Shun Ka (林汛珈) (formerly known as Lam Yuk Shan (林玉珊)) (“Ms. Lam”), aged 52, 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 17 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 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.

Dr. He Dazhi (何大治) (“Dr. He”), aged 46, was an independent non-executive Director. He was 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 with effect from 3 July 2023.

He had over 24 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Li Xiaoping (李小平) (“Mr. Li”), aged 52, is appointed as our 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. Li is also the member of the Nomination Committee, the Remuneration Committee and the Audit Committee. Mr. Li has over 29 years of experience in the legal field. He is currently a practicing partner of Zhejiang Maldi 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 44, is appointed as our independent non-executive Director. 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 22 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 is currently an independent non-executive Director of Oriental Payment Group Holdings Limited (stock code: 8613).

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 fellow member of The Chartered Governance Institute (“CGI”) and The Hong Kong Chartered Governance Institute (“HKCGI”, formerly known as The Hong Kong Institute of Chartered Secretaries).

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Lam Tai Wai, David (林大為) (“Mr. David Lam”), aged 50, 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 24 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 25 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 FY2023, the Group recorded a net loss attributable to equity shareholders of the Company of approximately HK\$14.1 million as compared to the net loss attributable to equity shareholders of the Company of approximately HK\$67.1 million in FY2022. The decrease in net loss of approximately HK\$53.0 million was primarily due to the combined effects of (i) the decrease in impairment loss of intangible asset by approximately HK\$41.9 million; (ii) the decrease in provision for expected credit losses by approximately HK\$4.0 million; (iii) the increase in gross profit by approximately HK\$8.9 million mainly due to better overall cost control in FY2023; (iv) the decrease in amortisation of intangible asset by HK\$3.2 million; but partially offset by (v) the decrease in other income and gains by approximately HK\$3.3 million mainly due to the decrease in government subsidies in Hong Kong and (vi) the increase in other operating expenses by approximately HK\$1.6 million.

Provision of IT infrastructure solutions services

This segment provides IT infrastructure solutions services to our clients by advising them the hardware and/or software that their IT systems would require and procuring the relevant hardware and/or software and integrating them with our client's IT systems. The revenue generated from this segment in FY2023 amounted to approximately HK\$140.1 million, representing approximately 45.3% of the total revenue for FY2023. The revenue derived from this segment increased by approximately 22.8% from approximately HK\$114.1 million for FY2022 to approximately HK\$140.1 million for FY2023. The increase primarily due to an increase in the total number of projects awarded and the increase in average contract value in FY2023.

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 FY2023 amounted to approximately HK\$123.4 million, representing approximately 39.9% of the total revenue for FY2023. The revenue derived from this segment remained at a similar level as compared to FY2022. It was mainly due to the decrease in number of projects undertaken offset by the effect of increase in total project size.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment in FY2023 amounted to approximately HK\$45.6 million, representing approximately 14.8% of the total revenue for FY2023. The revenue derived from this segment decreased by approximately 17.4% from approximately HK\$55.2 million for FY2022 to approximately HK\$45.6 million for FY2023. The decrease was primarily due to a decrease in the average contract value of the IT maintenance and support services projects awarded in FY2023.

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 decreased by approximately HK\$2.0 million comparing to FY2022. Such a decrease is mainly due to no revenue was generated from this segment for FY2023, which is affected by the temporary reduction of exporting the entertainment products and consultant services.

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 13 February 2023 (the "Prospectus") of the Rights Issue. The plan includes:

- (1) Develop and cultivate the new energy vehicle industry
- (2) Expand the technical and development solution services in the PRC
- (3) Working capital and other general corporate purposes

An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the issuance of Rights Issue to 31 December 2023 are set out below:

MANAGEMENT DISCUSSION AND ANALYSIS

The bases and assumptions (including commercial assumptions) in support of our assessment. The net proceeds of the Group raised from the Rights Issue was approximately HK\$29.9 million, after deducting the underwriting fees, commissions, and other listing expenses. Up to 31 December 2023, the Group has utilised proceeds from the Rights Issue of approximately HK\$18.0 million and a summary of use of proceeds are set out in the table below:

	As set out in the Prospectus HK\$'million	Amount expected to be used up to 31 December 2023 HK\$'million	Amount actually used up to 31 December 2023 HK\$'million	Balance as at 31 December 2023 HK\$'million	Expected timeline to fully utilise the remaining net proceeds
Develop and cultivate the new energy vehicle industry	11.9	–	–	11.9	31 December 2024
Expand the technical and development solution services in the PRC	8.0	8.0	8.0	–	Fully utilised
Working capital and other general corporate purposes	10.0	10.0	10.0	–	Fully utilised
Total	29.9	18.0	18.0	11.9	

Up to 31 December 2023, the actual application of net proceeds from the Rights Issue were used according to the intentions previously disclosed in the Prospectus. However, save for the use of proceeds for expanding the technical and development solution services in the PRC and as working capital and other general corporate purposes 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 for the development and cultivation of the new energy vehicle industry due to the following reason:

The amount of approximately HK\$11.9 million to be applied for development and cultivation of new energy vehicle industry through potential merger and acquisition opportunities of companies principally engaged in new energy vehicle consulting, supply chain solution, technical and development solution services in the PRC was generally delayed mainly due to (i) the recovery of macroeconomic environment after the COVID-19 pandemic in the PRC is relatively slower than expected; and (ii) the significant increase in market competition in the new energy vehicle industry.

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 2024. The Group will perform adequate due diligence and negotiation on principal terms and conditions of any possible acquisition and make assessment on the transaction type as required under the GEM Listing Rules. If the possible acquisition materialises, appropriate announcement will be made as and when necessary, in accordance with the GEM Listing Rules. The management will continue to assess the Group's operation and financial performance and the plans for remaining proceeds, and cope with the changing market conditions and strive for better business performance for the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

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 suppliers and/or its authorised distributor(s) may materially and adversely affect our results of operations.
- (2) Our operations may be affected by concentrating on a few key suppliers. Should there be any loss of key suppliers or disruption in their supply, our business and results of operations could be materially and adversely affected.
- (3) Our Group is exposed to credit risk of our clients.
- (4) We may encounter cost overruns or delays in our IT infrastructure and development solutions projects and our business, financial position and results of operation may be materially and adversely affected.
- (5) We are unable to control the quality of the hardware and/or software provided by our suppliers. Should the products provided by our suppliers be defective or fail to meet the required standards, our business and reputation may be adversely affected.
- (6) Part of our works are subcontracted to subcontractors. Our operations and financial results may be adversely affected by any delay, drop out or defects in their work.
- (7) It may be difficult for us to maintain our high business partnership rankings with the IT products vendors and distributors.
- (8) Our current Standing Offer Agreement with the Hong Kong Government will expire in January 2026. There is no assurance that we will continue to provide quality professional services as an approved contractor of the Hong Kong Government and its statutory bodies.
- (9) It may be difficult for us to recruit, train and retain capable and experienced sales staff and highly skilled technical staff. If there is any shortfall in our workforce or increase in labour cost, our business operations may be materially impeded and our financial results may be adversely affected.
- (10) Our business may be adversely affected if we fail to retain certain key executives and senior management or find suitable replacements since our performance relies heavily on them.
- (11) We are exposed to potential liabilities for damages as a result of our negligent acts or omissions in our services.
- (12) We may be vicariously liable for the acts or omissions of our staff and face claims or legal actions brought by our clients for damages as a result of the negligent conduct or fault of our staff.

MANAGEMENT DISCUSSION AND ANALYSIS

- (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 resumed slowly even COVID-19 pandemic has been released, products/services provided from suppliers/to customers may be delayed.
- (22) We may face foreign exchange exposure as the Group is operating a subsidiary in the PRC, 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 of the Company dated 30 June 2018. 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.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

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.

Based on the risk identified and disclosed in last year's report, the Group has appointed an internal control adviser, to review and strengthen our internal policies regarding the risk incident. As at the date of this report, the Board and the Audit Committee of the Company are of the view (i) the internal control deficiencies have been remedied and the associated risks have been controlled at a reasonable level, and (ii) the rectification actions and improvement measures implemented by the Company are sufficient to address the key findings of the internal control review.

The Board has conducted a review of the effectiveness of the Group's risk management and internal control systems for the year ended 31 December 2023, covering the material financial, operational and compliance controls, and considered the Group's risk management and internal control systems effective and adequate.

Outlook and Prospects

Looking forward, with further ease of the COVID-19 pandemic situation, the Group believes that we are on the right track of bringing the business back to normal. Though there are still challenges in the Hong Kong recovering economy which may adversely affect the Group business, the Group will proactively strengthen its competitiveness and prepare to respond to the fluctuant global business environment. The Group will continue to explore for new business opportunities, closely monitor our financial position, and manage the profit margin of the existing projects. During FY2023, the Group has established a project management office team to monitor and optimise the cost for each project rigorously and achieved a cost efficiency enhancement which results in a satisfactory growth in gross profit margin. Regarding to the PRC expansion segment, the Group will continue to leverage its intelligent IT expertise and solid IT experiences, with the benefit from the enormous market and new era technology, thereby widening the range of services and the geographical coverage of the Group's revenue base in existing IT business.

In the upcoming future, the Group is optimistic that we will continue to devote our efforts to enhance our business operations and financial position and achieve the maximum returns to our valuable shareholders and clients in the medium to long term with the support of our stakeholders.

FINANCIAL REVIEW

Revenue

The Group's revenue for FY2023 amounted to approximately HK\$309.1 million, representing an increase of approximately HK\$14.4 million or 4.9% compared to FY2022 (2022: approximately HK\$294.7 million). The increase was attributable to (i) the increase in revenue generated from provision of (i) IT infrastructure solutions services projects by approximately HK\$26.0 million mainly due to the increase in the total number of projects awarded and the increase in average contract value in FY2023 but partially offset by (ii) the decrease in revenue generated from provision of IT maintenance and support services projects by approximately HK\$9.6 million mainly due to the decrease in the average contract value of the projects awarded in FY2023; and (iii) the decrease in revenue generated from entertainment products by approximately HK\$2.0 million mainly due to the temporary reduction of exporting the entertainment products and consultant services.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit and gross profit margin

The Group's gross profit for FY2023 amounted to approximately HK\$59.2 million, representing an increase of approximately HK\$8.9 million or 17.6% compared to FY2022 (2022: approximately HK\$50.3 million) and the increase was mainly attributable to increase in gross profit of IT development solution services by a better cost control on IT development services projects. The Group's gross profit margin increased from approximately 17.1% for FY2022 to approximately 19.1% for FY2023 as the increase was mainly attributable to the increase in gross profit of provision of IT development solutions services and provision of IT maintenance and support services, which was mainly due to the establishment of a project management office team for achieving a more efficient cost control on these projects, but mitigated by the decrease in gross profit margin of IT infrastructure solutions services which is mainly due to the increase in system software and subcontracting costs in certain projects and no gross profit generated from entertainment products.

Selling expenses

The Group's selling expenses for FY2023 amounted to approximately HK\$13.2 million, representing an increase of approximately HK\$2.5 million or 23.3% compared to FY2022 (2022: approximately HK\$10.7 million). Such increase was mainly attributed by the increase in salaries expenses by approximately HK\$2.7 million due to the increase in number of staff and salary increment in sales department.

Administrative and general expenses

The Group's administrative and general expenses for FY2023 amounted to approximately HK\$58.5 million, representing a decrease of approximately HK\$44.8 million or 43.3% compared to FY2022 (2022: approximately HK\$103.3 million). Such decrease was mainly attributed by (i) the decrease in impairment loss of intangible asset by approximately HK\$41.9 million, (ii) the decrease in amortisation of intangible asset by approximately HK\$3.2 million; (iii) the decrease in staff cost by approximately HK\$4.5 million mainly due to more efficient in utilisation of staff cost by project during FY2023, but partially offset by (iv) the increase in depreciation expenses by approximately HK\$1.3 million mainly due to the accelerated depreciation recorded in the PRC's office, and (v) the increase in provision of compensation expenses by approximately HK\$2.8 million due to the early termination of PRC's office.

Loss and total comprehensive loss for the year

The Group recorded net loss for FY2023 of approximately HK\$17.3 million compared to net loss recorded of approximately HK\$69.9 million for FY2022. The decrease in net loss was mainly due to (i) the decrease in impairment loss of intangible asset by approximately HK\$41.9 million; (ii) the decrease in provision for expected credit losses by approximately HK\$4.0 million; (iii) the increase in gross profit by approximately HK\$8.9 million mainly due to better overall cost control; (iv) the decrease in amortisation of intangible asset by HK\$3.2 million; but partially offset by (v) the decrease in other income and gains by approximately HK\$3.3 million mainly due to the decrease in government subsidies in Hong Kong and (vi) the increase in provision of compensation expenses by approximately HK\$2.8 million due to the early termination of PRC's office.

The total comprehensive loss for FY2023 recorded of approximately HK\$18.2 million compared to the total comprehensive loss for FY2022 recorded of approximately HK\$69.9 million, which include an exchange difference arising on translation of a subsidiary in Shanghai.

MANAGEMENT DISCUSSION AND ANALYSIS

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 FY2023, and our use of cash primarily relates to operating activities and purchase of property, plant and equipment. As at 31 December 2023, we had cash and cash equivalents of approximately HK\$30.3 million (31 December 2022: approximately HK\$25.2 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\$1.4 million. The Group have a credit facility from the Bank of East Asia of HK\$10.0 million as at 31 December 2023 (31 December 2022: HK\$10.0 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 11.8% as at 31 December 2023 (31 December 2022: 43.6%). Our liquidity position has further been strengthened by using the cash generated from our operating activities, fund raising of the debt and the Shares were listed on the Stock Exchange on the Listing Date and the issuance of Rights Shares on 9 March 2023. 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 FY2023. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital structure

As at 31 December 2023, the capital structure of the Company comprised share capital and reserves and bank borrowings.

Capital expenditure

Our capital expenditure for the FY2023 and FY2022 was approximately HK\$1.2 million and approximately HK\$0.8 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2023, the Group had a total of 153 employees (31 December 2022: 161 employees). The remuneration of employees are remunerated based on their qualifications, position and performance, generally it includes salaries, allowances, commissions and discretionary bonus. Adequate training was provided to the staff based on their job requirement. Total staff costs (including key management personnel and directors' emoluments) were approximately HK\$81.3 million for FY2023, as compared to approximately HK\$80.7 million for FY2022. The decrease in the number of employees for FY2023 was mainly attributable to the decrease in the number of employees employed for the Group's development of IT development solutions services business for FY2023.

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

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

SHARE OPTION SCHEME

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

During FY2023 and FY2022, no options have been granted, exercised or cancelled, or agreed to be granted.

The maximum number of shares of the Company available for issuance upon exercise of all share options under the Share Option Scheme is 68,427,536, representing approximately 4.73% of the issued shares of the Company as at the date of this report. As at the date of this report, the available share options under the mandate limit of the Share Option Scheme is Nil.

As at 31 December 2023 and up to the date of this report, 9.6 million share options was lapsed and 3.9 million share options have been exercised.

MANAGEMENT DISCUSSION AND ANALYSIS

Adjustments to the share options under the Share Option Scheme

Pursuant to the terms of the Share Option Scheme, adjustments has been made to the exercise prices of and/or the number of the Shares falling to be issued upon exercise of the outstanding Share Options granted by the Company under the Share Option Scheme respectively as a result of the Rights Issue on 10 March 2023.

Date of grant	Immediately prior to the adjustments as a result of completion of the Rights Issue		Immediately after the adjustments as a result of completion of the Rights Issue	
	Number of Shares falling to be issued upon exercise of the outstanding Share Options	Exercise price per Share (HK\$)	Adjusted number of Shares falling to be issued upon exercise of the outstanding Share Options	Adjusted exercise price per Share (HK\$)
16 August 2021	34,500,000	0.152	35,500,000	0.148
20 August 2021	32,000,000	0.154	32,927,536	0.150
	<u>66,500,000</u>		<u>68,427,536</u>	

Further details of the Share Option Scheme are set out in the “Report of the Directors” under section of Share Option Scheme on P.40 to P.43 in this annual report and in the Note 10 to the consolidated financial statements.

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 and the PRC with most of the transactions denominated and settled in HK\$ and RMB. During FY2023, 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 trade payables and bank borrowings which are denominated in US\$ and RMB and EUR. During FY2023 and FY2022, 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 FY2023 and FY2022.

DONATION

During FY2023, the Group made donations for charitable purpose totaling approximately HK\$43,000 (2022: approximately HK\$8,600).

SIGNIFICANT INVESTMENTS

During FY2023, the Group did not hold any significant investment in equity interest in any other company.

MANAGEMENT DISCUSSION AND ANALYSIS

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group did not have capital commitment for equipment as at 31 December 2023 (2022: HK\$Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During FY2023, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

CHARGES ON GROUP ASSETS

As at 31 December 2023, 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 (2022: HK\$31.0 million).

EVENT AFTER THE REPORTING PERIOD

The Group did not have significant event subsequent to 31 December 2023.

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 FY2023, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 FY2023.

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 FY2023, 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 in 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 FY2023, 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.

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

Mr. Law Cheung Moon

Mr. Leung Patrick Cheong Yu

Non-executive Directors:

Ms. Chen Jie (resigned on 4 April 2023)

Mr. Tang Biao (resigned on 3 July 2023)

Independent non-executive Directors:

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

Dr. He Dazhi (resigned on 3 July 2023)

Mr. Li Xiaoping

Mr. Tong Tsz Kwan

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 6 to 10 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 three 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 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 during FY2023.

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 Stock Exchange's website www.hkexnews.hk 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. Tong Tsz Kwan, an independent non-executive Director, Ms. Lam Shun Ka (formerly known as Lam Yuk Shan), an independent non-executive Director and Mr. Li Xiaoping, an independent non-executive Director. 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 Stock Exchange's 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 the five meetings held as set forth in the section headed "Number of Meetings and Directors' Attendance", the Audit Committee met the external auditor twice for the year ended 31 December 2023.

The Group's financial statements for the year ended 31 December 2023 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 2023 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 Linksfild 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 chairman of the Remuneration Committee is Ms. Lam Shun Ka (formerly known as Lam Yuk Shan), an independent non-executive Director. 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. The written terms of reference of the Remuneration Committee as suggested under the CG Code are posted on the Stock Exchange's 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 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; (h) to ensure that no Director or any of their associates is involved in deciding that Director's own remuneration; and (i) to review and/or approve matters relating to share schemes under Chapter 23 of the Rules.

Regarding Directors' remuneration and the five highest paid individuals 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 FY2023, 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, and Mr. Yu Larry, Chief Executive Officer and executive Director. The written terms of reference of the Nomination Committee as suggested under the CG Code are posted on the Stock Exchange's 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 FY2023 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
- 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.

CORPORATE GOVERNANCE REPORT

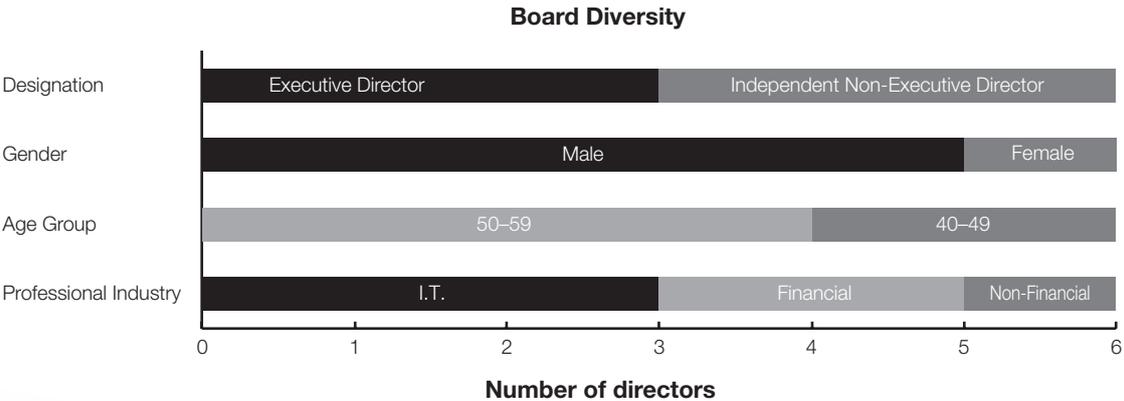
BOARD DIVERSITY POLICY

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 2023 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	Number of General Meetings attended/eligible to attend
Executive Directors:					
Mr. Yu Larry	10/10	N/A	1/1	1/1	1/1
Mr. Law Cheung Moon	8/10	N/A	N/A	N/A	1/1
Mr. Leung Patrick Cheong Yu	10/10	N/A	N/A	N/A	1/1
Non-executive Directors:					
Ms. Chen Jie ¹	3/5	N/A	N/A	N/A	N/A
Mr. Tang Biao ²	1/8	N/A	N/A	N/A	0/1
Independent non-executive Directors:					
Ms. Lam Shun Ka	10/10	5/5	1/1	1/1	1/1
Dr. He Dazhi ³	4/8	N/A	N/A	N/A	0/1
Mr. Li Xiaoping	1/10	0/5	0/1	0/1	0/1
Mr. Tong Tsz Kwan	10/10	5/5	N/A	N/A	1/1

Notes:

1. Ms. Chen Jie resigned as non-executive Director on 4 April 2023.
2. Mr. Tang Biao resigned as non-executive Director on 3 July 2023.
3. Dr. He Dazhi resigned as an independent non-executive Director on 3 July 2023.

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 FY2023 and up to the date of this annual report.

COMPANY SECRETARY

The Company has engaged Mr. Fung Kui Kei ("Mr. Fung") as the Company Secretary. Mr. Fung is a member of The Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. He holds a bachelor's degree in accounting from the Hong Kong Polytechnic University. Mr. Fung is currently an independent non-executive Director of Zhejiang Tengy Environmental Technology Co., Ltd (stock code: 1527) and the company secretary of Flydoo Technology Holding Limited (stock code: 8069).

During FY2023, 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 Linksfield CPA Limited, the external auditors, generally depends on the scope and volume of the external auditor's work performed.

For FY2023, 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	749
Non-audit services – Agreed-upon procedures services	80

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 2023, 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 70 to 76 of this annual report.

CORPORATE GOVERNANCE REPORT

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

Throughout FY2023, 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 2023, 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 Stock Exchange's 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 voting rights, on a one vote per share basis, in the share 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 Second Amended and Restated Article of Association (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. Enquiries to the Board may be sent by post to the Company's principal place of business in Hong Kong.

Address: 6/F, SML Tower,
165 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.

After the Board has reviewed the implementation and effectiveness of the Group's communication policy including steps taken at the annual general meeting and the handling of queries received (if any) which were conducted during the year ended 31 December 2023, the Group's communication policy was found to be effective and adequate.

ARTICLES OF ASSOCIATION

During the year ended 31 December 2023, the Company has approved the amendments and adopted the second amended and restated memorandum and articles of association of the Company, in substitution for, and to the exclusion of, the amended and restated memorandum and articles of association of the Company, in the annual general meeting held on 30 June 2023.

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 FY2023.

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 FY2023.

BUSINESS REVIEW

The business review of the Group for FY2023 is set out in the section headed "Management Discussion and Analysis" on page 11 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, the Group's environmental policies and performance which have a significant impact on the Company and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends, can be found in the "Management Discussion and Analysis" on pages 11 to 22, "Corporate Governance Report" on pages 23 to 35 and the "Environmental, Social and Governance Report" on page 49 to 69 of this report. Such discussion forms part of this Report of the Directors.

RESULTS AND DIVIDENDS

The results of the Group for FY2023 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 146 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 FY2023 are set out in Note 16 to the consolidated financial statements. There were no investment properties of the Group during FY2023.

REPORT OF THE DIRECTORS

SHARE CAPITAL

Details of movements in the share capital of the Company during FY2023 are set out in Note 27 to the consolidated financial statements.

References are made to the Company's announcements dated 10 January 2023, 27 January 2023, 6 February 2023, 1 March 2023 and 8 March 2023, and the prospectus dated 13 February 2023. Capitalized terms used in this annual report shall have the same meanings stated in the above announcements and prospectus. The Company implemented the Rights Issue on the basis of one (1) Rights Share for every two (2) existing Shares held on the Record Date at the Subscription Price of HK\$0.065 per Rights Share, to raise gross proceeds of approximately HK\$31.3 million before deducting the costs and expenses, by way of the Rights Issue of up to 481,950,000 Rights Shares to the Qualifying Shareholders.

The reasons for the Rights Issue were it represents a good and timely opportunity for the Company to expand new business and broaden the Group's revenue base. In order to capture potential business growth opportunities and in view of the recent financial performance of the Group, it is crucial for the Group to assess additional funds to strengthen the capital for the development of new energy vehicle industry and maintain sufficient working capital to achieve operating needs.

The Rights Issue was completed on 9 March 2023, and 481,949,998 fully paid Rights Shares were allotted and issued accordingly. The Rights Shares are ordinary shares of the Company and are rank pari passu in all respects among themselves and with the Shares in issue on the date of allotment and issue of the Rights Shares. The aggregate nominal of the Rights Shares is HK\$4,819,499. The subscription price of the Right Share represents a discount of approximately 24.4% to the closing price of HK\$0.086 per share as quoted on the Stock Exchange on the date of announcement of the Rights Issue on 10 January 2023. The net subscription price is approximately HK\$0.062 per Rights Share. The net proceeds from the Rights Issue (after deducting all necessary costs and expenses) are approximately HK\$29.9 million. For details of the use of proceeds of the Rights Issue, please refer to the "Management Discussion and Analysis" in this annual report.

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 FY2023 are set out in the consolidated statement of changes in equity.

As at 31 December 2023, the Company's reserves available for distribution to the Shareholders were approximately HK\$101.7 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 18.0% of the total sales for the year and sales to the largest customer included therein amounted to approximately 5.6%. Purchases from the Group's five largest suppliers accounted for approximately 39.3% of the total purchases for the year and purchase from the largest supplier included therein amounted to approximately 16.7%. 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 2023 are set out in the Note 29 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contracts 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 2023.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during FY2023 are set out in Note 31 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:

Ms. Chen Jie (resigned on 4 April 2023)

Mr. Tang Biao (resigned on 3 July 2023)

Independent non-executive Directors:

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

Dr. He Dazhi (resigned on 3 July 2023)

Mr. Li Xiaoping

Mr. Tong Tsz Kwan

Pursuant to Article 112 of the Company's Second Amended and Restated 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 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 annual general meeting of the Company after his appointment and be subject to re-election at such meeting. Any Director appointed by the Board as an addition to the existing Board shall hold office only until the first annual general meeting of the Company after his appointment and shall then be eligible for re-election.

Pursuant to Article 108 of the Articles, Ms. Lam Shun Ka, 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 10 of the annual report.

CHANGE TO THE INFORMATION RELATING TO THE DIRECTOR DURING HIS TENURE

Mr. Tong Tsz Kwan was appointed as an independent non-executive Director of Oriental Payment Group Holdings Limited (stock code: 8613) on 20 October 2023. 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 Directors 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. The Company also has adopted the Share Option Schemes as a long-term incentive scheme of the Group.

Details of the remuneration of the Directors and the five highest paid individuals 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 directors has waived or agreed to waive any emoluments during FY2023 (2022: 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 FY2023 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 31 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 2023.

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 of the Company dated 30 June 2018. 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.

REPORT OF THE DIRECTORS

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 and payment of consideration 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.

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 2023 are as follows:

Name or category of participants	Date of grant and vesting date of share options	Exercise period of share options granted	Exercise price of share options (HK\$ per share)	Number of share options						
				At 1 January 2023	Granted during the FY2023	Adjustment for rights issue during FY2023	Exercised during FY2023	Lapsed during the FY2023	Cancelled during FY2023	Outstanding as at 31 December 2023
Executive Directors										
Mr. Yu Larry	16 August 2021	16 August 2021 – 15 August 2031	0.152	960,000	-	27,826	-	-	-	987,826
Mr. Law Cheung Moon	20 August 2021	20 August 2021 – 19 August 2031	0.154	715,000	-	20,725	-	-	-	735,725
Mr. Leung Patrick Cheong Yu	20 August 2021	20 August 2021 – 19 August 2031	0.154	715,000	-	20,725	-	-	-	735,725
Chief Executive										
Mr. Lam Tai Wai David	16 August 2021	16 August 2021 – 15 August 2031	0.152	9,600,000	-	278,261	-	-	-	9,878,261
Other Employees	16 August 2021	16 August 2021 – 15 August 2031	0.152	23,940,000	-	693,913	-	-	-	24,633,913
Other Employees	20 August 2021	20 August 2021 – 19 August 2031	0.154	30,570,000	-	886,086	-	-	-	31,456,086
				66,500,000	-	1,927,536	-	-	-	68,427,536

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

REPORT OF THE DIRECTORS

During FY2023 and FY2022, no options have been granted, exercised or cancelled, or agreed to be granted.

The maximum number of shares of the Company available for issuance upon exercise of all share options under the Share Option Scheme is 68,427,536, representing approximately 4.73% of the issued shares of the Company as at the date of this report. As at the date of this report, the available share options under the mandate limit of the Share Option Scheme is Nil.

Adjustment to the Share Options Under the Share Option Scheme

Pursuant to the terms of the Share Option Scheme, adjustments has been made to the exercise prices of and/or the number of the Share falling to be issued upon exercise of the outstanding Share Options granted by the Company under the Share Option Scheme respectively as a result of the Rights Issue on 10 March 2023.

Date of grant	Immediately prior to the adjustments as a result of completion of the Rights Issue		Immediately after the adjustments as a result of completion of the Rights Issue	
	Number of Share falling to be issued upon exercise of the outstanding Share Options	Exercise price per Share (HK\$)	Adjusted number of Shares falling to be issued upon exercise of the outstanding Share Options	Adjusted exercise price per Share (HK\$)
16 August 2021	34,500,000	0.152	35,500,000	0.148
20 August 2021	32,000,000	0.154	32,927,536	0.150
	<u>66,500,000</u>		<u>68,427,536</u>	

Apart from the aforesaid share option schemes, at no time during FY2023 and FY2022 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⁾	459,810,000 Ordinary Shares (L)	31.80%
	Beneficial owner	987,826 Ordinary Shares (L) ⁽³⁾	0.07%
Mr. Law Cheung Moon	Beneficial owner	735,725 Ordinary Shares (L) ⁽³⁾	0.05%
		735,725 Ordinary Shares (L) ⁽³⁾	
Mr. Lam Tai Wai David	Beneficial owner	9,878,261 Ordinary Shares (L) ⁽³⁾	0.68%

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 31.80% 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.

REPORT OF THE DIRECTORS

Associated Corporation – Vigorous King Limited

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

Save as disclosed above, as at 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.

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	459,810,000 Ordinary Shares (L)	31.80%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of spouse	460,797,826 Ordinary Shares (L)	31.87%
Ms. Yiu Wai Ki	Beneficial owner	73,400,000 Ordinary Shares (L)	5.08%
Mr. Leung Wan Hung ⁽⁴⁾	Interest of spouse	73,400,000 Ordinary Shares (L)	5.08%
Mr. Lam Sze Chun Jackson	Beneficial owner	134,350,000 Ordinary Shares (L)	9.29%
Goldlink Hong Kong Investment Limited ⁽⁵⁾	Beneficial owner	50,000,000 Ordinary Shares (L)	3.46%
Rich Trend Hong Kong Investment Limited ⁽⁶⁾	Beneficial owner	50,000,000 Ordinary Shares (L)	3.46%

REPORT OF THE DIRECTORS

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the ordinary shares.
- (2) Vigorous King Limited is held as to 100% by Mr. Yu Larry. Therefore, Mr. Yu is deemed to be interested in the ordinary 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 ordinary 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 ordinary 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 ordinary 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 ordinary 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 ordinary shares or underlying ordinary 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.

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 of the Company dated 30 June 2018. 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.

REPORT OF THE DIRECTORS

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 FY2023 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.

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 49 to 69 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.

REPORT OF THE DIRECTORS

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 FY2023 and up to the date of this report.

AUDITOR

Linksfeld CPA Limited has been appointed as the auditor of the Company for the financial year ended 31 December 2023, who retires and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM of the re-appointment of Linksfeld CPA Limited as the auditor of the Company.

With effect from 21 January 2022, Moore Stephens CPA Limited resigned as the auditors of the Group 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. Save for the above-mentioned changes, in any of the preceding three years, the auditor of the Company had not been changed.

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

Hong Kong, 27 March 2024

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, Macau and Mainland China during the year ended 31 December 2023. For corporate governance information, please refer to the "Corporate Governance Report" on pages 23 to 35 of this annual report.

Report Preparation

This Report truthfully and objectively introduces how the Group fulfil corporate social responsibility in 2023 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 key performance indicators ("KPIs") and comparative figures (if appropriate) has been disclosed in this report. The calculation of the KPIs can be referenced to "Appendix 2": Reporting Guidance on Environmental KPIs" and "Appendix 3: Reporting Guidance on Social KPIs" of "How to Prepare an ESG Report" published by HKEX.

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 2023, 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 2023 (the "FY2023").

Reporting Scope

The reporting scope is consistent with the annual report and covers all the business operations that are the principal source of revenue of the Group, including the offices in Hong Kong, Macau and Mainland China. The non-financial information used for this Report is mainly collected annually from internal departments and is based on information available through internal reporting.

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 • Company website 	<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	Low
	Waste Management	Low
A2: Use of Resources	Energy Consumption	Low
	Water Consumption	Low
	Use of Packaging Material	Low
A3: The Environment and Natural Resources	Impact on environment and natural resources	Low
A4: Climate Change	Climate Change	Medium
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	High
	Product health and safety	High
B6: Product Responsibility	Advertising and labelling	Low
	Protection of intellectual property rights	High
	Data privacy protection	High
	Whistleblowing policy and Anticorruption seminars	Medium
B7: Anti-corruption	Whistleblowing policy and Anticorruption seminars	Medium
B8: Community Investment	Community involvement and resources Contribution	Medium

During FY2023, 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: 6/F, SML Tower, 165 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 services, IT maintenance and support 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 non-hazardous 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 non-hazardous 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 solutions services, IT maintenance and support services and entertainment products, except for the petrol consumption of vehicle, the Group considers that air emissions does not form a significant level during 31 December 2023. The relevant emission data is as follows:

Air pollutants ¹	Unit	2023	2022
Nitrogen Oxides (NO _x)	g	39.2	N/A
Sulphur Oxides (SO _x)	g	10.6	N/A
Particulate Matter (PM)	g	2.9	N/A

1. The group start to disclose the data in FY2023.

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.

During FY2023, the Group has purchased the electric vehicles to replace the vehicle using petrol consumption.

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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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.

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 FY2022, the carbon footprint of employees is immaterial as almost all business is delivered in Hong Kong. During FY2023, with the resumption of air travel after the pandemic, the tonnes of carbon dioxide equivalent (“tCO₂e”) increased when compared to FY2022, the Group still consider the carbon footprints recorded is manageable, the Group will keep on encouraging employees to use video conference calls and participating in online meetings in order to reduce carbon emissions from air travel.

For the year ended 31 December 2023, the Group’s quantitative information on greenhouse gases emissions and its intensity is as follows:

Indicator	Unit	2023	2022
Scope 1 – Direct GHG Emissions	tCO ₂ e		
• Petrol consumption		1.7	8.2
Scope 2 – Energy Indirect GHG Emissions	tCO ₂ e		
• Purchased electricity consumption		44.7	31.9
Scope 3 – Other Indirect GHG Emissions	tCO ₂ e		
• Paper Consumption		0.7	0.7
• Business Air Travel		39.8	0.5
Total emission of greenhouse gases	tCO ₂ e	86.9	41.3
Intensity (Total emission of greenhouse gases per square metre of floor area)	tCO ₂ e/m ²	0.192	0.152

Note:

- 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 daily operation in FY2023. Nevertheless, the Group will actively monitor and report to specialised contractors who handled such hazardous waste in order to comply with the relevant law and regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 FY2023, 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.

For the year ended 31 December 2023, the Group's quantitative information on the performance of non-hazardous waste disposal performance and its intensity is as follows:

Category of waste	Unit	2023	2022
Total non-hazardous waste – Office paper	Tonnes	0.134	0.137
Intensity (per floor area)	Tonnes/m ²	0.0002	0.0002

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 or air travel.

Through the implementation of such measures, employees' awareness of reducing energy consumption has been continued to improve. The total energy consumption in 2023 has decreased by approximately 17.1% from 2022 mainly due to the Group purchased an electric vehicle to replace the petrol consumption vehicle in 2023.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

For the year ended 31 December 2023, the total electricity consumption and its intensity of the Group is as follows:

Types of energy	Unit	2023	2022
Total Energy Consumption	kWh	118,487	142,920
Direct Energy Consumption – Petrol		6,829	33,632
Indirect Energy Consumption – Electricity		111,658	109,288
Intensity (per floor area)	kWh/m ²	272	228

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 Hong Kong and in Macau is managed by the office building management and water usage data thus not available in FY2023 and FY2022. Other than that, the Group uses tap water for daily cleaning purpose in Hong Kong and Macau's office and orders distilled water from suppliers for staff's drinking, which the water consumption is immaterial in Hong Kong and Macau. The Group's water consumption amount entirely comes from Shanghai's office, which is approximately to 248.1 m³. In order to reduce the water consumption of the Group, the office has issued a notice to remind all staff to turn off the taps after use as well as using it wisely. Regular inspection and prompt report any leaks if occurred. In addition, the office has also issued a notice to remind employees to cherish drinking water.

For the year ended 31 December 2023, the total water consumption performance and its intensity of the Group is as follows:

Water consumption	2023	2022
Water consumption (m ³)	248.1	258.3
Intensity (per floor area m ³ /m ²)	0.12	0.13

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 materials when they delivering the hardware/software to customers.

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. 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.

Environmental Education

The awareness of environmental protection has been enhanced by employees regularly. The Group has issued different kinds of notices including “water saving”, “energy conservation”, and “recycling paper” by email. All reminders could be considered as a small step to attain a friendly environment. Moreover, the Group will commit awareness on minimising the use of natural resources and environmental consciousness together by selecting environmentally friendly suppliers.

Indoor Air Quality

The Group has the responsibility to provide a green working environment to employees. Except for acquiring some plants for refreshing the air regularly, the Group has arranged by the office building management to clear air-conditioning and ventilation systems twice a year, for ensuring the indoor air quality is maintained at acceptable level.

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 petrol use in office vehicles, electricity consumption in offices. The management has issued notice to remind the employees to turn off idle laptop, lights and air-conditioner after working hours.

With considering the recommendations of the Taskforce on Climate-related Financial Disclosure (TCFD), the Group has identified the climate-related risks that has material impacts to our businesses.

Physical Risks

Along with the increasing frequency and intensity of the extreme weather occurrences, such as typhoons, storms, tropical cyclones, heavy rainfall, extreme cold, or extreme heat, may take adverse effect to our normal operation, even threats to our supply chain. All these extreme weather incidents could endanger our staff safety, and even cause damage to the office building operation, resulting delay of production and increase the cost of repairing, thus revenue of the Group’s may have negative impact.

The Group has implemented various countermeasures by monitoring the latest weather alerts and suggestions announced by the related government department, establish and examine the contingency plans regularly, update all personnel by the instant message, etc, which aims to reduce the loss to the Group in long term.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Transition Risks

Without a doubt, the development and trend on the climate change in Mainland China and Hong Kong Government are more important than few years before. The Group has anticipated the carbon reduction may pose a risk especially in regulatory, technological and market changes. Failure in complying the laws and regulations may expose higher risks in claims and litigation, resulting not only on the financial loss, but also to the Group's reputation.

The Group will regularly monitor the trends and changes in environmental laws and regulations, avoid costs and fines on non-compliance or reputational risks, and take effective emission reduction measures to mitigate the effect on climate-related issues.

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 2023, 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 FY2024.

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 FY2023, 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 2023, the Group had a total of 153 employees (2022: 161 employees), with a slight decrease of approximately 5.0%. The employee demographic distribution is as follows:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

	2023	2022
By gender		
– Male	119	118
– Female	34	43
By employment type		
– Full-time employee	149	151
– Part-time employee	4	10
By age group		
– Aged under 30	40	48
– Aged 30 to 40	58	52
– Aged 41 to 50	34	38
– Aged above 50	21	23
By geographical region		
– Hong Kong	128	137
– Macau	16	15
– The PRC	9	9

During the year ended 31 December 2023, the staff turnover rate¹ and its demographic distribution is as follows:

	2023	2022
Total	26.1%	28.4%
By gender		
– Male	24.3%	21.8%
– Female	32.7%	39.7%
By age group		
– Aged under 30	32.3%	25.7%
– Aged 30 to 40	27.5%	25.9%
– Aged 41 to 50	25.6%	28.6%
– Aged above 50	17.2%	25.9%
By geographical region		
– Hong Kong	30.3%	24.3%
– Macau	10.0%	21.1%
– The PRC	–	56.3%

Note:

1. Staff turnover rate = number of staff leaving employment during that year in the category ÷ (number of staff at the beginning of that year in the category + number of staff employed during that year in the category) × 100%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 each office. The Group also provides medical insurance for full-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.

There were no work-related fatalities or injuries for the past three years. During FY2023, no lost days due to work-related injuries were reported. The Group will continue to provide a safe and healthy working environment for the employees.

Besides, the Group strives to encourage the staff to exercise and maintain a healthy lifestyle. For the year ended 31 December 2023, the health and safety performances are periodically monitored and reviewed. The Group sponsor to staff for having body check at least annually. Even the effect of pandemic released, the Group still implemented flexible work arrangements, including working from home, shift rotation and flexible lunch arrangement, not only facilitating staff in communication and discussion, but also benefit to the Group by reducing the cost of operation. The Group also requires all colleagues and visitors to follow hygiene measures by providing disinfectant hand sanitizer. The Group did not note any material non-compliance with laws and regulations in relation of employee health and safety during FY2023.

Additionally, we have implemented precautionary measures, such as arranging virtual meetings for clients instead of physical meetings, to minimize the transmission of general 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.

In FY2023, we have organised a health care day and invited Registered Chinese Medicine Practitioner to our Hong Kong office, to take pulse and understand their own physical condition.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 employee hierarchy. 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. During FY2023, 29.4% of total employees have taken part in training. Details of the Group's training data is as follows:

Category ¹	Breakdown of employees trained 2023	Average training hours 2023
By gender		
– Male	82.2%	2.5
– Female	17.8%	3.8
By employee category		
– Senior management	11.1%	3.8
– Middle management	17.8%	4.0
– General employee	71.1%	3.2

¹ The group start to disclose the data in FY2023.

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) the “Regulation on Labour Security Supervision”, and the “Provision on the Prohibition of the Use of Child Labour” of Mainland China, there was no child nor forced labour in the Group's operation during FY2023 and FY2022.

During the recruitment process, the Human Resources Department has a procedure for collecting and reviewing identity and age verification documents for all potential applicants. The Group also has established an internal file management procedures to record and review any employment of child labour regularly. Once identified any non-compliance with our procedures, the Group will take immediate investigations and impose punishment if necessary. The Group has set out the working hours and the overtime regulations to our staff in each of their employment contract. We encourage them to have sufficient resting time during non-working hours, and if employees have overtime working in public holidays, they are entitled to have compensation with the approval from their supervisor and in accordance with the relevant laws and regulations they situated. If any violations on forced labour are identified, the Group will take immediate investigations, discuss and report to the senior management, or even impose punishment if necessary.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B5: Supply Chain Management

The Group maintains a long term and stable relationship with major suppliers. All suppliers are carefully evaluated and regularly monitored. As at 31 December 2023, the Group has 175 suppliers, which are mainly outsourced service-providers and material suppliers. Details of the suppliers geographic distribution is as follows:

Region	Number of suppliers
Hong Kong	150
Mainland China	5
Macau	4
Others	16

Procurement Mechanism

The Group's Procurement Department has established policy in purchasing materials and selection of outsourced service-providers. We have considered not only on pricing competitiveness, but also including the quality of products/services supplied, business ethics (including anti-corruption), data protection, etc. Nevertheless, where possible and appropriate, the Group required the suppliers could take considerations on the environmental social responsibility and this will be one of our purchasing decisions in selecting.

The Group will take periodic review of the supplier list that are not fulfilling our selection criteria, any discrepancies will take investigations and communicate with them for any rectifications or improvements. The Group will be continuing monitor whether the supply chain management practices are implemented properly via various channels, like public media report and communication with suppliers.

During the year ended 31 December 2023, 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 FY2023, 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 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 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.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

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 FY2023, 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 Group concerns on the quality of our products and services and we have stipulated quality assurance, products recall, and customer complaints procedures to strictly manage the quality of our products and services. Along with the award of the certification of ISO9001:2015 quality management system standard in relation to the provision of system maintenance and support services to external customers, we will continue to provide excellent services to attain our Group's aim "Customer-Oriented".

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.

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. In order to take strict protection on personal data, regular review by management and assign updated training to employees is necessary to our Group.

Due to the Group's business nature, the Group is not involved in material advertising, labelling and health and safety-related risks. Despite that, we are stringent to follow the laws and regulations in products and services promotion that must show the accurate information of our products and services, which should be the actual quality and performance that our customers get.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B7: Anti-corruption

The Group adheres to high standards of conduct and integrity, adopts a zero-tolerance attitude towards fraud, corruption and bribery. We are strict to follow the laws and regulation in Mainland China, including “Company Law of the People’s Republic of China” and the “Anti-money Laundering Law of the People’s Republic of China”, and the “Prevention of Bribery Ordinance” in Hong Kong. During FY 2023, the Group did not aware any legal cases regarding the corrupt practices against our Group or our employees.

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. Any persons in violation of the policy or the laws and regulation may subject to internal disciplinary action, or even civil or criminal liability.

Our principle on conduct and integrity is well conveyed to our employees through daily communication, seminars and training. Employees in Hong Kong 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. 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. We mainly focus in public health, education, and social welfare that organised by Pok Oi Hospital, and approximately 6 days of community investment activities. Nevertheless, the Group also donate approximately HKD43,000 to Hong Kong approved donation organisation. We will continue searching appropriate donation organisation, to spread our participation and contributions to the society.

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 nine 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 for three consecutive years.

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 Disclosures and KPIs	Description	Section/Declaration
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, Paper Consumption 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 – Environmental Education, Indoor Air Quality
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 – Physical Risks, Transition Risks

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	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
KPI B6.5 (“Recommended Disclosures”)	Description of consumer data protection and privacy policies, and how they are implemented and monitored.	Product Responsibility

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Subject Areas, Aspects, General Disclosures and KPIs	Description	Section/Declaration
Aspect B7: Anti-corruption		
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 bribery, extortion, fraud and money laundering.	Anti-corruption
Aspect B8: Community Investment		
General Disclosure	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



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 77 to 145, which comprise:

- the consolidated statement of financial position as at 31 December 2023;
- 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, comprising material accounting policy information and other explanatory information.

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 2023, 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 (“HKSA”) 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 trade receivables, unbilled receivables and contract assets.

Key Audit Matters

How our audit addressed the Key Audit Matters

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

Refer to Notes 4(e) and 6 to the consolidated financial statements.

For the year ended 31 December 2023, the Group's revenue from IT infrastructure solutions services and IT development solutions services (collectively, the "IT Solutions Services") of approximately HK\$37.4 million and HK\$123.4 million, respectively, are treated as one performance obligation and recognised over time because these IT Solutions Services require the Group to carry out configuration, customisation, and integration of the hardware and software in accordance with clients' requirements and specifications, which are highly interdependent with each other and involve significant integration activities.

The revenue arising from these IT Solution Services should be recognised by measuring the progress towards complete satisfaction of the performance obligation. 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.

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

- Obtained an understanding of management's internal control and process 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

We focused on this area because the magnitude of revenue from these 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 these revenue 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 of the budgeted costs by checking to the related contracts of these IT Solutions Services to the budgets prepared and performed retrospective review on budgeted costs;
- Tested, on a sample basis, the actual costs incurred on these 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 these 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

Impairment for trade receivables, unbilled receivables and contract assets

Refer to Notes 3.1(b), 4(b), 21, 24 and 33.10(d) to the consolidated financial statements.

As at 31 December 2023, the Group had total gross trade receivables, unbilled receivables and contract assets (collectively, the "Receivables and Contract Assets") of approximately HK\$153.2 million and total loss allowance of approximately HK\$15.2 million. Loss allowance is made for lifetime expected credit losses ("ECLs") on balances of Receivables and Contract Assets.

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.

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;
- Evaluated the significant judgments and assumptions involved in the ECLs allowance of Receivables and Contract Assets, including management's assessment of credit risks of the debtors, considering their payment profiles of sales over a period of two years, historical repayment patterns, correspondence with the customers and forward-looking factors such as macroeconomic factors and historical default rates used in management's assessment, and assessed the reasonableness of the judgments and assumptions adopted;
- 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 trade receivables by checking to the underlying sales invoices;
- Tested, on a sample basis, the subsequent cash collection of trade receivables and subsequent settlement of unbilled receivables and contract assets.

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.

INDEPENDENT AUDITOR'S REPORT

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.

Linksfeld CPA Limited

Certified Public Accountants

Kwok Chi Kan

Practising Certificate Number: P06958

Hong Kong, 27 March 2024

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Revenue	6	309,075	294,656
Cost of sales	8	(249,925)	(244,365)
Gross profit		59,150	50,291
Other income and gains	7	1,155	4,479
Selling expenses	8	(13,168)	(10,681)
Provision for expected credit losses, net		(5,424)	(9,404)
Impairment loss on intangible asset	18	–	(41,867)
Administrative and general expenses	8	(58,544)	(61,467)
Operating loss		(16,831)	(68,649)
Finance costs	11	(506)	(1,173)
Loss before income tax		(17,337)	(69,822)
Income tax credit/(expense)	12	66	(84)
Loss for the year		(17,271)	(69,906)
Attributable to:			
Owners of the Company		(14,088)	(67,058)
Non-controlling interests		(3,183)	(2,848)
		(17,271)	(69,906)
			(Restated)
Loss per share for the loss attributable to owners of the Company (in cents)			
Basic and diluted	13	(1.03)	(6.49)

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 2023

	2023 HK\$'000	2022 HK\$'000
Loss for the year	(17,271)	(69,906)
Other comprehensive loss		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange difference arising on translation of foreign operations	(911)	(27)
Other comprehensive loss for the year, net of tax	(911)	(27)
Total comprehensive loss for the year	(18,182)	(69,933)
Attributable to:		
Owners of the Company	(14,999)	(67,085)
Non-controlling interests	(3,183)	(2,848)
	(18,182)	(69,933)

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 2023

	Notes	2023 HK\$'000	2022 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	2,343	6,909
Right-of-use assets	17(a)	2,600	15,012
Deposits and prepayments	21	737	1,470
Deposit and prepayment for a life insurance	22	6,654	6,681
		12,334	30,072
Current assets			
Inventories	23	3,374	6,748
Finance lease receivables	19	–	212
Trade and other receivables	21	103,431	100,287
Contract assets	24	51,572	36,078
Amount due from the immediate holding company	31(b)	339	78
Amounts due from non-controlling shareholders	31(b)	243	243
Current income tax assets		–	944
Cash and cash equivalents	25	30,323	25,191
		189,282	169,781
Total assets		201,616	199,853
EQUITY			
Share capital	27	14,459	9,639
Reserves		65,279	55,195
Equity attributable to owners of the Company		79,738	64,834
Non-controlling interests		(8,347)	(5,164)
Total equity		71,391	59,670

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2023

	Notes	2023 HK\$'000	2022 HK\$'000
LIABILITIES			
Non-current liabilities			
Lease liabilities	17(a)	1,168	12,297
Deferred income tax liabilities	26	46	145
		1,214	12,442
Current liabilities			
Trade and other payables	28	111,093	94,421
Contract liabilities	24	10,649	19,574
Bank borrowings	29	1,375	2,450
Amounts due to non-controlling shareholders	31(b)	3,647	3,297
Lease liabilities	17(a)	2,229	7,999
Current income tax liabilities		18	–
		129,011	127,741
Total liabilities		130,225	140,183
Total equity and liabilities		201,616	199,853

The consolidated financial statements on pages 77 to 145 were approved by the Board of Directors on 27 March 2024 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 2023

	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	Exchange reserve HK\$'000	Retained earnings/ (accumulated losses) HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
At 1 January 2022	9,639	90,865	10	3,364	(10)	28,051	131,919	(2,316)	129,603
Loss for the year	-	-	-	-	-	(67,058)	(67,058)	(2,848)	(69,906)
Exchange difference arising from translation of foreign operations	-	-	-	-	(27)	-	(27)	-	(27)
Total comprehensive loss for the year	-	-	-	-	(27)	(67,058)	(67,085)	(2,848)	(69,933)
At 31 December 2022	9,639	90,865	10	3,364	(37)	(39,007)	64,834	(5,164)	59,670
At 1 January 2023	9,639	90,865	10	3,364	(37)	(39,007)	64,834	(5,164)	59,670
Loss for the year	-	-	-	-	-	(14,088)	(14,088)	(3,183)	(17,271)
Exchange difference arising from translation of foreign operations	-	-	-	-	(911)	-	(911)	-	(911)
Total comprehensive loss for the year	-	-	-	-	(911)	(14,088)	(14,999)	(3,183)	(18,182)
Transactions with owners in their capacity as owners: Issue of ordinary shares under rights issue (Note 27)	4,820	25,083	-	-	-	-	29,903	-	29,903
At 31 December 2023	14,459	115,948	10	3,364	(948)	(53,095)	79,738	(8,347)	71,391

Notes:

- i. Share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued.
- ii. Other reserve represents the difference between issued share capital of the Company issued during the reorganisation in preparation for the listing pursuant to which the Company became the holding company of the Group, and the aggregate value of the respective share capital/paid-in capital of the companies now comprising the Group and the amount of advances from the 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 2023

	Notes	2023 HK\$'000	2022 HK\$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	30(a)	(14,459)	10,599
Bank interest received		239	27
Hong Kong Profits Tax refunded/(paid)		929	(178)
Net cash (used in)/generated from operating activities		(13,291)	10,448
Cash flows from investing activities			
Purchase of property, plant and equipment		(741)	(820)
Proceeds from disposals of property, plant and equipment		–	1,032
Advances to the immediate holding company		(261)	(21)
Net cash (used in)/generated from investing activities		(1,002)	191
Cash flows from financing activities			
Principal elements of lease payments	30(b)	(8,372)	(5,379)
Interest elements of lease payments	30(b)	(299)	(956)
Finance cost paid	30(b)	(207)	(217)
Proceeds from bank borrowings	30(b)	–	10,766
Repayment of bank borrowings	30(b)	(1,075)	(20,033)
Amounts due to non-controlling shareholders		350	253
Proceeds from issues of shares under rights issue	27	29,903	–
Net cash generated from/(used in) financing activities		20,300	(15,566)
Net increase/(decrease) in cash and cash equivalents		6,007	(4,927)
Cash and cash equivalents at the beginning of the year		25,191	29,966
Effect of foreign exchange rate changes		(875)	152
Cash and cash equivalents at the end of the year		30,323	25,191

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 2023

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 the immediate holding company of the Company is Vigorous King Limited, a company incorporated in the British Virgin Islands (“BVI”) which is wholly owned by Mr. Yu Larry (“Mr. Yu”), who is also the Chairman, Chief Executive Officer and Executive Director of the Company.

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

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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 judgment or complexity, or areas where assumptions and estimates are to the consolidated financial statements are in note 4.

The consolidated financial statements are prepared on a going concern basis.

(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 2023:

HKAS 1 and HKFRS Practice Statement 2	Disclosure of Accounting Policies (amendments)
HKAS 8	Definition of Accounting Estimates (amendments)
HKAS 12	Deferred tax related to assets and liabilities arising from a single transaction (amendments)
HKAS 12	International Tax Reform – Pillar Two Model Rules (amendments)
HKFRS 17	Insurance Contracts (new standard)
HKFRS 17	Amendments to HKFRS 17
HKFRS 17	Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information

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 2023

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (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
HKAS 1	Classification of Liabilities as Current or Non-current (amendments)	1 January 2024
HKAS 1	Non-current Liabilities with Covenants (amendments)	1 January 2024
HKFRS 16	Lease Liability in a Sale and Leaseback (amendments)	1 January 2024
HK Int 5 (Revised)	Hong Kong Interpretation 5 (Revised) Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause (HK Int 5 (Revised))	1 January 2024
HKAS 7 and HKFRS 7	Supplier Finance Arrangements (amendments)	1 January 2024
HKAS 21	Lack of Exchangeability (amendments)	1 January 2025
HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (amendments)	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 2023

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 People's Republic of China (the "PRC"). The majority of the transactions at each location are settled in the respective local currencies, namely Hong Kong dollar ("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\$").

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.

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 2023

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) 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 2023, if interest rate on deposit for a life insurance policy had been 50 basis points (2022: 50 basis points) higher/lower with all other variables held constant, loss for the year would have been approximately HK\$20,000 lower/higher (2022: loss for the year would have been approximately HK\$12,000 lower/higher), as a result of higher/lower interest income on deposit for a life insurance policy.

At 31 December 2023, if interest rate on bank borrowings had been 50 basis points (2022: 50 basis points) higher/lower with all other variables held constant, loss for the year would have been approximately HK\$7,000 higher/lower (2022: loss for the year would have been approximately HK\$12,000 higher/lower), 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 trade receivables, unbilled receivables, contract assets, other receivables, deposits, deposit for a life insurance policy, amounts due from the immediate holding company/non-controlling shareholders 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 expected credit losses ("ECLs") for trade receivables, unbilled receivables and contract assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 consolidated 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.

Trade receivables, unbilled receivables and contract assets

As at 31 December 2023, the Group is exposed to concentration of credit risk as 39% (2022: 5%), 16% (2022: 32%) and 4% (2022: 7%) of the total trade receivables, unbilled receivables and contract assets were due from the five largest customers. The major customers of the Group are reputable organisations.

The Group applied HKFRS 9 simplified approach to measure the ECL for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Trade receivables, unbilled receivables and contract assets (continued)

The expected loss rates are based on the payment profiles of sales over a period of two 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.

The loss allowance for trade receivables, unbilled receivables and contract assets as at 31 December 2023 and 2022 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 2023				
Not yet due or within 180 days	0.91%	138,114	(1,261)	136,853
181–360 days past due	33.58%	1,480	(497)	983
361–540 days past due	96.33%	3,246	(3,127)	119
541–720 days past due	98.90%	2,993	(2,960)	33
More than 720 days past due	100.00%	7,368	(7,368)	–
		153,201	(15,213)	137,988
As at 31 December 2022				
Not yet due or within 180 days	0.37%	123,364	(454)	122,910
181–360 days past due	27.92%	4,553	(1,271)	3,282
361–540 days past due	88.83%	6,936	(6,161)	775
541–720 days past due	99.06%	1,919	(1,901)	18
More than 720 days past due	100.00%	2	(2)	–
		136,774	(9,789)	126,985

Impairment losses on trade receivables, unbilled receivables and contract assets are presented as “Provision for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

3 FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(b) Credit risk (continued)

Trade receivables, unbilled receivables and contract assets (continued)

The movements of loss allowance for trade receivables, unbilled receivables and contract assets are shown as follows:

	Lifetime ECL			Total HK\$'000
	Trade receivables HK\$'000	Unbilled receivables HK\$'000	Contract assets HK\$'000	
At 1 January 2022	358	25	2	385
Provision for expected credit losses	9,179	95	130	9,404
At 31 December 2022 and at 1 January 2023	9,537	120	132	9,789
Provision for expected credit losses	5,038	6	380	5,424
At 31 December 2023	14,575	126	512	15,213

Finance lease receivables, other receivables, deposits, deposit for a life insurance policy and amounts due from the immediate holding company/non-controlling shareholders

The Group adopted general approach for expected credit loss of finance lease receivables, other receivables, deposits, deposit for a life insurance policy and amounts due from the immediate holding company/non-controlling shareholders.

The Group closely monitors these receivables. Management considers the credit risk on these amounts is minimal after considering the financial conditions of the counterparties. Based on historical experience, these financial assets are settled upon maturity and there has been no history of default.

While other receivables, deposits, deposit for a life insurance policy and amounts due from the immediate holding company/non-controlling shareholders are also subject to the impairment assessment, the identified impairment loss was immaterial.

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 2023 and 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 amounts HK\$'000
As at 31 December 2023					
Trade and other payables	106,054	–	–	106,054	106,054
Bank borrowings	1,397	–	–	1,397	1,375
Amounts due to non- controlling shareholders	3,647	–	–	3,647	3,647
Lease liabilities	2,334	926	290	3,550	3,397
	113,432	926	290	114,648	114,473
As at 31 December 2022					
Trade and other payables	91,965	–	–	91,965	91,965
Bank borrowings	2,490	–	–	2,490	2,450
Amounts due to non- controlling shareholders	3,297	–	–	3,297	3,297
Lease liabilities	8,960	6,909	6,520	22,389	20,296
	106,712	6,909	6,520	120,141	118,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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.

	2023 HK\$'000	2022 HK\$'000
Bank borrowings subject to a repayment on demand clause based on scheduled repayments		
Within one year	1,131	1,093
Within a period of more than one year but not exceeding two years	266	1,131
Within a period of more than two years but not exceeding five years	–	266
	1,397	2,490

(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 2023

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, accumulated losses, 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 2023, the gearing ratio of the Group's total liabilities over its total assets was 64% (2022: 70%).

The Group is not subject to externally imposed capital requirements during the years ended 31 December 2023 and 2022.

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 determined 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 assets 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 2023

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(b) Loss allowance of trade receivables, unbilled receivables and contract assets

The Group estimated the ECLs based on historical credit loss pattern 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 repayment history, debtors' financial position, and adjusted by taking into consideration current conditions and forward-looking factors 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 Company 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 Company. 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.

(d) Income and deferred income tax

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (CONTINUED)

(e) Revenue recognition for provision of IT Solutions Services which are treated as one performance obligation and recognised over time

The management assessed and concluded that there are significant integration activities for IT infrastructure solutions services and IT development solutions services (collectively, the “IT Solutions Services”). These solutions provided were customised for the Group’s customers and they were highly interdependent with each other. Therefore, the IT Solutions Services are treated as one performance obligation. Based on the assessment by the directors of the Company, the customer controls the asset as it is created or enhanced. Accordingly, the revenue from the 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 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 2023, revenue from the related IT infrastructure solutions services of approximately HK\$37,432,000 (2022: HK\$31,676,000) and IT development solutions services of approximately HK\$123,364,000 (2022: HK\$123,395,000) were recognised over time.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 (2022: four) operating segments that qualify as reporting segment under HKFRS 8 and the information that is regularly reviewed by the executive directors for the purposes of allocating resources and assessing performance of the operating segment is the consolidated financial statements of the Group.

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred during the year (2022: same). The Group's other income and expense items, such as other income and gains, selling expenses, administrative and general expenses, provision for 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5 SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

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 years ended 31 December 2023 and 2022 is set out below.

	For the year ended 31 December 2023					
	IT solutions services				Total	
	IT infrastructure	IT development	IT maintenance	Entertainment		
	solutions	solutions	and support	products		
	solutions	services	services	services	products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue	140,111	123,364	45,600	-	309,075	
Reportable segment cost of sales	(125,654)	(88,962)	(35,309)	-	(249,925)	
Reportable segment gross profit	14,457	34,402	10,291	-	59,150	
Selling expenses	(5,969)	(5,256)	(1,943)	-	(13,168)	
Provision for expected credit loss, net	(487)	(429)	(158)	(4,350)	(5,424)	
Corporate and unallocated expenses, net					(57,895)	
Loss before income tax					(17,337)	
Income tax credit					66	
Loss for the year					(17,271)	
	For the year ended 31 December 2022					
	IT solutions services				Total	
	IT infrastructure	IT development	IT maintenance	Entertainment		
	solutions	solutions	and support	products		
	services	services	services	services	products	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Reportable segment revenue	114,084	123,395	55,204	1,973	294,656	
Reportable segment cost of sales	(98,628)	(98,860)	(44,922)	(1,955)	(244,365)	
Reportable segment gross profit	15,456	24,535	10,282	18	50,291	
Selling expenses	(4,136)	(4,473)	(2,001)	(71)	(10,681)	
Provision for expected credit loss, net	(1,937)	(1,014)	(453)	(6,000)	(9,404)	
Corporate and unallocated expenses, net					(100,028)	
Loss before income tax					(69,822)	
Income tax expenses					(84)	
Loss for the year					(69,906)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

5 SEGMENT INFORMATION (CONTINUED)

(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 years ended 31 December 2023 and 2022 is set out below.

	2023 HK\$'000	2022 HK\$'000
Geographical markets:		
– Hong Kong	304,603	290,952
– Macau	3,152	3,386
– Singapore	1,145	–
– The PRC	–	213
– The UK	175	105
	309,075	294,656

The geographical information of the Group's non-current assets other than deposits and prepayment and deposits and prepayment for a life insurance for the years ended 31 December 2023 and 2022 is set out below.

	2023 HK\$'000	2022 HK\$'000
Geographical markets:		
– Hong Kong	3,829	6,811
– Macau	346	868
– The PRC	768	14,242
	4,943	21,921

(c) Information about major customers

For the year ended 31 December 2023, there was no customers (2022: nil) which individually contributed over 10% of the Group's total revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 REVENUE FROM CONTRACTS WITH CUSTOMERS

Disaggregation of revenue from contracts with external customers

	2023 HK\$'000	2022 HK\$'000
Revenue		
IT solutions services		
– IT infrastructure solution services	140,111	114,084
– IT development solution services	123,364	123,395
IT maintenance and support services	45,600	55,204
Entertainment products	–	1,973
	309,075	294,656

	For the year ended 31 December 2023			
	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	
At a point in time	102,679	–	–	102,679
Over time	37,432	123,364	45,600	206,396
	140,111	123,364	45,600	309,075

	For the year ended 31 December 2022				
	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	82,408	–	–	1,973	84,381
Over time	31,676	123,395	55,204	–	210,275
	114,084	123,395	55,204	1,973	294,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

Accounting policies of 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 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 asset is created or enhanced. However, revenue arising from contracts for IT infrastructure solutions which involves just sales of hardware and/or software 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 hardware and/or software are delivered and accepted by the customers, which is a point in time when customers have the ability to direct the use of the hardware and/or software and obtain substantially all of the remaining benefits of the hardware and/or software.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED) (CONTINUED)

Accounting policies of revenue recognition (continued)

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

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 asset is created or enhanced.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

6 REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED) (CONTINUED)

Accounting policies of revenue recognition (continued)

(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.

7 OTHER INCOME AND GAINS

	2023 HK\$'000	2022 HK\$'000
Bank interest income	239	27
Government grants (Note)	–	3,155
Finance lease interest income	1	236
Other gain on early completion of finance lease	–	632
Foreign exchange gains, net	729	162
Imputed interest income from deposit for a life insurance policy	133	129
Sundry income	53	138
	1,155	4,479

Note: In 2022, the Group successfully applied for funding support from the Employment Support Scheme under the Anti-epidemic Fund, set up by The Government of the Hong Kong Special Administrative Region. The purpose of the funding is to provide financial support to enterprises to retain their employees who would otherwise be made redundant. Under the terms of the grant, the Group is required not to make redundancies during the subsidy period and to spend all the funding on paying wages to the employees.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

8 EXPENSES BY NATURE

	2023 HK\$'000	2022 HK\$'000
Cost of hardware and software recognised as expenses	121,675	99,565
Cost of IT services	96,928	115,132
Cost of inventories recognised as expenses	–	1,955
Auditor's remuneration		
– Audit services	749	791
– Non-audit services	80	80
Entertainment expenses	2,612	1,470
Lease payments under short-term leases for office premises (Note 17(b))	43	1,000
Depreciation of property, plant and equipment (Note 16)	5,704	2,885
Depreciation of right-of-use assets (Note 17(b))	3,447	4,965
Amortisation of intangible asset (Note 18)	–	3,200
Loss on disposals of property, plant and equipment	–	367
Loss on write-off of property, plant and equipment	5	172
Legal and professional fees	1,074	940
Premium charges on a life insurance policy	160	160
Employee benefit costs (including directors' emoluments) (Note 9)	81,343	80,691
Insurance expenses	745	671
Computer and internet expenses	1,516	1,090
Compensation for early termination of lease	2,763	–
Other expenses	2,793	1,379
Total cost of sales, selling expenses and administrative and general expenses	321,637	316,513

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

9 EMPLOYEE BENEFIT COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2023 HK\$'000	2022 HK\$'000
Wages and salaries	78,883	77,864
Employer's contribution to defined contribution plans	2,460	2,827
	81,343	80,691

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

	2023 HK\$'000	2022 HK\$'000
Directors' fee, salaries, allowance and other benefits in kind	3,517	4,086
Employer's contribution to defined contribution plans	69	69
	3,586	4,155

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 2023

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

(a) Benefits and interest of directors

(i) Directors' emoluments

The remuneration of directors for each of the years ended 31 December 2023 and 2022 are set out below:

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employer's contribution to defined contribution plans HK\$'000	Total HK\$'000
For the year ended 31 December 2023				
<i>Executive directors</i>				
Yu Larry (Chief executive officer)	-	960	15	975
Law Cheung Moon (Senior project manager)	-	728	18	746
Leung Patrick Cheong Yu (Sales director)	-	825	18	843
<i>Independent non-executive directors</i>				
Lam Shun Ka	60	-	-	60
He Dazhi (Note ii)	-	-	-	-
Li Xiaoping	12	-	-	12
Tong Tsz Kwan	60	-	-	60
<i>Non-executive directors</i>				
Chen Jie (Note i)	-	-	-	-
Tang Biao (Note iii)	-	-	-	-
	132	2,513	51	2,696

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(a) Benefits and interest of directors (continued)

(i) Directors' emoluments (continued)

	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Employer's contribution to defined contribution plans HK\$'000	Total HK\$'000
For the year ended 31 December 2022				
<i>Executive directors</i>				
Yu Larry (Chief executive officer)	–	940	15	955
Law Cheung Moon (Head of enterprise services)	–	700	18	718
Leung Patrick Cheong Yu (Sales director)	–	1,230	18	1,248
<i>Independent non-executive directors</i>				
Lam Shun Ka	60	–	–	60
He Dazhi (Note ii)	60	–	–	60
Li Xiaoping	12	–	–	12
Tong Tsz Kwan	60	–	–	60
<i>Non-executive directors</i>				
Chen Jie (Note i)	60	–	–	60
Tang Biao (Note iii)	–	–	–	–
	252	2,870	51	3,173

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(a) Benefits and interest of directors (continued)

(i) Directors' emoluments (continued)

Notes:

- (i) Ms. Chen Jie is resigned as a non-executive director on 4 April 2023.
- (ii) Dr. He Dazhi is resigned as an independent non-executive director on 3 July 2023.
- (iii) Mr. Tang Biao is resigned as a non-executive director on 3 July 2023.

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 2023 and 2022.

(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 2023 (2022: Nil).

No payment was made to the directors as compensation for early termination of the appointment during the year ended 31 December 2023 (2022: 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 2023 (2022: Nil).

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

There were no 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 2023 (2022: Nil).

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

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 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group does not include any directors, whose emoluments were reflected in the analysis presented in Note 9(a) during the year ended 31 December 2023 (2022: one). The emoluments paid/payable to the remaining include five individuals (2022: four) are as follows:

	2023 HK\$'000	2022 HK\$'000
Wages and salaries	6,897	5,484
Employer's contribution to defined contribution plans	90	72
	6,987	5,556

The emoluments fell within the following bands:

	Number of individuals	
	2023	2022
Emolument band		
HK\$1,000,001 to HK\$1,500,000	4	4
HK\$1,500,001 to HK\$2,000,000	1	–
	5	4

During the year ended 31 December 2023, 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 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

Accounting policies of 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 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 2023, 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 2023, no forfeited contribution under the retirement benefits schemes of the Group is available to reduce the contribution payable in future years.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10 SHARE OPTION SCHEME

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 years ended 31 December 2023 and 2022, no share options 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 2022, 31 December 2022 and 1 January 2023	66,500,000
Adjusted during the year (Note)	1,927,536
Outstanding as at 31 December 2023	68,427,536

Note:

On 9 March 2023, the exercise price of and the number of shares entitled to be subscribed for under the outstanding share options has been adjusted due to rights issue of the Company.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

10 SHARE OPTION SCHEME (CONTINUED)

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.

No share options were exercised during the years ended 31 December 2023 and 2022.

11 FINANCE COSTS

	2023 HK\$'000	2022 HK\$'000
Interest expense on lease liabilities (Note 17(b))	299	956
Interest expense on bank borrowings	207	217
	506	1,173

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 profits and 16.5% on the remaining estimated assessable profits of the Group for the year ended 31 December 2023 (2022: nil).

Pursuant to the rules and regulations of the Cayman Islands and the British Virgin Islands, the Group is not subject to any income tax in the Cayman Islands or the British Virgin Islands (2022: nil).

No Macau corporate income tax was made as the Macau subsidiaries as they have been either loss-making or the amount is immaterial (2022: nil).

No PRC Corporate Income Tax provision was made as the PRC subsidiary has sustained a loss for taxation purpose for the year ended 31 December 2023 (2022: nil).

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

	2023 HK\$'000	2022 HK\$'000
Hong Kong Profits Tax		
– Current year	98	–
– Over-provision in prior years	(65)	–
	33	–
Deferred income tax (Note 26)	(99)	84
	(66)	84

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

12 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

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

	2023 HK\$'000	2022 HK\$'000
Loss before income tax	(17,337)	(69,822)
Calculated at the a tax rate of 16.5% (2022: 16.5%)	(2,860)	(11,521)
Tax effect of different tax rate in other jurisdictions	(903)	(961)
Effect of tax exemptions granted to Macau Subsidiaries	(333)	(70)
Income not subject to tax	(58)	(1,241)
Expense not deductible	1,242	9,814
Temporary differences not recognised	(83)	(101)
Tax losses not recognised	3,487	4,164
Utilisation of tax loss previously not recognised	(493)	–
Over-provision in prior years	(65)	–
	(66)	84

At 31 December 2023, the Group has unused tax losses of approximately HK\$62,842,000 (2022: HK\$44,697,000) available for offset against future profits. Tax losses of HK\$28,674,000 (2022: HK\$18,078,000) will expire from 2026 to 2028 (2022: 2026 to 2027) and HK\$34,168,000 (2022: HK\$26,619,000) can be carried forward indefinitely under current tax legislation. No deferred income tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams.

Accounting policies of 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 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 2023

12 INCOME TAX (CREDIT)/EXPENSE (CONTINUED)

Accounting policies of 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.

13 LOSS PER SHARE

(a) *Basic loss per share*

Basic loss per share is calculated by dividing the loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the years.

	2023 HK cents	2022 HK cents (Restated)
Basic loss per share attributable to the owners of the Company	(1.03)	(6.49)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

13 LOSS PER SHARE (CONTINUED)

(b) Diluted loss per share

Diluted loss 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 years ended 31 December 2023 and 2022, 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.

(c) Weighted average number of shares used as the denominator

	2023 Number of shares	2022 Number of shares (Restated)
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating basic and diluted loss per share (thousands) <i>(note)</i>	1,410,199	1,016,716

Note:

Basic and diluted loss per share for the year ended 31 December 2022 have been restated to take into account the effects of the bonus element in ordinary shares issued as a result of the rights issue of the Company completed in March 2023.

14 DIVIDENDS

The directors have resolved not to declare any dividend for the year ended 31 December 2023 (2022: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15 SUBSIDIARIES

(a) Particulars of the principal subsidiaries

Details of the principal subsidiaries of the Group as at 31 December 2023 and 2022 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/kind of legal entity	Nominal value of issued shares/registered share capital	Equity interest attributable to the Group		Principal activities/place of operation
			2023	2022	
Directly held by the Company:					
Kinetix Limited	BVI/Limited liability company	US\$2	100%	100%	Investment holding/Hong Kong
Indirectly held by the Company:					
Kinetix Systems Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$10,000	100%	100%	IT solutions and IT maintenance and supporting services/Hong Kong
Rise Talent Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$10,000	100%	100%	Human resources services/Hong Kong
Kinetix Information Systems (Macao) Limited	Macau/Limited liability company	Issued and paid up: MOP100,000	51%	51%	IT infrastructure solutions and IT maintenance and support services/Macau
D&C Consulting Company Ltd.	Macau/Limited liability company	Issued and paid up: MOP30,000	51%	51%	IT solutions and IT maintenance and supporting services/Macau
VizionX Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$100	51%	51%	IT solutions and IT maintenance and supporting services/Hong Kong
Digital Plus Asia Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$100	51%	51%	IT solutions and entertainment products/Hong Kong
Kisoforce Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$100	51%	51%	IT solutions and IT maintenance and supporting services/Hong Kong
Vizoforce Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$100	70%	70%	IT solutions and IT maintenance and supporting services/Hong Kong
Shanghai Kinetix New Energy Automobile Company Limited	The People's Republic of China (The "PRC")/Limited liability company	Registered: US\$15,000,000 Issued and paid up: Nil (Note)	100%	100%	IT solutions and IT maintenance and supporting services/The PRC
E-Tech Limited	Hong Kong/Limited liability company	Issued and paid up: HK\$1	100%	100%	Investment holding/Hong Kong
Falcon Tech Limited	BVI/Limited liability company	Issued and paid up: US\$100	100%	100%	Investment holding/Hong Kong

Note: The Company is committed to pay the share capital of Shanghai Kinetix New Energy Automobile Company Limited of US\$15,000,000 by 8 February 2041.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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	
		2023	2022	2023	2022	2023	2022	2023	2022
		%	%	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
D&C Consulting Company Ltd.	Macau	49%	49%	1,208	1,175	-	-	3,593	2,385
VizionX Limited	Hong Kong	49%	49%	52	(8)	-	-	(664)	(716)
Digital Plus Asia Limited	Hong Kong	49%	49%	(4,151)	(3,725)	-	-	(7,698)	(3,547)
Kisoforce Limited	Hong Kong	49%	49%	(47)	(33)	-	-	(3,097)	(3,050)
Vizoforce Limited	Hong Kong	30%	30%	(245)	(259)	-	-	(840)	(595)
				(3,183)	(2,850)	-	-	(8,706)	(5,523)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

15 SUBSIDIARIES (CONTINUED)

(b) Material non-wholly owned subsidiaries (continued)

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		Vizoforce Limited	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	346	868	-	-	134	191	-	-	3	7
Current assets	11,305	10,901	113	122	1,665	8,653	1,767	1,764	52	434
Current liabilities	(4,318)	(6,663)	(1,467)	(1,583)	(17,510)	(16,083)	(8,087)	(7,989)	(2,852)	(2,424)
Non-current liabilities	-	(238)	-	-	-	-	-	-	-	-
Net assets/(liabilities)	7,333	4,868	(1,354)	(1,461)	(15,711)	(7,239)	(6,320)	(6,225)	(2,797)	(1,983)
Revenue	18,807	22,770	-	-	389	4,477	-	273	1,105	1,092
Other income	4	19	51	-	8	676	3	-	-	120
Expenses	(16,258)	(20,392)	(9)	(17)	(8,869)	(12,755)	(98)	(340)	(1,919)	(2,075)
Income tax (expenses)/ credit	(88)	-	65	-	-	-	-	-	-	-
Profit/(loss) for the year	2,465	2,397	107	(17)	(8,472)	(7,602)	(95)	(67)	(814)	(863)
Total comprehensive income/(loss) for the year	2,465	2,397	107	(17)	(8,472)	(7,602)	(95)	(67)	(814)	(863)
Net cash inflow/ (outflow) from operating activities	415	1,428	(9)	(3)	(744)	(315)	2	186	(135)	(2,339)
Net cash (outflow)/inflow from investing activities	(23)	150	-	-	(39)	(201)	-	-	-	-
Net cash outflow from financing activities	(479)	(473)	-	-	-	-	-	-	-	-
Net cash (outflow)/inflow	(87)	1,105	(9)	(3)	(783)	(516)	2	186	(135)	(2,339)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK\$'000	Furniture and fixtures HK\$'000	Equipment HK\$'000	Motor Vehicles HK\$'000	Total HK\$'000
At 1 January 2022					
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
Year ended 31 December 2022					
Opening net book amount	5,767	453	3,124	1,540	10,884
Additions	185	123	512	–	820
Disposal					
– Cost	–	–	–	(1,587)	(1,587)
– Accumulated depreciation	–	–	–	188	188
Written off					
– Cost	(1,548)	(9)	(120)	–	(1,677)
– Accumulated depreciation	1,382	3	120	–	1,505
Depreciation	(1,265)	(110)	(1,410)	(100)	(2,885)
Exchange realignment	(268)	(20)	(10)	(41)	(339)
Closing net book amount	4,253	440	2,216	–	6,909
At 31 December 2022					
Cost	5,891	655	6,784	–	13,330
Accumulated depreciation	(1,638)	(215)	(4,568)	–	(6,421)
Net book amount	4,253	440	2,216	–	6,909

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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 2023					
Opening net book amount	4,253	440	2,216	-	6,909
Additions	59	3	178	1,010	1,250
Disposals					
Written off					
- Cost	-	-	(110)	-	(110)
- Accumulated depreciation	-	-	105	-	105
Depreciation	(4,117)	(115)	(1,432)	(40)	(5,704)
Exchange realignment	(90)	(10)	(4)	(3)	(107)
Closing net book amount	105	318	953	967	2,343
At 31 December 2023					
Cost	5,788	644	6,845	1,007	14,284
Accumulated depreciation	(5,683)	(326)	(5,892)	(40)	(11,941)
Net book amount	105	318	953	967	2,343

Depreciation expense of approximately HK\$5,704,000 (2022: HK\$2,885,000) has been charged in administrative and general expenses.

Accounting policies of property, plant and equipment

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 or 20% – 25% per annum
Furniture and fixtures	20% – 25% per annum
Equipment	20% – 30% per annum
Motor vehicles	10% per annum

See note 33.6 for other accounting policies relevant to property, plant and equipment.

With effect from 8 December 2023, the Group made a change in estimates as accelerated depreciation of not-in-use leasehold improvements of approximately HK\$2,879,000.

This constitutes a change in accounting estimates. In the opinion of the directors, based on the current business condition, the estimated residual value of these leasehold improvements is more appropriately reflected by the change.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

	2023 HK\$'000	2022 HK\$'000
Right-of-use assets		
Leased properties	2,600	15,012
Lease liabilities		
Current	2,229	7,999
Non-current	1,168	12,297
	3,397	20,296

There is no additions to the right-of-use assets during the year ended 31 December 2023 (2022: HK\$7,108,000). Additions to the lease liabilities during the year were approximately HK\$509,000.

(b) Amounts recognised in the consolidated income statement

	2023 HK\$'000	2022 HK\$'000
Depreciation charge of right-of-use assets:		
– Leased properties	3,447	4,965
Interest expenses (included in finance cost) (Note 11)	299	956
Expenses relating to short-term leases (included in administrative and general expenses)	43	1,000

The total cash outflow for leases during the year was approximately HK\$8,714,000 (2022: HK\$7,335,000).

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

The Group leases offices in Hong Kong and Macau (2022: Hong Kong and PRC). Rental contracts for offices are typically made for fixed periods of 2 to 3 years (2022: 2 to 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.

During the year ended 31 December 2022, a lessor of the Group had provided a rent concession of approximately HK\$1,998,000. Accordingly, the Group remeasured the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate of 4.75% at the effective date of the modification.

(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 2023

17 RIGHT-OF-USE ASSETS AND LEASE LIABILITIES

Accounting policies of leases

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.

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.

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 without a purchase option. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

See note 33.22 for the other accounting policies relevant leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18 INTANGIBLE ASSET

	Exclusive LED products agency selling rights HK\$'000
At 1 January 2022	
Cost	48,000
Accumulated amortisation	(2,933)
Net book amount	45,067
Year ended 31 December 2022	
Opening net book amount	45,067
Amortisation	(3,200)
Impairment	(41,867)
Closing net book amount	–
At 31 December 2022 and 31 December 2023	
Cost	48,000
Accumulated amortisation	(48,000)
Net book amount	–

No amortisation expense (2022: HK\$3,200,000) have been charged in administrative and general expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

18 INTANGIBLE ASSET (CONTINUED)

The COVID-19 outbreak in Shanghai since April 2022 had presented unprecedented challenges to the economy and supply chains in the PRC. However, in the fourth quarter of 2022, the PRC released COVID-19 related restrictions, and business activities in the PRC gradually resumed. Despite the Group's significant effort to contact its LED suppliers and customers through various means such as site visit, email, and phone calls, no response was received regarding business plans and development updates on the LED projects related to the exclusive LED products agency selling rights (the "Rights").

In the opinion of the directors of the Company, it was unlikely that the supplier will honor its contractual obligations under the Rights, even after considering possible legal enforcement, and the economic benefit encompassed in the Rights was remote. As a result, the directors of the Company estimated that the recoverable amount of the Rights was close to zero. Therefore, the full impairment of the Rights, amounting to approximately HK\$41.87 million, were recognised in profit or loss. Since the Rights did not generate any revenue since its acquisition, it was not an asset allocated to the existing reportable segment.

Accounting policies of intangible asset

Amortisation of intangible asset is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Exclusive LED products agency selling rights 15 years

See note 33.7 for other accounting policies relevant to intangible asset.

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 were 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.

	2023 HK\$'000	2022 HK\$'000
Finance lease receivables	–	212

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

19 FINANCE LEASE RECEIVABLES (CONTINUED)

	As at 31 December 2023		As at 31 December 2022	
	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	–	–	213	212
Less: unearned finance income	–	–	(1)	–
Present value of minimum lease payment receivables	–	–	212	212

As at 31 December 2022, the interest rates implicit in the above finance leases were 4% per annum.

20 FINANCIAL INSTRUMENTS BY CATEGORY

	2023 HK\$'000	2022 HK\$'000
Financial assets		
<i>Financial assets at amortised cost</i>		
– Finance lease receivables	–	212
– Trade and other receivables	89,331	93,512
– Deposits for a life insurance policy	4,074	3,941
– Amount due from the immediate holding company	339	78
– Amounts due from non-controlling shareholders	243	243
– Cash and cash equivalents	30,323	25,191
	124,310	123,177
Financial liabilities		
<i>Financial liabilities at amortised cost</i>		
– Trade and other payables	106,054	91,965
– Bank borrowings	1,375	2,450
– Amounts due to non-controlling shareholders	3,647	3,297
– Lease liabilities	3,397	20,296
	114,473	118,008

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

21 TRADE AND OTHER RECEIVABLES

	Notes	2023 HK\$'000	2022 HK\$'000
Trade receivables	(a)	81,375	58,001
Less: provision for loss allowance		(14,575)	(9,537)
		66,800	48,464
Unbilled receivables	(b)	19,742	42,563
Less: provision for loss allowance		(126)	(120)
		19,616	42,443
Deposits		1,637	1,720
Prepayments		14,677	8,085
Prepayments for a life insurance policy (Note 22)		160	160
Others		1,278	885
		104,168	101,757
Less: non-current portion of deposits and prepayments		(737)	(1,470)
Current portion of trade and other receivables		103,431	100,287

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

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

(a) Trade receivables

The Group normally grants credit terms to its customers ranging from 30 to 45 days. The following is an aged analysis of trade receivables presented based on invoice date, net of allowance for trade receivables:

	2023 HK\$'000	2022 HK\$'000
0 to 30 days	33,363	35,034
31 to 90 days	28,411	7,245
91 to 180 days	1,349	2,109
Over 180 days	3,677	4,076
	66,800	48,464

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

21 TRADE AND OTHER RECEIVABLES (CONTINUED)

(a) Trade receivables (continued)

The following is an aged analysis of trade receivables presented based on due date, net of allowance for trade receivables.

	2023 HK\$'000	2022 HK\$'000
Not yet past due nor impaired	36,609	29,880
1 to 30 days	22,476	9,722
31 to 90 days	3,619	3,728
91 to 180 days	667	2,094
Over 180 days	3,429	3,040
	66,800	48,464

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

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	9,537	358
Provision for ECLs	5,038	9,179
At end of the year	14,575	9,537

(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:

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	120	25
Provision for ECLs	6	95
At end of the year	126	120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

22 DEPOSITS AND PREPAYMENTS FOR A LIFE INSURANCE

	2023 HK\$'000	2022 HK\$'000
Deposit for a life insurance	4,074	3,941
Prepayment for a life insurance policy	2,740	2,900
	6,814	6,841
Less: Current portion of deposit and prepayment for a life insurance policy (<i>Note 21</i>)	(160)	(160)
Non-current portion of deposit and prepayment for a life insurance policy	6,654	6,681

In March 2020, the Group entered into a life insurance policy (the "Policy") to insure the Chairman of the Company. 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 afterwards (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 (2022: 3.32%).

As at 31 December 2023, deposit and prepayment for the life insurance policy amount to approximately US\$874,000 (equivalent to approximately HK\$6,814,000) (2022: US\$877,000 (equivalent to approximately HK\$6,841,000)) in aggregate, of which HK\$6,654,000 (2022: HK\$6,681,000) and HK\$160,000 (2022: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

23 INVENTORIES

	2023 HK\$'000	2022 HK\$'000
Finished goods	3,374	6,748

24 CONTRACT ASSETS/(LIABILITIES)

	2023 HK\$'000	2022 HK\$'000
Contract assets arising from:		
IT solutions services		
– IT infrastructure solutions services	901	1,582
– IT development solutions services	51,183	34,628
	52,084	36,210
Less: provision for loss allowance	(512)	(132)
	51,572	36,078

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

For the year ended 31 December 2023

24 CONTRACT ASSETS/(LIABILITIES)(CONTINUED)

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

The Group classifies these contract assets as current according to the Group's normal operating cycle.

The movement in provision for loss allowance on contract assets are as follows:

	2023 HK\$'000	2022 HK\$'000
At beginning of the year	132	2
Provision for ECLs	380	130
At end of the year	512	132

	2023 HK\$'000	2022 HK\$'000
Contract liabilities arising from:		
IT solutions services		
– IT infrastructure solutions services	(1,101)	(3,370)
– IT development solutions services	(2,048)	(8,399)
IT maintenance and support services	(7,500)	(7,805)
	(10,649)	(19,574)

The decrease in contract liabilities is resulted from less deposits received from customers ahead of the IT solution services performed/recognised during the year.

Classification of current and non-current contract liabilities that are not expected to be settled within the Group's normal operating cycle are 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

24 CONTRACT ASSETS/(LIABILITIES)(CONTINUED) (CONTINUED)

Revenue recognised in relation to contract liabilities

Revenue from provision for IT solutions services and IT maintenance and support services of approximately HK\$8,910,000 (2022: HK\$7,353,000) was recognised in the current reporting period from performance obligations satisfied related to brought forward contract liabilities.

Transaction price allocated to the remaining performance obligation for contracts with customers

As at 31 December 2023, HK\$115,741,000 (2022: HK\$76,549,000) is the aggregated amount of the transaction price allocated to the remaining performance obligations that are unsatisfied as of the end of the reporting period, based on the contracts entered into with customers. The Group will recognise the expected revenue in future when or as a performance obligation is satisfied, which is expected to occur over the next 12 to 48 months (2022: 12 to 48 months). For contracts for IT maintenance and support services, since they are expected to occur within 12 months, the transaction price of allocated to these unsatisfied contracts is not disclosed as permitted under HKFRS 15.

25 CASH AND CASH EQUIVALENTS

	2023 HK\$'000	2022 HK\$'000
Cash at banks	30,320	25,188
Cash on hand	3	3
	30,323	25,191

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

	2023 HK\$'000	2022 HK\$'000
HK\$	24,156	21,311
US\$	629	3,248
EUR	67	570
Macau Pataca	142	13
RMB	5,329	49
	30,323	25,191

As at 31 December 2023, the cash and cash equivalents of the Group amounted to HK\$5,326,000 (2022: HK\$49,000), were deposited in bank accounts opened with banks in the PRC where the remittance of funds is subject to foreign exchange control.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

26 DEFERRED INCOME TAX LIABILITIES

	2023 HK\$'000	2022 HK\$'000
Deferred income tax liabilities:		
– To be settled after one year	46	145

The movements in deferred income tax liabilities in respect of accelerated depreciation during the year are as follows:

	Accelerated depreciation HK\$'000
At 1 January 2022	(61)
Charged to the consolidated income statement (Note 12)	(84)
At 31 December 2022 and 1 January 2023	(145)
Credited to the consolidated income statement (Note 12)	99
At 31 December 2023	(46)

27 SHARE CAPITAL

	2023 HK\$'000	2022 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 2022, 31 December 2022 and 1 January 2023	963,900,000	9,639
Issuance of ordinary shares upon rights issue (Note)	482,000,000	4,820
At 31 December 2023	1,445,900,000	14,459

Note:

During the year ended 31 December 2023, the Company completed a rights issue of 481,949,998 shares on the basis of one rights share for every two existing shares of the Company at an issue price of HK\$0.065 each. The net proceeds from the rights issue were approximately HK\$29,903,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

28 TRADE AND OTHER PAYABLES

	Notes	2023 HK\$'000	2022 HK\$'000
Trade payables	(a)	56,614	44,609
Accrued purchases and services costs	(b)	39,799	35,582
Amounts due to directors of subsidiaries		4,837	7,469
Other payables and accruals		9,843	6,761
		111,093	94,421

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

(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:

	2023 HK\$'000	2022 HK\$'000
1 to 30 days	34,238	29,994
31 to 90 days	14,966	6,778
Over 90 days	7,410	7,837
	56,614	44,609

(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 2023

29 BANK BORROWINGS

	2023	2022
	HK\$'000	HK\$'000
Secured:		
– Bank loans	1,375	2,450

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

- (a) The deed of assignment over life insurance policy purchased for the Company's director with carrying amount of approximately HK\$6,814,000 (2022: HK\$6,841,000); and
- (b) The Company has guaranteed HK\$31,000,000 plus interest and other charges relating to the liabilities of the Group (2022: 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") (2022: 1.5% per annum over the alternative risk-free rate to 2.5% per annum over the HIBOR). The bank borrowings had an effective interest rate of 1.66%–2.57% during the year (2022: 1.66%–2.57%).

All the bank loan agreements contain 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:

	2023	2022
	HK\$'000	HK\$'000
Within one year	1,113	1,075
Within a period of more than one year but not exceeding two years	262	1,113
Within a period of more than two years but not exceeding five years	–	262
	1,375	2,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

30 NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	Notes	2023 HK\$'000	2022 HK\$'000
Loss before income tax		(17,337)	(69,822)
Adjustments for:			
Depreciation of property, plant, and equipment	8	5,704	2,885
Depreciation of right-of-use assets	8	3,447	4,965
Amortisation of intangible asset	8	–	3,200
Impairment loss on intangible asset		–	41,867
Loss on disposal of property, plant and equipment		–	367
Loss on write-off of property, plant and equipment		5	172
Finance lease interest income	7	(1)	(236)
Premium charges on a life insurance policy		160	160
Bank interest income		(239)	(27)
Finance costs	11	506	1,173
Provision for expected credit losses		5,424	9,404
Imputed interest income from a deposit for a life insurance policy	7	(133)	(129)
		(2,464)	(6,021)
Changes in working capital:			
Inventories		3,374	5,107
Finance lease receivables		213	7,264
Trade and other receivables		(7,455)	(25,907)
Contract assets		(15,874)	(8,142)
Trade and other payables		16,672	26,077
Contract liabilities		(8,925)	12,221
Cash (used in)/generated from operations		(14,459)	10,599

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

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

(b) Net debt reconciliation

The section sets out the movements in liabilities arising from financing activities for each of the years presented.

	Bank borrowings	Lease liabilities
	HK\$'000	HK\$'000
As at 1 January 2022	11,717	21,581
Proceeds from bank borrowings	10,766	–
Repayment of bank borrowings	(20,033)	–
Addition in lease liabilities	–	7,108
Interest paid	(217)	–
Repayment of lease liabilities		
– Principal portion	–	(5,607)
– Interest portion	–	(956)
Lease modification	–	(1,910)
Foreign exchange adjustment	–	(876)
Interest expenses (<i>Note 11</i>)	217	956
As at 31 December 2022 and 1 January 2023	2,450	20,296
Addition in lease liabilities	–	509
Repayment of bank borrowings	(1,075)	–
Interest paid	(207)	–
Repayment of lease liabilities		
– Principal portion	–	(8,372)
– Interest portion	–	(299)
Lease modification	–	(8,696)
Foreign exchange adjustment	–	(340)
Interest expenses (<i>Note 11</i>)	207	299
As at 31 December 2023	1,375	3,397

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

31 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 Company.

Other than disclosed elsewhere in the consolidation financial statements, the directors of the Company are of the view that the following parties/companies were related parties with no significant transactions or balances with the Group during the years ended 31 December 2023 and 2022:

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

(b) Outstanding balance with related parties

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

The amounts due from the 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 3.1(b).

(c) 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 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

32 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

Statement of financial position of the Company

<i>Notes</i>	2023 HK\$'000	2022 HK\$'000
ASSETS		
Non-current assets		
Interests in a subsidiary	16,310	–
Current assets		
Amount due from the immediate holding company	–*	–*
Amounts due from subsidiaries	30,755	18,445
Prepayments	230	250
Cash and cash equivalents	119	26
	31,104	18,721
Total assets	47,414	18,721
EQUITY		
Share capital	14,459	9,639
Reserves	32,757	8,668
	47,216	18,307
LIABILITIES		
Current liabilities		
Other payables and accruals	153	369
Amounts due to subsidiaries	45	45
	198	414
Total equity and liabilities	47,414	18,721

* Less than HK\$1,000

The statement of financial position of the Company was approved by the Board of Directors on 27 March 2024 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 2023

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

(a) Share capital and reserve movement of the Company

	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Share option reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
As at 1 January 2022	9,639	90,865	36,763	3,364	(12,129)	128,502
Loss and total comprehensive loss for the year	-	-	-	-	(110,195)	(110,195)
As at 31 December 2022 and 1 January 2023	9,639	90,865	36,763	3,364	(122,324)	18,307
Loss and total comprehensive loss for the year	-	-	-	-	(994)	(994)
Transactions with owners in their capacity as owners: Issue of ordinary shares under rights issue (Note 27)	4,820	25,083	-	-	-	29,903
As at 31 December 2023	14,459	115,948	36,763	3,364	(123,318)	47,216

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES

33.1 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.2 Business combination

The Group applies the acquisition method to account for business combinations. 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 interests in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interests 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.3 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.

33.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to 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.

33.5 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 HK\$, which is the Company's functional currency and the Group's presentation currency.

(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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.5 Foreign currency translation (continued)

(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.

33.6 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.

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

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.

33.7 Intangible asset

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.8 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.

33.9 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.

33.10 Financial assets

(a) Classification

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

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

(b) 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.

(c) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.10 Financial assets (continued)

(d) Impairment of financial assets

The Group assesses on a forward looking basis the 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 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.

33.11 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.

33.12 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.

33.13 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.

33.14 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.15 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.

33.16 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.

33.17 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.18 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.

33.19 Interest income

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

33.20 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 2023

33 SUMMARY OF OTHER POTENTIALLY MATERIAL ACCOUNTING POLICIES (CONTINUED)

33.21 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.

33.22 Leases

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.

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 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.

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.

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				2023 HK\$'000
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	
Revenue	215,641	282,362	254,121	294,656	309,075
(Loss)/profit before tax	2,684	11,325	(22,100)	(69,822)	(17,337)
Income tax	(1,076)	(1,686)	656	(84)	66
(Loss)/profit for the year	1,608	9,639	(21,444)	(69,906)	(17,271)
Attributable to:					
Owners of the Company	2,179	10,316	(20,344)	(67,058)	(14,088)
Non-controlling interests	(571)	(677)	(1,100)	(2,848)	(3,183)
	1,608	9,639	(21,444)	(69,906)	(17,271)

ASSETS AND LIABILITIES

	For the year ended 31 December				2023 HK\$'000
	2019 HK\$'000	2020 HK\$'000	2021 HK\$'000	2022 HK\$'000	
Total assets	175,125	186,828	241,703	199,853	201,616
Total liabilities	(86,862)	(88,926)	(112,100)	(140,183)	(130,225)
	88,263	97,902	129,603	59,670	71,391
Equity attributable to owners					
of the Company	88,802	99,118	131,919	64,834	79,738
Non-controlling interests	(539)	(1,216)	(2,316)	(5,164)	(8,347)
	88,263	97,902	129,603	59,670	71,391