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MINDTELL TECHNOLOGY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 8611)

CHANGE IN USE OF PROCEEDS

Reference is made to (i) the prospectus of Mindtell Technology Limited (the “**Company**”, together with its subsidiaries, the “**Group**”) dated 29 September 2018 (the “**Prospectus**”) in relation to the share offer (the “**Share Offer**”) and the listing of the Company’s shares on GEM of The Stock Exchange of Hong Kong Limited (the “**Listing**”); and (ii) the annual report of the Company for the year ended 30 November 2020 (the “**2020 Annual Report**”) in relation to, among others, the utilisation of the net proceeds from the Share Offer. Unless otherwise specified, capitalised terms used in this announcement shall have the same meanings as set out in the Prospectus and the 2020 Annual Report.

CHANGE IN USE OF PROCEEDS

As disclosed in the 2020 Annual Report, the net proceeds raised by the Company from the Share Offer were approximately RM30.50 million. As at the date of this announcement, the Company has utilised an aggregate of RM13.22 million of the net proceeds since its listing on GEM, and the balance of the Group’s unutilised net proceeds amounted to approximately RM17.28 million (the “**Unutilised Net Proceeds**”).

On 19 March 2021, the Board has resolved to change the use of the Unutilised Net Proceeds as follows:

	Original intended use of net proceeds from the Listing <i>RM in million</i>	Amount of net proceeds utilised since the Listing up to date of this announcement <i>RM in million</i>	Amount of the Unutilised Net Proceeds as at the date of this announcement <i>RM in million</i>	Proposed change of use of the Unutilised Net Proceeds <i>RM in million</i>	Expected timeline for utilising the Unutilised Net Proceeds
Strengthening our technical team by recruiting more IT specialists	3.05	(3.05)	-	-	
Purchase of hardware and equipment for establishment of IT infrastructure for the provision of cloud storage and cloud computing services	18.30	(1.02)	17.28 <i>(Note)</i>	-	
Research and development of advanced and adapted versions of our Group's existing IT products	6.10	(6.10)	-	3.28 <i>(Note)</i>	31 December 2021
Acquisition of IT business	-	-	-	3.00 <i>(Note)</i>	31 December 2021
General working capital	3.05	(3.05)	-	11.00 <i>(Note)</i>	31 March 2022
Total	30.50	(13.22)	17.28	17.28	

Note: The Unutilised Net Proceeds of RM17.28 million is to be re-allocated to research and development of advanced and adapted versions of our Group's existing IT products, the acquisition of IT business and for the Group's general working capital.

REASONS FOR THE PROPOSED CHANGE IN USE OF NET PROCEEDS

Re-directing the purchase of hardware and equipment for establishment of IT infrastructure for the provision of cloud storage and cloud computing services (“Cloud business”)

During the year ended 30 November 2020 and up to the date of this announcement, the unprecedented COVID-19 pandemic has affected the economic conditions in Malaysia seriously. The pandemic’s significant adverse impact on the Group includes: (i) material delays in the collection of trade receivables from the Group’s customers due to reduced working hours of the year-long of Movement Control Order, hindering customer’s organization in executing their roles and project work in progress as the result of which the completion milestones were being stalled and progress became extremely slow in pace; (ii) new projects in the pipeline being delayed or even cancelled and technology investment by many companies in the Malaysia market were being put on hold due to the pandemic, the uncertainty of Emergency Ordinance, as well as the uncertainty of power handover in the political scene; and (iii) payments for on-going projects having been in arrears as a result of the worsened financial situation of the Group’s customers. These factors have put intense pressure on the Group’s working capital. It should be noted that as at 30 November 2020, the carrying amount (net of loss allowance) of trade receivables amounted to approximately RM6.4 million, representing approximately 19.4% of the total assets of the Group and the Group had recognised loss allowance of approximately RM999,000 on trade receivables. As of 30 November 2020, the original amount of net proceeds of approximately RM3.05 million allocated as general working capital has been fully utilised by the Group.

It is the intention of the Board to continue to rely on the cash inflow derived from its daily operations to satisfy its working capital requirements in the long run. Nevertheless, given the Group’s temporary tight working capital situation, it is prudent and of paramount importance for the Board to budget adequate working capital to meet the current operation needs of the Group, and to provide buffer for the economic uncertainty in the future. The Board considered that if in the future, the Company has sufficient financial resources and coupled with more favorable market conditions, the Board will reconsider the continued investment in the Cloud business.

Based on the above, the Board has resolved that it would be in the best interest of the Company and its shareholders to reallocate RM11.00 million of the Unutilised Net Proceeds which was originally assigned for the Cloud business to general working capital for the ordinary operations of the Group. The reallocation amount of RM11.00 million is based on the expected funding needs for financing the Group’s required general working capital budget in the forthcoming 12 months.

The breakdown of abovementioned allocation for general working capital is shown as follows:

Type of working capital to be allocated	Amount of net proceeds allocated <i>(RM in million)</i>
Staff costs and related expenses	7.60
	<i>(Note)</i>
Professional fees	1.50
Finance costs	0.10
Others	1.80
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Total	11.00
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Note: The management of the Group strive to retain our experienced and qualified staff, which is crucial to the Group's growth and development, in such tough economic environment. Since 30 November 2020, the Group has not laid off any employee nor scaled down its existing human resources structure. The amount of RM7.60 million is reserved to sustain our existing human resources policy.

Research and development of advanced and adapted versions of our Group's existing IT products

As of 30 November 2020, the amount of net proceeds of approximately RM6.10 million originally allocated for the research and development of advanced and adapted versions of our Group's existing IT products has been fully utilised by the Group. In order to further increase the competitive edge of our technical competence, the Group needs funds to continue to develop our existing IT products, namely Square Intelligence, Custpro and Blackbutton. As such, the Board has resolved that it would be in the best interest of the Company and its shareholders to reallocate RM3.28 million of the Unutilised Net Proceeds which was originally assigned for the Cloud business to the research and development of advanced and adapted versions of our Group's existing IT products.

Identify and capture opportunities for the acquisition of IT business

The impact of COVID-19 pandemic has caused significant financial distress to certain IT businesses and operations, especially in Malaysia. While the private and commercial sectors have hold up their investment and spending, a lot of stimulus measures and spending budget has been introduced by the Malaysian Government for its infrastructure strengthening purpose. The Board considered that this could be an opportunity for the Group to acquire the financially-distressed IT companies to complement the existing IT business of the Group.

Whilst system integration and development services will continue to be the core business of the Group, any distressed IT business or companies in the same or similar line of business of the Group (in particular those companies which possess the licence (Taraf Bumiputera MOF) to provide services to the Malaysian Government) at attractive valuation might be a target worthwhile for the Group to pursue. As such, the Board has resolved to reallocate RM3.0 million of the Unutilised Net Proceeds which was originally assigned for the Cloud business to the acquisition of IT business if such opportunities arise. As at the date of this announcement, no acquisition target has been identified by the Company, and no business negotiation in this respect has commenced.

The Board confirms that there is no material change in the business nature of the Group as set out in the Prospectus. The Board considered that the proposed change in the use of the net proceeds will not have any material adverse impact on the operations of the Group, but will enable the Group to deploy its financial resources more effectively and to have a higher degree of flexibility in cash flow management, and is therefore in the interest of the Group and the shareholders of the Company as a whole.

By Order of the Board
Mindtell Technology Limited
Chong Yee Ping
Chairman

Hong Kong, 23 March 2021

As at the date of this announcement, the executive Directors are Mr. Chong Yee Ping and Mr. Liu Yan Chee James; the non-executive Directors are Mr. Siah Jiin Shyang and Mr. Lam Pang; and the independent non-executive Directors are Mr. Chan San Ping, Ms. Ho Suet Man Stella and Mr. Su Chi Wen.

This announcement, for which the Directors 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 of Hong Kong Limited 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 Listed Company Information” page of the GEM website at www.hkgem.com for at least seven days after the date of publication and on the website of the Company at www.mindtelltelltech.com.