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kinetix

KINETIX SYSTEMS HOLDINGS LIMITED

捷冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

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

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

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

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board (the “**Board**”) of directors (the “**Directors**”) of Kinetix Systems Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated financial results of the Company and its subsidiaries (collectively the “**Group**”) for the six months ended 30 June 2020, together with the unaudited comparative figures for the corresponding period in 2019 as follows:

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

For the three months and six months ended 30 June 2020

	Notes	Three months ended 30 June		Six months ended 30 June	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	5(a)	75,534	38,235	159,210	89,897
Cost of sales		(62,233)	(27,506)	(135,264)	(67,787)
Gross profit		13,301	10,729	23,946	22,110
Other income	5(b)	757	29	842	52
Selling expenses		(2,651)	(1,732)	(4,178)	(3,124)
Administrative and general expenses		(8,156)	(7,063)	(17,062)	(12,451)
(Allowance for)/reversal of expected credit losses, net		(159)	445	(1,102)	445
Finance costs		(69)	(72)	(112)	(118)
Profit before tax	6	3,023	2,336	2,334	6,914
Income tax	8	(568)	(517)	(903)	(1,211)
Profit for the period		2,455	1,819	1,431	5,703
Other comprehensive income		–	–	–	–
Total comprehensive income for the period		2,455	1,819	1,431	5,703
Attributable to:					
Owners of the Company		2,292	1,919	2,409	5,722
Non-controlling interests		163	(100)	(978)	(19)
		2,455	1,819	1,431	5,703
		HK cents	HK cents	HK cents	HK cents
Earnings per share					
– Basic and diluted	10	0.29	0.24	0.30	0.72

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020

		As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
	<i>Notes</i>		
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	11	1,273	1,460
Right-of-use assets		2,864	3,995
Deposits and prepayments	12	22,408	2,100
		26,545	7,555
 <i>Current assets</i>			
Inventories		6,084	3,193
Trade and other receivables, deposits and prepayments	12	103,476	85,941
Contract assets		23,471	18,194
Due from immediate holding company		8	8
Due from non-controlling shareholders of subsidiaries		243	258
Cash and cash equivalents		60,411	59,976
		193,693	167,570
Total assets		220,238	175,125
 Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	14	8,000	8,000
Reserves		83,211	80,802
Equity attributable to owners of the Company		91,211	88,802
Non-controlling interests		(1,517)	(539)
Total equity		89,694	88,263

		As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
<i>Non-current liabilities</i>			
Lease liabilities		1,006	2,025
Contract liabilities		–	33
		<u>1,006</u>	<u>2,058</u>
<i>Current liabilities</i>			
Trade and other payables and accruals	13	91,965	74,205
Tax payable		671	1,567
Lease liabilities		2,285	2,393
Contract liabilities		12,124	6,639
Bank borrowings	16	21,993	–
Due to non-controlling shareholder of a subsidiary		500	–
		<u>129,538</u>	<u>84,804</u>
Total liabilities		<u>130,544</u>	<u>86,862</u>
Total equity and liabilities		<u>220,238</u>	<u>175,125</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020

	Attributable to owners of the Company					Non- controlling interest	Total equity
	Share capital	Share premium	Other reserve	Retained profits	Total		
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>		
At 1 January 2019 (audited and as previously reported)	8,000	43,199	10	35,534	86,743	32	86,775
Impact on initial application of HKFRS 16	-	-	-	(120)	(120)	-	(120)
At 1 January 2019 (restated)	8,000	43,199	10	35,414	86,623	32	86,655
Profit/(loss) for the period	-	-	-	5,722	5,722	(19)	5,703
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	5,722	5,722	(19)	(5,703)
At 30 June 2019 (unaudited)	8,000	43,199	10	41,136	92,345	13	92,358
At 1 January 2020 (audited)	8,000	43,199	10	37,593	88,802	(539)	88,263
Profit/(loss) for the period	-	-	-	2,409	2,409	(978)	1,431
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	2,409	2,409	(978)	1,431
At 30 June 2020 (unaudited)	8,000	43,199	10	40,002	91,211	(1,517)	89,694

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020

	Six months ended 30 June	
	2020 (Unaudited) <i>HK\$'000</i>	2019 (Unaudited) <i>HK\$'000</i>
Net cash (used in)/generated from operating activities	(20,146)	10,007
Net cash used in investing activities	(173)	(39)
Net cash from/(used in) financing activities	<u>20,754</u>	<u>—*</u>
Net increase in cash and cash equivalents	435	9,968
Cash and cash equivalents at beginning of period	<u>59,976</u>	<u>63,414</u>
Cash and cash equivalents at end of period	<u><u>60,411</u></u>	<u><u>73,382</u></u>

* Less than HK\$1,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2020

1. GENERAL

The Company was incorporated in the Cayman Islands on 16 September 2016 as an exempted company with limited liability. The registered office of the Company is P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman, KY1-1108 Cayman Islands.

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

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”). The principal accounting policies used in preparing the unaudited quarterly condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2019.

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

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

The accounting policies adopted in the preparation of the unaudited quarterly condensed consolidated financial statements are same as those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2019, except for the new and revised HKFRSs and interpretations issued by HKICPA that are first effective for the current accounting period of the Group. There has been no significant change to the accounting policy applied in these unaudited quarterly condensed consolidated financial statements for the period presented as a result of adoption of these amendments.

4. SEGMENT INFORMATION

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

Geographical information

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

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	74,427	33,833	155,889	81,617
Macau	1,107	4,014	3,321	7,699
Singapore	—	388	—	581
	<u>75,534</u>	<u>38,235</u>	<u>159,210</u>	<u>89,897</u>

Information about major customers

Revenue from customers individually contributing 10% or more of the Group's revenue are as follow:

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Customer A	12,941	*	19,675	*
Customer B	14,968	*	38,330	*
Customer C	17,687	*	17,798	*
Customer D	*	6,995	*	*
Customer E	*	4,772	*	*
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

* Representing contributed less than 10% of the Group's revenue during the relevant periods.

5. REVENUE AND OTHER INCOME

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

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contract with customers within the scope of HKFRS15, types of goods or services				
IT solutions services				
IT infrastructure solutions services income	45,098	26,181	103,978	51,275
IT development solutions services income	14,445	5,593	26,888	24,685
IT maintenance and support services income	3,050	6,461	6,506	13,937
Trading of entertainment products	12,941	–	21,838	–
Total income	<u>75,534</u>	<u>38,235</u>	<u>159,210</u>	<u>89,897</u>

(a) Information about segment revenue

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

	For the three months ended 30 June 2020				
	IT solutions services			Trading of entertainment products	Total
IT infrastructure solutions services	IT development solutions services	IT maintenance and support services	(Unaudited)		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	44,982	–	–	12,941	57,923
Over time	116	14,445	3,050	–	17,611
Revenue from external customers	<u>45,098</u>	<u>14,445</u>	<u>3,050</u>	<u>12,941</u>	<u>75,534</u>

For the three months ended 30 June 2019

	IT solutions services			Total (Unaudited) HK\$'000
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	
Disaggregated by timing of revenue recognition				
At a point in time	24,221	–	–	24,221
Over time	1,960	5,593	6,461	14,014
Revenue from external customers	26,181	5,593	6,461	38,235

For the six months ended 30 June 2020

	IT solutions services				Total (Unaudited) HK\$'000
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Trading of entertainment products (Unaudited) HK\$'000	
Disaggregated by timing of revenue recognition					
At a point in time	103,725	–	–	21,838	125,563
Over time	253	26,888	6,506	–	33,647
Revenue from external customers	103,978	26,888	6,506	21,838	159,210

For the six months ended 30 June 2019

	IT solutions services			Total (Unaudited) HK\$'000
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	
Disaggregated by timing of revenue recognition				
At a point in time	48,400	–	–	48,400
Over time	2,875	24,685	13,937	41,497
Revenue from external customers	51,275	24,685	13,937	89,897

(b) **Other income**

The balance mainly represents bank interest income and government subsidies for the six months ended 30 June 2020.

The government subsidies are granted from the Employment Support Scheme of the Hong Kong Government and Anti-epidemic Fund of the Macao Government, which aim to retain employment and combat COVID-19. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertakes not to make redundancies during the subsidy period. For the conditions of receiving the subsidies from Anti-epidemic Fund, the Group undertakes not to close down the Macau's subsidiary and make unreasonable redundancies six months from the effective date of the relevant regulation.

6. PROFIT BEFORE TAX

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

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration – non-audit services				
– Current year provision	60	60	120	120
– Prior year's overprovision	–	(2)	–	–
Cost of hardware and software recognised as expenses	43,081	19,405	95,686	38,363
Cost of IT solutions services*	5,776	3,103	15,477	19,632
Cost of IT maintenance and support services*	1,272	4,752	2,679	9,546
Depreciation of property, plant and equipment	183	186	358	369
Cost of inventory recognised as an expense	12,418	–	21,091	–
Depreciation of right-of-use assets	562	543	1,131	1,086
Allowance for/(reversal of) expected credit losses	159	(445)	1,102	(445)
(Reversal of)/provision for onerous contracts#	(314)	246	331	246
Loss on disposal of property, plant and equipment	2	–	2	–
Foreign exchange differences, net	138	4	112	12
Retirement fund scheme contributions (included in staff costs below)	502	318	915	641
Employee benefit expense (excluding compensation of key management personnel (Note 7))	12,057	8,596	23,031	16,250

* Included in the above costs are subcontracting costs amounting to HK\$1,736,000 (three months ended 30 June 2019: HK\$4,472,000) and HK\$9,657,000 (six months ended 30 June 2019: HK\$21,872,000) for the three months and six months ended 30 June 2020, respectively.

Included in cost of sales.

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

Certain Directors received remuneration from a subsidiary comprising the Group for their appointment as directors of this subsidiary. Compensation of key management personnel of the Company during the period was as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Directors' fee	45	50	90	100
Short-term employee benefits	1,031	1,018	1,888	1,873
Post-employment benefits	28	23	46	45
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total compensation paid to key management personnel	1,104	1,091	2,024	2,018
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

8. INCOME TAX

	Three months ended		Six months ended	
	30 June		30 June	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current tax	568	517	903	1,168
Prior year underprovision	–	-	–	43
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	568	517	903	1,211
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Hong Kong profits tax is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million for both periods. Overseas taxation is calculated at tax rates applicable to jurisdictions in which the Group operates. Pursuant to the rules and regulations of the Cayman Islands, the Company was not subject to any taxation under the jurisdictions of the Cayman Islands during the relevant periods.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the six months ended 30 June 2020 (30 June 2019: nil).

10. EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Profit and total comprehensive income for the period attributable to the owners of the Company	<u>2,292</u>	<u>1,919</u>	<u>2,409</u>	<u>5,722</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>	<u>800,000</u>

No adjustment has been made to the basic earnings per share amounts presented for the three months and six months ended 30 June 2019 and 2020 as the Group had no potentially dilutive ordinary shares in issue for the relevant periods ended. The basic earnings per share equals to the diluted earnings per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group acquired items of property, plant and equipment with cost of approximately HK\$174,000 (six months ended 30 June 2019: HK\$39,000) and disposal of property, plant and equipment with net book value of HK\$2,000 (six months ended 30 June 2019: nil). No property, plant and equipment were written off during the six months ended 30 June 2020 and 2019.

12. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade receivables	48,092	36,943
Unbilled receivables	43,257	35,486
Deposits	8,805	3,624
Prepayments	25,730	11,387
Others	–	601
	<u>125,884</u>	<u>88,041</u>
Analysed as:		
Non-current portion	22,408	2,100
Current portion	<u>103,476</u>	<u>85,941</u>
	<u>125,884</u>	<u>88,041</u>

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
Trade receivables, gross	57,466	45,447
Less: Allowance for expected credit losses, net of reversal	<u>(9,374)</u>	<u>(8,504)</u>
	<u>48,092</u>	<u>36,943</u>

The following is an aging analysis of trade receivables from third parties presented based on the invoice date and net of expected credit loss at the end of the reporting period, is as follows:

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
0–30 days	19,725	30,928
31–90 days	22,890	5,236
91–180 days	5,137	230
Over 180 days	<u>340</u>	<u>549</u>
	<u>48,092</u>	<u>36,943</u>

The above trade receivables are net of any allowance for expected credit losses. Expected credit losses are estimated by using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and information available to the Group at the reporting date about the current conditions and forecast of future economic conditions. The movement in the allowance for expected credit losses of trade receivables during each reporting period is as follows:

	As at 30 June 2020 (Unaudited) <i>HK\$'000</i>	As at 31 December 2019 (Audited) <i>HK\$'000</i>
At beginning of the period/year	8,504	7,938
Expected credit loss recognised	1,493	714
Impairment loss reversed	(623)	(58)
Write-offs	<u>–</u>	<u>(90)</u>
At end of the period/year	<u>9,374</u>	<u>8,504</u>

13. TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Trade payables	38,988	17,973
Accrued purchases and service costs	49,177	54,256
Other payables and accruals	3,800	1,976
	<u>91,965</u>	<u>74,205</u>

The following is an aging analysis of trade payables presented based on invoice date:

	As at 30 June 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
0–30 days	5,483	14,000
31–60 days	1,402	2,470
61–90 days	13,850	1,182
Over 90 days	18,253	321
	<u>38,988</u>	<u>17,973</u>

14. SHARE CAPITAL

	Number of ordinary shares of the Company	Share capital HK\$'000
Authorised ordinary shares of HK\$0.01 each: At 31 December 2019 and 30 June 2020	<u>10,000,000,000</u>	<u>100,000</u>
		Share capital HK\$'000
800,000,000 ordinary shares at 31 December 2019 and 30 June 2020		<u>8,000</u>

15. RELATED PARTY TRANSACTIONS

- a) In addition to the transactions detailed elsewhere in these unaudited condensed consolidated financial statements, the Group had the following transaction with related party during the period:

	Three months ended		Six months ended	
	30 June		30 June	
	2020	2019	2020	2019
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Employee benefit expense and retirement fund scheme contributions to the spouse of the Chairman	<u>113</u>	<u>–</u>	<u>113</u>	<u>–</u>

- b) Details of compensation of key management personnel of the Group are included in Note 7 to the financial statements.

16. BANK BORROWINGS

As at 30 June 2020, the Group had term loan of HK\$5,124,000 and invoice financing of HK\$16,869,000 (31 December 2019: nil). The banking facilities are secured by the deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company.

MANAGEMENT DISCUSSION AND ANALYSIS

Established in 1998, we are currently a well-established IT services provider with business portfolio including provision of IT infrastructure solutions services, IT development solutions services, and IT maintenance and support services, with approximately 21 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 trading of entertainment products.

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 June 2020 (“**Interim 2020**”), the Group recorded a profit of approximately HK\$1.4 million as compared to the profit of approximately HK\$5.7 million for the six months ended 30 June 2019 (“**Interim 2019**”). The decrease in profit was mainly attributed to (i) the increase in staff salary in selling and administrative expenses by approximately HK\$4.7 million; and (ii) the increase in allowance for expected credit losses, net of reversal by approximately HK\$1.5 million, which was partially offset by the increase in gross profit by approximately HK\$1.8 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. The revenue generated from this segment in Interim 2020 amounted to approximately HK\$104.0 million, representing approximately 65.3% of the total revenue for Interim 2020. The revenue derived from this segment increased by approximately 102.7% from approximately HK\$51.3 million for Interim 2019 to approximately HK\$104.0 million for Interim 2020. The increase was primarily due to increase in the total number and average project size of IT infrastructure solutions services projects undertaken in Interim 2020.

Provision of IT development solutions services

This segment provides IT development solutions services that generally include system analysis and design, software development and technology consultancy. The revenue generated from this segment accounted for approximately 16.9% of the total revenue for Interim 2020. The revenue from this segment increased by approximately 8.9% from approximately HK\$24.7 million for Interim 2019 to approximately HK\$26.9 million for Interim 2020. The increase was primarily due to the increase in the average amount of revenue recognised per project in Interim 2020.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment amounted to approximately HK\$6.5 million, representing approximately 4.1% of the total revenue for Interim 2020. The revenue derived from this segment decreased by approximately 53.2% from approximately HK\$13.9 million for Interim 2019 to approximately HK\$6.5 million for Interim 2020. The significant decrease in revenue from this segment was primarily due to (i) the decrease in the average amount of revenue recognised per project; and (ii) the decrease in the total number of IT maintenance and support services projects.

Trading of entertainment products

This segment plans to develop an e-commerce business which includes trading of entertainment products. The revenue generated for this segment amounted to approximately HK\$21.8 million, representing approximately 13.7% of the total revenue for Interim 2020. The revenue derived from this segment increased from approximately HK\$nil for Interim 2019 to approximately HK\$21.8 million for Interim 2020. There was a significant increase in revenue because this is a new revenue segment generated by the subsidiaries of the Group, and one of the subsidiaries was established in the fourth quarter of 2019.

PROSPECTS AND OUTLOOK

Looking forward, the Group considers the global business environment will become more challenging, which may affect the usual business of all industries. The Group will continue to face various risks and uncertainties including the global outbreak of coronavirus disease (the “**COVID-19**”) that may adversely affect the Group’s business and its overall short-term performance. It may lead to adverse global economic impact and the Group expects that the Hong Kong economy will further deteriorate and worsen. The coronavirus is unavoidable to bring uncertainties to the Group business, even though the Group has actively managed its operations to avoid interruptions by COVID-19. It may result in reduced orders and may put pressure on our pricing terms and profitability in the short run. Therefore, the Group considers to provide customers with specific IT solution services through its newly established subsidiaries, thereby expanding and diversifying its revenue sources. The Group will closely monitor the impact of these macroeconomic issues on our performance, and will carefully plan and develop strategies correspondingly to provide the best possible results to the shareholders in the medium to longer term.

FINANCIAL REVIEW

Revenue

The Group's revenue for Interim 2020 amounted to approximately HK\$159.2 million, representing an increase of approximately HK\$69.3 million or 77.1% compared to Interim 2019 (2019: approximately HK\$89.9 million). The increase was attributable to: (i) the increase in the revenue generated from provision of IT infrastructure solutions services by approximately HK\$52.7 million and; (ii) the increase in the revenue generated from trading of entertainment products by approximately HK\$21.8 million but was partially offset by the decrease in provision of IT maintenance and support services by approximately HK\$7.4 million.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 8.1% from approximately HK\$22.1 million for Interim 2019 to approximately HK\$23.9 million for Interim 2020 as the increase was mainly attributable to the increase in gross profit of IT infrastructure solutions services and IT development solutions services. The gross profit margin of the Group decreased from approximately 24.6% for Interim 2019 to approximately 15.0% for Interim 2020. The decrease was mainly attributable to the decrease in gross profit margin of IT infrastructure solutions services projects associated with comparatively lower gross profit margin projects during Interim 2020.

Selling expenses

For Interim 2020, the Group's selling expenses amounted to approximately HK\$4.2 million, representing the increase of approximately HK\$1.1 million or 35.5% as compared to Interim 2019 of approximately HK\$3.1 million. Such increase was mainly attributed by the increase in sales commission by approximately HK\$0.5 million which was in line with the increase in revenue in Interim 2020.

Administrative and general expenses

The Group's administrative expenses for Interim 2020 amounted to approximately HK\$17.1 million, representing increase of approximately HK\$4.6 million or 36.8% as compared to Interim 2019 (2019: approximately HK\$12.5 million). Such increase was mainly attributed by the increase in staff cost in administrative expenses by HK\$4.7 million due to a significant increase in staff in subsidiaries of the Group for Interim 2020. The information of the newly established subsidiaries had disclosed in the annual report 2019 of the Company.

Profit and total comprehensive income for the period

The Group recorded profit by approximately HK\$1.4 million for Interim 2020, as compared to profit of approximately HK\$5.7 million for Interim 2019. The decrease in profit was mainly attributed to the net effect of: (i) the increase in staff salary in selling and administrative expenses by approximately HK\$4.7 million; (ii) the increase in allowance for expected credit losses, net of reversal by approximately HK\$1.5 million; and (iii) the increase in gross profit by approximately HK\$1.8 million.

Liquidity and financial resources

The Group financed its operations primarily through cash generated from its operating activities. As at 30 June 2020, the Group had cash and cash equivalents of approximately HK\$60.4 million (30 June 2019: approximately HK\$73.4 million), which were cash at banks and in hand. Up to the date of consolidated financial statements, the Group has drawn down term loan of HK\$22.0 million (31 December 2019: nil) which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company. The Group's gearing ratio, which was calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was 24.5% as at 30 June 2020 (31 December 2019: nil). The Group expects its liquidity position would further be strengthened by using the cash generated from its operating activities and fund raising as a result of that the shares of the Company (the “**Shares**”) were listed on the Stock Exchange on 16 July 2018. Going forward, the Group intends to use its capital for its operations and the expansion plans as stated in the prospectus dated 30 June 2018 (the “**Prospectus**”).

Capital structure

As at 30 June 2020, the capital structure of the Company comprised issued share capital, and reserves.

SIGNIFICANT INVESTMENTS

During Interim 2020, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During Interim 2020, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2020, the Group had a total of 116 employees (30 June 2019: 88). Total staff costs (including directors' emoluments) were approximately HK\$25.9 million for Interim 2020, as compared to approximately HK\$18.3 million for Interim 2019. Remuneration policy of the Group is reviewed regularly, making reference to legal framework, market condition and performance of the Group and individual staff (including the Directors). The remuneration policy and remuneration packages of the executive Directors and members of the senior management of the Group are reviewed by the Remuneration Committee.

SHARE OPTION SCHEME

The share option scheme of the Company (the “**Share Option Scheme**”) is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 22 June 2018. No options have been granted, exercised or cancelled, or agreed to be granted, under the Share Option Scheme from the date of its adoption to 30 June 2020 and up to the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, there was no other plan for material investments or capital assets as at 30 June 2020.

CHARGES ON GROUP ASSETS

As at 30 June 2020, except for the banking facilities which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company, there were no other charges on the Group's assets (31 December 2019: nil).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK\$. During Interim 2020, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents, trade payables and bank borrowings which are denominated in US\$ and EUR. During Interim 2020 and Interim 2019, 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 Interim 2020 and Interim 2019.

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

During Interim 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2020, 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	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Mr. Yu Pak Lun Larry	Interest in controlled corporations ⁽²⁾	600,000,000 Shares (L)	75%

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 75% by Vigorous King Limited, which in turn is held as to 100% by Mr. Yu Pak Lun Larry.

Associated Corporation – Vigorous King Limited

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

Save as disclosed above, as at 30 June 2020, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2020 so far as the Directors were aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

The Company

Shareholders	Capacity/ Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Vigorous King Limited ⁽²⁾	Beneficial owner	600,000,000 Shares (L)	75%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of Spouse	600,000,000 Shares (L)	75%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Vigorous King Limited is held as to 100% by Mr. Yu Pak Lun Larry. Therefore, Mr. Yu Pak Lun Larry is deemed to be interested in the Shares which Vigorous King Limited is interested in by virtue of the SFO.
- (3) Ms. Tong Po Ki Vicky is the spouse of Mr. Yu Pak Lun Larry. Therefore, Ms. Tong is deemed to be interested in the Shares which Mr. Yu Pak Lun Larry is interested in by virtue of the SFO.

Save as disclosed above, as at 30 June 2020, the Directors were not aware of any persons who/entities which had an interest or short position in the Shares or underlying Shares, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MODEL CODE FOR DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted its code of conduct regarding the Directors’ securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as then in force (the “**Model Code**”), and after having made specific enquiry to all of the Directors, the Directors are satisfied that the required standard set out in the Model Code and its code of conduct regarding the Directors’ securities transactions have been fully complied with, throughout the accounting period covered by this announcement.

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for Interim 2020, save for the deviation from such code disclosed below.

The CG Code in Appendix 15 to the GEM Listing Rules provision A.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 Pak Lun Larry is the chairman and the chief executive officer of the Company. In view of Mr. Yu Pak Lun 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 Pak Lun Larry taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstances.

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

Save for the deviations as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code since the Listing Date up to the date of this announcement.

INTERESTS IN COMPETING BUSINESS

During the Interim 2020, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

INTERESTS OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Cinda International Capital Limited (“**Cinda**”) to be its compliance adviser. As at 30 June 2020, as notified by Cinda, save for the compliance adviser agreement entered into between the Company and Cinda dated 21 February 2018, neither Cinda nor any of its directors, employees or close associates had any interest in the securities of the Company.

USE OF PROCEEDS

The net proceeds of the Group raised from the initial public offering was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 30 June 2020, the Group has utilised proceeds from the listing of approximately HK\$6.34 million and a summary of use of proceeds are set out in the table below:

	As set out in the Prospectus <i>HK\$ million</i>	Amount expected to be used up to 30 June 2020 <i>HK\$ million</i>	Amount actually used up to 30 June 2020 <i>HK\$ million</i>
Develop IT solutions services tailored for finance and insurance sectors	7.10	1.78	0.45
Expand the application of ERP system in our IT development solutions services	1.17	0.29	0.29
Maintain fund for performance bond and contract deposit	2.34	1.90	1.49
Provision of cloud computing and IoT products	9.15	3.10	0.46
Develop technical support centre to enhance our service quality	2.92	2.33	1.60
Strengthen our marketing efforts	2.34	1.75	–
Enhance the expertise of our professional team	1.75	1.34	0.30
Enhance our Group's management information system	5.19	2.89	0.52
Working capital and other general corporate purposes	2.14	1.23	1.23
Total	<u>34.10</u>	<u>16.61</u>	<u>6.34</u>

The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the Directors, the Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30 June 2020.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the six months ended 30 June 2020 and this announcement, and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

DIVIDENDS

The Board has resolved not to declare dividend for the six months ended 30 June 2020.

DISCLOSURE OF INFORMATION

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as elsewhere disclosed in this announcement, there is no important event after Interim 2020.

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

Hong Kong, 13 August 2020

As at the date of this announcement, the Board comprises Mr. Yu Pak Lun Larry, Mr. Leung Patrick Cheong Yu and Mr. Law Cheung Moon as executive Directors; Mr. Lam Yau Hin, Mr. Yeung Wai Keung and Ms. Lam Shun Ka as independent non-executive Directors.

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 Company Announcements” page of the GEM website at www.hkgem.com for a minimum period of 7 days from the date of its publication and on the Company’s website at www.kinetix.com.hk.