kinetix

Kinetix Systems Holdings Limited

倢冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

ANNUAL 2020 REPORT

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This report for which the directors (collectively the "Directors" or individually a "Director") of Kinetix System Holdings Limited (the "Company", together with its subsidiaries, the "Group", "we", "our" or "us") collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules") for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this report misleading.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Mr. Cheng Kwan Ngai
(appointed on 20 November 2020)
Ms. Chen Jie
(appointed on 9 February 2021)

Independent Non-executive Directors

Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Dr. He Dazhi
(appointment to be effective on 1 April 2021)

BOARD COMMITTEES

Audit Committee

Mr. Lam Yau Hin *(Chairman)*
Mr. Yeung Wai Keung (resigned on 1 March 2021)
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Mr. Cheng Kwan Ngai
(appointed as member on 20 November 2020)

Remuneration Committee

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

Nomination Committee

Ms. Lam Shun Ka *(Chairman)* (formerly known as Lam Yuk Shan)
Mr. Yu Pak Lun Larry
Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin

COMPANY SECRETARY

Ms. Lam Wai Yan

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

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Kowloon
Hong Kong

AUDITOR

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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183 Queen's Road East
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AUTHORISED REPRESENTATIVES

Mr. Yu Pak Lun Larry
Ms. Lam Wai Yan

COMPLIANCE ADVISER

Cinda International Capital Limited
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183 Queen's Road Central
Hong Kong

COMPLIANCE OFFICER

Mr. Leung Patrick Cheong Yu

LEGAL ADVISOR

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

PRINCIPAL BANKER

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

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

STOCK CODE

Stock code on the Stock Exchange: 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 2020 ("FY2020") 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 trading of entertainment products, with approximately 22 years of experience in the IT consulting services industry in Hong Kong. The Group provided IT services to both private and public sectors and our customers include government and statutory bodies, banks and financial institutions, technology, media, and telecom companies, and transportation & logistic companies, etc.

The world faced unprecedented challenges during FY2020 as a result of the outbreak of the coronavirus ("COVID-19") pandemic and the rising uncertainty of the macro-economic environment. The storm brought by the COVID-19 has had a significant impact on people and economies worldwide, that adjourned countless ongoing projects and putting businesses worldwide at an all-time low. The extensive and recurring lockdowns imposed have curtailed business activities and dampened revenues. Faced with these negative business sentiment of recent global economic uncertainty, we continue to demonstrate a consistent and solid track record in achieving sales and profit growth by implementing clear strategies to balance short-term results and long-term goals. The Group has achieved business growth in overall performance in this year. During FY2020, the Group recorded (i) revenue of approximately HK$282.4 million, an increase of approximately 31.0%; and (ii) gross profit of approximately HK$47.6 million, an increase of approximately 27.6% as compared with the year ended 31 December 2019 ("FY2019"). The Group recorded a consolidated net profit attributable to owners of the Company of approximately HK$10.3 million for FY2020.

The Group believes that the global and local economic uncertainties and the COVID-19 pandemic may adversely affect our business and overall short-term performance in the foreseeable future. The Group will be cautious in managing the business risk; be prepared to respond to changes in such challenging business environment, and aim to strategically develop the Group's business to mitigate these impacts. The Group will carefully plan and formulate strategies to manage these factors, continues to seek new business opportunities and diversify its business segments. The Group will accelerate the integration of its IT infrastructure and IT development solutions services to participate in Internet of Things ("IoT") smart city infrastructure project in the People's Republic of China (the "PRC") and overseas as well as venturing into the realm of smart mobility through the development of Mobility-as-a-Service ("MaaS") with the aim to deliver the best possible results to our Shareholders.

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

Yours sincerely,

Kinetix Systems Holdings Limited
Yu Pak Lun Larry
Chairman, Chief Executive Officer and Executive Director
Hong Kong, 24 March 2021

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yu Pak Lun Larry (余柏麟) ("Mr. Yu"), aged 49, 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 22 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 41, 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 and the head of enterprise services in October 2019 in which he is primarily responsible for allocation, utilisation management and skill development of our professional resource and supervising and management of the delivery of all projects of our Group. Mr. Law has over 19 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 51, 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 25 years of experience in the IT industry.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Cheng Kwan Ngai (鄭君毅) ("Mr. Cheng"), aged 35, was appointed as our non-executive Director on 20 November 2020. 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. Cheng is also a member of the Audit Committee. He has over 9 years of experience in accounting, audit assurance and corporate governance. He joined the Group as finance manager from June 2017 to December 2018. Mr. Cheng was promoted to our finance director since January 2019 and resigned on October 2020.

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

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

Ms. Chen Jie (陳洁) ("Ms. Chen"), aged 46, was appointed as our non-executive Director on 9 February 2021. She is primary responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required.

Ms. Chen obtained a doctorate degree in management from Shanghai Jiao Tong University in December 2002 and the teaching qualification in higher education issued by the Ministry of Education of the PRC in December 2003. Ms. Chen won the first honor prize of excellent thesis from the Chinese Association of Market Development in the year of 2005/2006. In April 2016, Ms. Chen was appointed as the executive council member of the Marketing Management Professional Committee of the Chinese Academy of Management. In 2018, Ms. Chen becomes the professional committee member of the Chinese Society of Technology Economics and Neuroeconomics, a member of the editorial board of the Journal of Marketing Science (JMS) and a council member of the Shanghai Marketing Association. In 2020, Ms. Chen becomes a leading researcher of Think Tanks at Shanghai Jiao Tong University, responsible for the research of "Technological breakthrough pathways in the field of intelligent connected vehicles".

Ms. Chen is a professor and doctoral supervisor at Antai College of Economics and Management, Shanghai Jiao Tong University. Ms. Chen won the second honor prize of Shanghai Municipality for the Decision-Making Consultation Research Achievements in 2013 in relation to the research on the product strategy and business model of new energy vehicles. 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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lam Yau Hin (林佑顯) ("Mr. Lam"), aged 38, is an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Lam is also the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee. Mr. Lam has over 14 years of experience in accounting, auditing and corporate governance.

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

Ms. Lam Shun Ka (林汛珈) (formerly known as Lam Yuk Shan (林玉珊)) ("Ms. Lam"), aged 49, 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 14 years of experience in sales channel development. Ms. Lam was an administrative specialist at IBM China/Hong Kong Limited from January 2005 to November 2005, a sales operation at the same company from April 2006 to March 2007 and a business operations professional in IBM Software Sales Department of IBM China/Hong Kong Limited from March 2007 to February 2016. Ms. Lam is currently (i) a contract agent and a licensed representative (Type 1) of Nerico Brothers Limited (formerly known as Glory Sky Global Markets Limited), a licensed entity in Hong Kong regulated by the SFC.

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

Dr. He Dazhi (何大治) ("Dr. He"), aged 43, has been appointed as an Independent non-executive Director to be effective on 1 April 2021. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required.

He has over 21 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. Yeung Wai Keung (楊偉強) ("Mr. Yeung"), aged 49, is an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgment to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. He resigned as an independent non-executive Director, the chairman of remuneration committee and a member of each of the audit committee and nomination committee of the Company with effect from 1 March 2021. Mr. Yeung has over 25 years of experience in the IT industry.

Mr. Yeung is also employed by Moneysq Limited, a licensed moneylender, as Chief FinTech Officer in its FinTech Department.

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

SENIOR MANAGEMENT

Mr. Lam Tai Wai, David (林大為) ("Mr. David Lam"), aged 47, 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 21 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, with approximately 22 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

For FY2020, the Group recorded a profit attributable to equity shareholders of the Company of approximately HK$10.3 million as compared to the profit attributable to equity shareholders of the Company of approximately HK$2.2 million in FY2019. The increase in profit was primarily due to the increase in gross profit by approximately HK$10.3 million; increase in other income, other gains and losses by approximately HK$8.1 million mainly due to the increase in government subsidies; partially offset by the increase in selling, administrative and general expenses by approximately HK$10.8 million mainly due to the increase in staff cost; and increase in reversal of expected credit losses by approximately HK$1.3 million primarily due to the decrease in the likelihood or risk of default based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at 31 December 2020 as well as the forecast of future conditions during FY2020.

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 FY2020 amounted to approximately HK$133.3 million, representing approximately 47.2% of the total revenue for FY2020. The revenue derived from this segment increased by approximately 7.9% from approximately HK$123.5 million for FY2019 to approximately HK$133.3 million for FY2020. The increase was primarily due to the increase in average contract value of projects awarded and the increase in amount of revenue recognised per project in FY2020.

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 FY2020 amounted to approximately HK$74.6 million, representing approximately 26.4% of the total revenue for FY2020. The revenue derived from this segment increased by approximately 39.4% from approximately HK$53.5 million for FY2019 to approximately HK$74.6 million for FY2020. The increase was primarily due to the increase in total number of IT development solution services projects undertaken and the increase in average contract value of projects awarded in FY2020.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment in FY2020 amounted to approximately HK$27.7 million, representing approximately 9.8% of the total revenue for FY2020. The revenue derived from this segment decreased by approximately 3.1% from approximately HK$28.6 million for FY2019 to approximately HK$27.7 million for FY2020. The decrease was primarily due to the decrease in total number of IT maintenance and support services projects undertaken during FY2020.

Trading of entertainment products

This segment operates an e-commerce business which includes trading of entertainment products. The revenue generated from this segment amounted to approximately HK$46.9 million, representing approximately 16.6% of the total revenue for FY2020. The revenue derived from this segment increased by approximately 369.0% from approximately HK$10.0 million for FY2019 to approximately HK$46.9 million for FY2020. The significantly increase was primarily due to increase in number of transactions and orders with wholesalers and new business line with retailers and customers.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

By leveraging on the Group's current sales network, its services, technology, and customers recognition, the Group intends to continue with our business strategies and the implementation plan as set out in the prospectus of the Company dated 30 June 2018 (the "Prospectus"). The plan includes:

(1) developing IT solutions services tailored for finance and insurance sectors

(2) expanding the application of Enterprise Resource Planning ("ERP") system in our IT development solutions services

(3) maintaining fund for performance bond and contract deposit

(4) provision of cloud computing and IoT products

(5) developing technical support centre to enhance our service quality

(6) strengthening our marketing efforts

(7) enhancing the expertise of our professional team

(8) enhancing the Group's management information system

MANAGEMENT DISCUSSION AND ANALYSIS

The ordinary shares (the "Shares") were listed on the GEM of the Stock Exchange on 16 July 2018 (the "Listing Date"). An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 December 2020 are set out below:

The bases and assumptions (including commercial assumptions) in support of our assessment. The actual net proceeds of the Group raised from the initial public offering was approximately HK$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 31 December 2020, the Group has utilised proceeds from the listing of approximately HK$14.4 million and a summary of use of proceeds are set out in the table below:

	As set out in the Prospectus HK$'million	**Amount expected to be used up to 31 December 2020** HK$'million	**Amount actually used up to 31 December 2020** HK$'million	**Balance as at 31 December 2020** HK$'million	**Expected timeline to fully utilise the remaining net proceeds**
Develop IT solutions services tailored for finance and insurance sectors	7.10	3.56	3.56	3.54	31 December 2021
Expand the application of ERP system in our IT development solutions services	1.17	0.57	0.57	0.60	31 December 2021
Maintain fund for performance bond and contract deposit	2.34	2.34	2.34	–	Fully utilised
Provision of cloud computing and IoT products	9.15	5.50	2.34	6.81	31 December 2021
Develop technical support centre to enhance our service quality	2.92	2.33	2.33	0.59	31 December 2021
Strengthen our marketing efforts	2.34	2.34	0.12	2.22	31 December 2021
Enhance the expertise of our professional team	1.75	1.75	0.32	1.43	31 December 2021
Enhance our Group's management information system	5.19	3.65	1.31	3.88	31 December 2021
Working capital and other general corporate purposes	2.14	1.54	1.54	0.60	31 December 2021
Total	34.10	23.58	14.43	19.67	

Up to 31 December 2020, the actual application of the net proceeds from the initial public offering were used according to the intentions previously disclosed in the Prospectus. However, save for the use of proceeds for expanding the application of ERP system in our IT development solutions services, develop IT solutions services tailored for finance and insurance sectors, maintain fund for performance bond and contract deposit, development technical support centre to enhance our service quality and as general working capital which was in line with the timeline as disclosed in the Prospectus, there was a general delay in the timeline in the use of proceeds due to the following reasons:

(i) given the macroeconomic situation during FY2020, potential large-scale IT solutions services business opportunities, IT application and development solutions for cloud products and IoT projects has been delayed; and

(ii) given the uncertain business environment, the outbreak of COVID-19 and certain social restrictions imposed by the government, it has considerable impact on the Group's marketing efforts and enhancement of management information system. It is financially prudent to prolong the timeline for the Group's business plans (including marketing events and participating in IT industry exhibitions), which would enhance the cash position and liquidity of the Group to respond to the challenging economic environment ahead.

The expected timeline for using the remaining proceeds is based on the best estimation of the present and future business market situations made by the Board. The management will continue to assess the impact of the outbreak of COVID-19 on the Group's operation and financial performance and the plans for remaining proceeds, and to cope with the changing market conditions and strive for better business performance for the Group. The remaining net proceeds are intended to applied in accordance with the proposed application set forth in the Prospectus.

MAJOR RISKS AND UNCERTAINTIES

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in our operations and financial position as efficiently and effectively as possible. The followings are the major risks and uncertainties of our business:

(1) We rely on a supplier's hardware and software for our provision of IT infrastructure and development solutions services, and any shortage or delay in the supply of hardware and software from its authorised distributors or any deterioration of business relationship with that supplier and/or its authorised distributor(s) may materially and adversely affect our results of operations.

(2) Our operations may be affected by concentrating on a few key suppliers. Should there be any loss of key suppliers or disruption in their supply, our business and results of operations could be materially and adversely affected.

(3) Our Group is exposed to credit risk of our clients.

(4) We may encounter cost overruns or delays in our IT infrastructure and development solutions projects and our business, financial position and results of operation may be materially and adversely affected.

(5) We are unable to control the quality of the hardware and/or software provided by our suppliers. Should the products provided by our suppliers be defective or fail to meet the required standards, our business and reputation may be adversely affected.

MANAGEMENT DISCUSSION AND ANALYSIS

(6) Part of our works are subcontracted to subcontractors. Our operations and financial results may be adversely affected by any delay 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 July 2021. There is no assurance that we will continue to provide quality professional services as an approved contractor of the Hong Kong Government and its statutory bodies.

(9) It may be difficult for us to recruit, train and retain capable and experienced sales staff and highly skilled technical staff. If there is any shortfall in our workforce or increase in labour cost, our business operations may be materially impeded and our financial results may be adversely affected.

(10) Our business may be adversely affected if we fail to retain certain key executives and senior management or find suitable replacements since our performance relies heavily on them.

(11) We are exposed to potential liabilities for damages as a result of our negligent acts or omissions in our services.

(12) We may be vicariously liable for the acts or omissions of our staff and face claims or legal actions brought by our clients for damages as a result of the negligent conduct or fault of our staff.

(13) During the implementation of IT infrastructure and development solutions projects, we may record net cash outflows. If we take up too many significant projects in the future, we may not have sufficient working capital, which may affect our financial position.

(14) The project basis of our IT projects create uncertainty as to our future revenue streams.

(15) Our business and our financial performance may be adversely affected by any infringement of our intellectual property rights or any infringement by us of the intellectual property rights of others, in particular our clients.

(16) There may be adverse impact on our reputation and business operations in the event of leakage or misappropriation of confidential information handled by us.

(17) Our success hinges on our ability to keep pace with the rapid changes in IT technology and to provide innovative solutions, services and products in response to rapidly evolving market demand. Our business, financial conditions and result of operations may be adversely impacted if we fail to do so.

(18) We are subject to various risks relating to the development of cloud computing and IoT solutions.

(19) We may not be able to successfully implement our strategies, or achieve our business objectives.

(20) We may not be adequately insured against losses and liabilities arising from our operations.

(21) We have not registered the tenancy agreement in respect of the lease of the premises in Kwun Tong.

(22) Our operations may be affected adversely by the outbreak of COVID-19.

For other risks and uncertainties facing the Group, please refer to the section headed "Risks Factors" in the Prospectus. An analysis of the Group's financial risk management (included foreign currency risk, credit risk, liquidity risk and interest rate risk) objectives and policies are provided in Note 36 to the consolidated financial statements.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

Due to the outbreak of COVID-19 Pandemic in 2020, we have implemented a list of hygiene and safety measures, including:

(1) encouraging staff to participate the voluntary Universal Community Testing Programme;

(2) implementing "work from home" policy unless mandatory physical present in office or requested by on-site clients;

(3) requesting staff must wear surgical mask in office area, especially when they have internal/external meeting;

(4) requesting staff to present negative COVID-19 test results conducted 1 day prior to before every shift change;

(5) conducting mandatory body temperature check before entering office;

(6) requesting staff not to travel to those areas severely affected by COVID-19 unless necessary, and those who return from the affected areas shall be quarantined for 14 days; and

(7) requesting staff to report the residential building/area have the confirmed case of COVID-19.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

There is currently no internal audit function within the Group. The Board has reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Board will continue to review at least annually the need for an internal audit function.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK AND PROSPECTS

Looking forward, with many uncertainties in the global and local business environment, including the COVID-19 pandemic around the world and the forced lockdowns and quarantine measures that have severely damage the global economy, the Group will continue face challenges in the future business environment. The Group believes that these challenges will impact the overall performance of the Group's operations and is expected to result in reduction of orders, which will bring certain pressure to our profit growth in short-term. The Group will actively manage its operation to avoid interruptions by COVID-19 and believes that its newly established subsidiary in Shanghai, will leverage the application of IoT, cloud computing services and graphic information integration technology, combined with its IT infrastructure solution services and IT development solution services, to participate in more smart city infrastructure projects in PRC and overseas by leveraging the development of MaaS, with the aim to bring the best possible results to our Shareholders in medium and long term.

FINANCIAL REVIEW

Revenue

The Group's revenue for FY2020 amounted to approximately HK$282.4 million, representing an increase of approximately HK$66.8 million or 31.0% compared to FY2019 (2019: approximately HK$215.6 million). The increase was attributable to increase in revenue generated from provision of (i) IT infrastructure solutions services projects by approximately HK$9.8 million mainly due to the increase in average contract value of projects awarded; (ii) IT development solutions services projects approximately HK$21.1 million mainly due to the increase in average contract value of project awarded; and (iii) trading of entertainment products by approximately HK$36.9 million but partially offset by the decrease in provision of IT maintenance and support services projects by approximately HK$0.9 million.

Gross profit and gross profit margin

The Group's gross profit for FY2020 amounted to approximately HK$47.6 million, representing increase of approximately HK$10.3 million or 27.6% compared to FY2019 (2019: approximately HK$37.3 million), and the increase was mainly attributable to increase in gross profit of IT development solution services and IT maintenance and support services due to less proportionate increase in cost of sales such as cost of technical staff as compared with the increase in revenue during FY2020. The Group's gross profit margin decreased from approximately 17.3% for FY2019 to approximately 16.9% for FY2020 as the decrease was mainly attributable to decrease in gross profit margin of IT infrastructure solution services projects which was mainly due to increase in systems software and subcontracting costs in certain projects; and the relatively low gross profit margin of trading of entertainment products as compared to IT solutions services and IT maintenance and support services during FY2020.

Selling expenses

The Group's selling expenses for FY2020 amounted to approximately HK$9.0 million, representing an increase of approximately HK$2.9 million or 47.5% compared to FY2019 (2019: approximately HK$6.1 million). Such significant increase was mainly attributed by the increase in staff cost and sales commission which was in line with the increase in revenue in FY2020.

Administrative and general expenses

The Group's administrative expenses for FY2020 amounted to approximately HK$35.7 million, representing an increase of approximately HK$7.9 million or 28.4% compared to FY2019 (2019: approximately HK$27.8 million). Such increase was mainly attributed by the increase in staff cost in administrative expenses by approximately HK$7.2 million due to increase in number of staff for FY2020; and partially offset by the decrease in legal and professional fee by HK$1.0 million.

Profit and total comprehensive income for the year

The Group increased profit for FY2020 by approximately HK$8.0 million compared to profit of approximately HK$1.6 million for FY2019. The profit was mainly attributable to the increase in gross profit by approximately HK$10.3 million; increase in other income and other gains and loss by approximately HK$8.1 million mainly due to the increase in government subsidies; partially offset by the increase in selling, administrative and general expenses by approximately HK$10.8 million mainly due to the increase in staff cost; and increase in reversal of expected credit losses by approximately HK$1.3 million primarily due to the decrease in the likelihood or risk of default based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at 31 December 2020 as well as the forecast of future conditions.

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 FY2020, and our use of cash primarily relates to operating activities and purchase of property, plant and equipment. As at 31 December 2020, we had cash and cash equivalents of approximately HK$35.8 million (31 December 2019: approximately HK$60.0 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$6.8 million. The Group have a credit facility from the Bank of East Asia of HK$25.0 million as at 31 December 2020 (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$31.0 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 19.3% as at 31 December 2020 (31 December 2019: nil). Our liquidity position has further been strengthened by using the cash generated from our operating activities and fund raising of the debt and the Shares were listed on the Stock Exchange on the Listing Date. Going forward, we intend to use our capital for our operations and the expansion plans as stated in the Prospectus.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2020. 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 2020, the capital structure of the Company comprised issued share capital and reserves and bank borrowing.

Capital expenditure

Our capital expenditure for the FY2019 and FY2020 was HK$0.1 million and approximately HK$0.5 million respectively.

Dividend policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the Shareholders, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group. The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors it may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, the Articles of Association of the Company (the "Articles") and the Shareholders.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2020, the Group had a total of 140 employees (31 December 2019: 116). Total staff costs (including key management personnel and directors' emoluments) were approximately HK$51.3 million for FY2020, as compared to approximately HK$38.0 million for FY2019. The increase in the number of employees for FY2020 was mainly attributable to the increase in the number of employees employed for the Group's development of IT infrastructure solutions services business, which was in line with the increase in revenue for FY2020.

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. 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 31 December 2020 and up to the date of this report.

FOREIGN EXCHANGE EXPOSURE

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK$. During FY2020, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including deposit for a life insurance policy, trade receivables, cash and cash equivalents and bank borrowings which are denominated in US$. During FY2020 and FY2019, 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 FY2020 and FY2019.

DONATION

During FY2020, the Group made donations for charitable purpose totaling approximately HK$1,000 (2019: approximately HK$10,000).

SIGNIFICANT INVESTMENTS

During FY2020, the Group did not hold any significant investment in equity interest in any other company.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group has the capital commitment for equipment as at 31 December 2020 amounted to approximately HK$0.3 million (2019: HK$1.6 million).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During FY2020, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

CHARGES ON GROUP ASSETS

As at 31 December 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 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 (2019: nil).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no other contingent liabilities except for Note 32 to the consolidated financial statements.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 41 to the consolidated financial statements, there is no significant event subsequent to 31 December 2020.

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 FY2020, 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 circumstance.

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 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 FY2020.

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 FY2020, 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 PRACTICES

The Directors believe that good corporate governance provides a framework for effective management, successful business growth and a healthy corporate culture, which will benefit the Company's stakeholders. Therefore, the importance of good corporate governance in management and internal control procedures is critical to achieving transparency and accountability. The Company has long been committed to the pursuit a high standard of corporate governance and has adopted and complied with the code provisions of the CG Code as set out in Appendix 15 to the GEM Listing Rules and, the Board considers that the Company has complied with the CG Code for FY2020, except for the deviation as stated below.

Code Provision A.1.8

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 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 A.2.1

Under the CG Code provision A.2.1, 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 circumstance.

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

BOARD OF DIRECTORS

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

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

CORPORATE GOVERNANCE REPORT

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

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employee and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in its corporate governance report.

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

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 Pak Lun Larry
Mr. Law Cheung Moon
Mr. Leung Patrick Cheong Yu

Non-executive Directors:

Mr. Cheng Kwan Ngai (appointed on 20 November 2020)
Ms. Chen Jie (appointed on 9 February 2021)

Independent non-executive Directors:

Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Dr. He Dazhi (appointment to be effective on 1 April 2021)

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 6 to 9 of this annual 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. Following the resignation of Mr. Yeung Wai Keung, one of our independent non-executive Directors, the Company only has two independent non-executive Directors. Thus, the number of independent non-executive Directors falls below the number required under Rule 5.05(1) of the GEM Listing Rules. The Company had immediately informed the Stock Exchange and published an announcement containing the relevant details and reasons. The Board has used its best endeavors to identify suitable candidate to fill the vacancy as soon as possible and in any event within three months from the date of resignation of Mr. Yeung Wai Keung pursuant to Rule 5.06 of the GEM Listing Rules. Referring to the announcement was made on 10 March 2021, the Company has appointed Dr. He Dazhi as independent non-executive Director with effective from 1 April 2021. Other than that, the Company has received from each an independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

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

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 A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. Every newly appointed Director has received comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the GEM Listing Rules and relevant statutory requirements.

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

BOARD COMMITTEE

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

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

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

Audit Committee

The chairman of the Audit Committee is Mr. Lam Yau Hin, an independent non-executive Director, and other members include Ms. Lam Shun Ka (formerly known as Lam Yuk Shan), an independent non-executive Director and Mr. Cheng Kwan Ngai, a non-executive Director, has been appointed on 20 November 2020 whereas Mr. Yeung Wai Keung had resigned on 1 March 2021. None of the members of the Audit Committee is a former partner of the Company's existing external auditor. The written terms of reference of the Audit Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

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

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

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

In addition to the five meetings held as set forth in the section headed "Number of Meetings and Directors' Attendance", the Audit Committee met the external auditor two times for the year ended 31 December 2020.

The Group's financial statements for the year ended 31 December 2020 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 2020 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;

- 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 Moore Stephens CPA Limited as the Company's external auditor and approved its terms of engagement;
- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;
- received and reviewed the internal audit reports from the independent internal control consultant;
- held meetings with the external auditor in the absence of management to discuss any material audit issues; and
- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, training programs, and the Company's procedures for financial reporting and internal audit.

Remuneration Committee

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

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

Regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to the GEM Listing Rules are set out in Notes 11 and 12 to the consolidated financial statements.

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. Lam Yau Hin, an independent non-executive Director, and Mr. Yu Pak Lun Larry, Chief Executive Officer and executive Director. Mr. Yeung Wai Keung had resigned as a member of the Nomination Committee on 1 March 2021. The written terms of reference of the Nomination Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

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

The major work performed by the Nomination Committee for FY2020 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

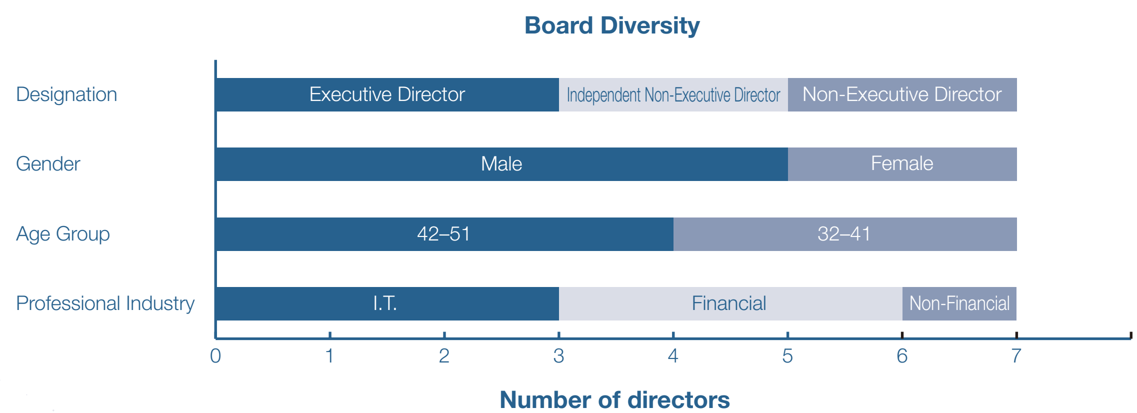
BOARD DIVERSITY POLICY

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:



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 2020 is set out as follows.

	Number of Board Meetings attended/ eligible to attend	Number of Audit Committee Meetings attended/ eligible to attend	Number of Remuneration Committee Meetings attended/ eligible to attend	Number of Nomination Committee Meetings attended/ eligible to attend
Executive Directors:				
Mr. Yu Pak Lun Larry	4/4	N/A	1/1	1/1
Mr. Law Cheung Moon	4/4	N/A	N/A	N/A
Mr. Leung Patrick Cheong Yu	4/4	N/A	N/A	N/A
Non-executive Directors:				
Mr. Cheng Kwan Ngai[1]	N/A	N/A	N/A	N/A
Ms. Chen Jie[2]	N/A	N/A	N/A	N/A
Independent non-executive Directors:				
Mr. Yeung Wai Keung[3]	4/4	5/5	1/1	1/1
Mr. Lam Yau Hin	4/4	5/5	1/1	1/1
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)	4/4	5/5	1/1	1/1

1. Mr. Cheng Kwan Ngai was appointed as non-executive Director on 20 November 2020.
2. Ms. Chen Jie was appointed as non-executive Director on 9 February 2021.
3. Mr. Yeung Wai Keung resigned as an independent non-executive Director on 1 March 2021.

One meeting was held between the Chairman and the independent non-executive Directors without the presence of other Directors for the year ended 31 December 2020.

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 FY2020 and up to the date of this annual report.

COMPANY SECRETARY

The Company has engaged Ms. Lam Wai Yan (“Ms. Lam”) as the company secretary of the Company (the “Company Secretary”). The primary contact person at the Company, whom Ms. Lam can contact, is Mr. Yu Pak Lun Larry, the Chief Executive Officer of the Company. During FY2020, Ms. Lam has taken no less than 15 hours of relevant professional training to update her skills and knowledge.

INDEPENDENT AUDITOR'S REMUNERATION

The amount of fees charged by Moore Stephens CPA Limited, the external auditor, generally depends on the scope and volume of the external auditor's work performed.

For FY2020, 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	376
Non-audit services	180

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

The Directors acknowledge their responsibility for preparing the consolidated financial statements which gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the consolidated financial statements of the Group. As at 31 December 2020, 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 47 to 52 of this annual report.

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

Throughout FY2020, 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 2020, 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.

SHAREHOLDERS' RIGHT AND INVESTOR RELATIONS

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

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

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

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

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

(II) annual and special general meetings provide a forum for the Shareholders to comment and exchange views with the Directors and the senior management; and

(III) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

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

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

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

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

Articles of Association

During the year ended 31 December 2020, the Company has not made any amendment to its Memorandum and Articles of Association.

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

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for FY2020.

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 trading of entertainment products. Details of the principal activities of the principal subsidiaries are set out in Note 43 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during FY2020.

BUSINESS REVIEW

The business review of the Group for FY2020 is set out in the section headed "Management Discussion and Analysis" on page 10 of this report.

A discussion and analysis of the activities of the Company as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's businesses, and the compliance with relevant laws and regulations, as well as the Group's environmental policies and performance which have a significant impact on the Company, can be found in the "Management Discussion and Analysis" on pages 10 to 20 and "Corporate Governance Report" on pages 21 to 32 of this report. Such discussion forms part of this Report of the Directors.

RESULTS AND DIVIDENDS

The results of the Group for FY2020 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 130 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 FY2020 are set out in Note 16 to the consolidated financial statements. There were no investment properties of the Group during FY2020.

SHARE CAPITAL

Details of movements in the share capital of the Company during FY2020 are set out in Note 25 to the consolidated financial statements.

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 FY2020 are set out in the consolidated statement of changes in equity.

As at 31 December 2020, the Company's reserves available for distribution to the Shareholders were approximately HK$37.9 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 40.4% of the total sales for the year and sales to the largest customer included therein amounted to approximately 13.6%. Purchases from the Group's five largest suppliers accounted for approximately 59.2% of the total purchases for the year and purchase from the largest supplier included therein amounted to approximately 18.3%. 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 2020 are set out in the Note 30 to the consolidated financial statements.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2020.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during FY2020 are set out in Note 33 to the consolidated financial statements and none of them constituted a connected transaction as defined under the GEM Listing Rules.

DIRECTORS

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

Executive Directors:

Mr. Yu Pak Lun Larry *(Chairman)*
Mr. Leung Patrick Cheong Yu *(Compliance Officer)*
Mr. Law Cheung Moon

Non-executive Directors:

Mr. Cheng Kwan Ngai (appointed on 20 November 2020)
Ms. Chen Jie (appointed on 9 February 2021)

Independent non-executive Directors:

Mr. Yeung Wai Keung (resigned on 1 March 2021)
Mr. Lam Yau Hin
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)
Dr. He Dazhi (appointment to be effective on 1 April 2021)

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

Pursuant to Article 108 of the Articles, Mr. Lam Yau Hin, being an independent non-executive Director, has decided not to offer himself for election, whereas Mr. Cheng Kwan Ngai, Ms. Chen Jie, Ms. Lam Shun Ka and Dr. He Dazhi 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 9 of the annual report.

CHANGE TO THE INFORMATION RELATING TO THE DIRECTOR DURING HER TENURE

Ms. Lam Shun Ka was retired as an independent non-executive director of Omnibridge Holdings Limited (Stock code: 8462) on 22 May 2020. 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.

DIRECTORS' SERVICE CONTRACTS

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

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

Details of the remuneration of the Directors and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in Notes 11 and 12 to the consolidated financial statements.

No director has waived or agreed to waive any emoluments during FY2020 (2019: 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 FY2020 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 33 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 2020.

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.

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

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

(i) any full-time or part-time employees, executives or officers of our Group;

(ii) any Directors (including independent non-executive Directors) of our Group;

(iii) any advisers, consultants, suppliers, customers and agents to our Group; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to us, the assessment criteria of which are contribution to our development and performance, quality of work performed for us, initiative and commitment in performing his/her duties, and length of service or contribution to us.

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

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

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

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

(1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(2) the average closing prices of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and

(3) the nominal value of a Share.

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

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, which represents 10% of the shares in issue of the Company as at the date of this report.

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.

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 31 December 2020 and up to the date of this report.

Apart from the aforesaid share option schemes, at no time during FY2020 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.

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	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]	415,000,000 Shares (L)	51.88%

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 51.88% 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 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	415,000,000 Shares (L)	51.88%
Ms. Tong Po Ki Vicky[(3)]	Interest of Spouse	415,000,000 Shares (L)	51.88%
Ms. Leung Ruby Huey Boon	Beneficial owner	80,000,000 Shares (L)	10.00%
Mr. Leung Clement Kam Hon[(4)]	Interest of Spouse	80,000,000 Shares (L)	10.00%
Ms. Yiu Wai Ki	Beneficial owner	80,000,000 Shares (L)	10.00%
Mr. Leung Wan Hung[(5)]	Interest of Spouse	80,000,000 Shares (L)	10.00%
Dalian Luminary Technology Inc. [(6)]	Beneficial owner	160,000,000 Shares (L)	20.00%
Mr. Ou Yang Woei [(6)]	Interest in controlled corporation	160,000,000 Shares (L)	20.00%

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.

(4) Mr. Leung Clement Kam Hon is the spouse of Ms. Leung Ruby Huey Boon. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Leung Ruby Huey Boon is interested in by virtue of the SFO.

(5) Mr. Leung Wan Hung is the spouse of Ms. Yiu Wai Ki. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Yiu Wai Ki is interested in by virtue of the SFO.

(6) Dalian Luminary Technology Inc. is held as to 97% by Mr. Ou Yang Woei. Therefore, Mr. Ou Yang Woei is deemed to be interested in the Shares which Dalian Luminary Technology Inc. is interested in by virtue of the SFO. The 160,000,000 underlying Shares held by Dalian Luminary Technology Inc. represents the maximum of 160,000,000 conversion Shares to be issued upon the full conversion of the convertible bonds issued by the Company to Dalian Luminary Technology Inc. at the initial conversion price of HK$0.3 (subject to adjustment). As at the report date, these convertible bonds are not converted by Dalian Luminary Technology Inc..

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

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

INTEREST IN COMPETING BUSINESSES

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

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

The controlling shareholders of the Company have confirmed to the Company that for FY2020 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 42 to 46 of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIP WITH STAKEHOLDERS

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

PERMITTED INDEMNITY OF DIRECTORS

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

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 31 December 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.

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 FY2020 and up to the date of this report.

AUDITOR

Moore Stephens CPA Limited has been appointed as the auditor of the Company who retires and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming AGM of the re-appointment of Moore Stephens CPA Limited as the auditor of the Company. There is no change of auditor of the Company in any of the preceding 3 years.

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

Hong Kong, 24 March 2021

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.

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 during the year ended 31 December 2020. For corporate governance information, please refer to the "Corporate Governance Report" on pages 21 to 32 of this annual report.

SECTION A. ENVIRONMENTAL

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

For the year ended 31 December 2020, the Group's quantitative information on greenhouse gases emissions is as follows:

Greenhouse Gases Emissions	**2020 tonnes**	2019 tonnes
Indirect Emission (Scope 2)		
Electricity	**70.7**	35.5
Indirect Emission (Scope 3)		
Paper Consumption	**1.7**	1.4
Total emission of greenhouse gases	**72.3**	36.9
Total emission of greenhouse gases per square metre of floor area	**0.172**	0.048

For the year ended 31 December 2020, the total electricity consumption of the Group is as follows:

Energy Consumption	**2020**	2019
Energy consumption – electricity (kwh)	**87,263**	69,517
Energy consumption – electricity per floor area (kwh/m²)	**0.169**	0.046

Energy Consumption

The significant increase in energy consumption was mainly due to the use of energy in the office of the newly established subsidiary in Cheung Sha Wan, Kowloon. The rise is consistent with the expansion of the Group's business. However, as a responsible environmental company, our goal is to reduce emission of greenhouse gases and electricity consumption as much as possible. The Group will continue to implement energy saving measures. Staff of the Group are required to turn on power saving mode for computers, printers and monitors to reduce energy consumption when the machines are in idle. Staff are also required to switch off lights, printers, air conditioners and power of computers by the end of the working day. By adopting these policies, the Group wishes to create an environmental friendly working environment.

Water Consumption

Water consumption is used primarily for two purposes, including drinking water and daily cleaning. The water consumption of the Group's office in Kwun Tong is managed by the office's building management office and water usage data is not available in FY2020 and FY2019. The Group only used tap water for daily cleaning purpose in Kwun Tong office in 2020. Besides, in FY2020 and FY2019, the Group orders distilled water from suppliers for staff's drinking. Although the consumption of water is insignificant, in order to reduce the water consumption of the Group, the office has issued a notice to remind the employee to turn off the taps after use as well as using it wisely. In addition, the office has also issued a notice to remind employees to cherish drinking water.

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. Besides, the Group does not use any packaging materials for its operations.

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 FY2020 and FY2019, the carbon footprint of employees is immaterial as almost all business is delivered in Hong Kong. In addition, the Group believes that in order to reduce carbon emissions from air travel, the Group encourages employees to use video conference calls and participate in online meetings. During FY2020, the forced lockdowns of COVID-19 pandemic across the world as a result of getting close to zero carbon footprints.

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. For the year ended 31 December 2020, the Group had no material non-compliance with applicable legislation or regulations.

In addition to the above, during FY2020, the Group has engaged a new medical insurance provider to improve the benefits of staff.

As at 31 December 2020, the staff gender and age distribution by position is as follows:

Position	No. of employees	Male	Female	Aged under 30	Aged 30 to 40	Aged 41 to 50	Aged above 50
Manager or above	34	29	5	1	12	16	5
General staff	106	76	30	48	33	20	5

Staff turnover during the year ended 31 December 2020 is as follows:

Category	No. of employees	Male	Female	Aged under 30	Aged 30 to 40	Aged 41 to 50	Aged above 50
New staff	69	49	20	33	21	12	3
Staff turnover	52	32	20	24	15	6	7

B2: Health and Safety

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

Besides, the Group strives to encourage the staff to exercise and maintain a healthy lifestyle. For the year ended 31 December 2020, The health and safety performances are periodically monitored and reviewed. Due to the outbreak of the coronavirus pandemic, the Group has implemented special work arrangements, including working from home, shift rotation and flexible lunch arrangement. In addition, the Group provides additional protection for colleagues including both financial and personal protection during the COVID-19 pandemic. We have purchased a special "COVID-19 Care insurance plan" for all current employees. We also arranged a gift packaging for colleagues including masks and disinfectants. The Group requires all colleagues and visitors to strictly follow hygiene measures. The Group did not note any material non-compliance with laws and regulations in relation of employee health and safety during FY2020.

B3: Development and Training

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

B4: Labour Standards

The Group strictly complies with the labour legislation on prevention of child and forced labour. In compliance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), there was no child nor forced labour in the Group's operation during FY2020 and FY2019. During the recruitment process, there is a procedure for collecting and reviewing identity and age verification documents. The Group did not note any material non-compliance with laws and regulations regarding employment and labour standards during FY2020 and FY2019.

B5: Supply Chain Management

The Group maintains a long term and stable relationship with major suppliers. All suppliers are carefully evaluated and regularly monitored. During the year ended 31 December 2020, 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 FY2020, 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.

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 the reporting period, the Group did not find any significant non-compliance with relevant laws and regulations.

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

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

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.

B7: Anti-corruption

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

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

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

B8: Community Investment

Apart from caring for its employees, the Group cares for its community and discharges its corporate social responsibilities by actively participating in voluntary services. With its care for people and the environment, the Group has long been recognised by the Hong Kong Council of Social Service with the "Caring Company Award" for six consecutive years.

MOORE

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大華馬施雲
會計師事務所有限公司

To the Shareholders of
Kinetix Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kinetix Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 129, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2020, 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 ("HKSAs") 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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:

- Recoverability of trade and unbilled receivables, finance lease receivables and contract assets
- Revenue from certain IT solutions services which are treated as one performance obligation and recognised over time

Recoverability of trade and unbilled receivables, finance lease receivables and contract assets

We identified the recoverability of trade and unbilled receivables, finance lease receivables and contract assets as a key audit matter because the Group has significant amount of trade and unbilled receivables, finance lease receivables and contract assets with many corporate customers and allowances are made for expected credit losses when the Group will not collect all amounts due. Management judgements are required in assessing the expected credit losses.

The Group has trade receivables, unbilled receivables, finance lease receivables and contract assets of approximately HK$39.3 million, HK$40.7 million, HK$11.9 million and HK$24.9 million, as disclosed in Notes 19(a), 19(b), 18 and 23, respectively, at 31 December 2020 against which total allowance for expected credit losses of approximately HK$8.2 million are held. The expected credit losses on the trade and unbilled receivables, finance lease receivables and contract assets are estimated by using a provision matrix. The provision rates are based on internal credit ratings (taking into consideration of the Group's historical credit loss experience, average actual date of receipt, customers' background, listing status and size of various groups of debtors).

In assessing the credit risk of a financial asset, the Group considers historical default rates taking into consideration of both quantitative and qualitative information and forward-looking information that is reasonable and supportable without undue cost or effort and risk of default.

Our procedures in relation to the recoverability of trade and unbilled receivables, finance lease receivables and contract assets included:

- Understanding the Group's credit risk assessment;
- Obtaining an understanding on the billing and collection cycle by performing walkthrough test;
- Testing the accuracy of trade receivables aging analysis of the Group on a sampling basis;
- Testing the integrity of information used by management to develop the provision matrix, including the grouping of types of customers, by checking to the website and other relevant supporting documents;
- Challenging management's basis and judgement in determining credit loss allowance on trade and unbilled receivables, contract assets and finance lease receivables as at 31 December 2020, including their identification of credit-impaired debtor, the reasonableness of management's grouping of the remaining debtors into different categories in the provision matrix, and the basis of estimated loss rates applied in each category in the provision matrix (with reference to cash collection performance, historical default rates and forward-looking information);
- Evaluating the disclosures regarding the impairment assessment of trade and unbilled receivables, contract assets and finance lease receivables in Note 36(a)(ii) to the consolidated financial statements;
- Assessing the reasonableness of management's judgements by comparing historical allowances of expected credit losses against actual write-offs;
- Reviewing minutes of the board of directors' meetings relating to the recoverability of trade and unbilled receivables, contract assets and finance lease receivables; and
- Reviewing the correspondences with the customers.

KEY AUDIT MATTERS (CONTINUED)

Revenue from certain IT solutions services which are treated as one performance obligation and recognised over time

As explained in Note 5 to consolidated financial statements, certain revenue from IT solutions services are treated as one performance obligation and recognised over time because the Group considered the IT development solutions services and IT infrastructure solutions services that require the Group to carry out configuration, customisation, and integration of the hardwares and softwares in accordance with clients' requirements and specifications, are highly interdependent with each other and involve significant integration activities. The revenue arising from these services should be recognised by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. For the year ended 31 December 2020, revenue from the related IT infrastructure solutions services of approximately HK$0.6 million and IT development solutions services of approximately HK$74.6 million as disclosed in Note 7 to the consolidated financial statements were recognised over time, respectively. 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.

The above mentioned accounting policies in respect of revenue recognition were areas of our focus given the involvement of significant judgements and estimates.

Our procedures included:

- Reviewing the content of the IT solutions services contracts to understand the nature of the services provided by the Group to their customers and assessing whether the promises to customers were distinct, highly interdependent with each other and involve significant integration activities, based on the facts and substances and the applicable accounting standard;

- Assessing the reasonableness of the basis for estimated budgeted costs by checking the related contracts of the IT solutions services to the budgets prepared and performing retrospective review on budgeted costs;

- Testing the IT solutions services costs incurred by tracing to the supporting documents on a sampling basis; and

- Checking the mathematical accuracy of the calculation of cost allocation and completion progress of the IT solutions services.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report, but does not include 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 the other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THOSE CHARGED WITH GOVERNANCE 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 of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY 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 solely to you, as a body, in accordance with our agreed terms of engagement, 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 HKSAs 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 HKSAs, we exercise professional judgement 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 of the Company.

- 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.

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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.

Moore Stephens CPA Limited
Certified Public Accountants

Law Yuen Man, Ida
Practising Certificate Number: P05878

Hong Kong, 24 March 2021

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Revenue	*7*	**282,362**	215,641
Cost of sales		**(234,805)**	(178,378)
Gross profit		**47,557**	37,263
Other income, other gains and losses	*8*	**8,154**	148
Selling expenses		**(8,990)**	(6,071)
Reversal of/(allowance for) expected credit losses		**743**	(649)
Administrative and general expenses		**(35,702)**	(27,793)
Finance costs	*9*	**(437)**	(214)
Profit before tax	*10*	**11,325**	2,684
Income tax	*13*	**(1,686)**	(1,076)
Profit for the year		**9,639**	1,608
Attributable to:			
Owners of the Company		**10,316**	2,179
Non-controlling interests		**(677)**	(571)
Profit for the year		**9,639**	1,608
		HK cents	HK cents
Earnings per share	*15*		
– Basic and diluted		**1.29**	0.27

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	2020 HK$'000	2019 HK$'000
Profit for the year	**9,639**	1,608
Other comprehensive income for the year	**–**	–
Total comprehensive income for the year	**9,639**	1,608
Attributable to:		
Owners of the Company	**10,316**	2,179
Non-controlling interests	**(677)**	(571)
	9,639	1,608

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	16	**1,224**	1,460
Right-of-use assets	17	**1,733**	3,995
Finance lease receivables	18	**7,240**	–
Deposits and prepayments	19	**2,931**	2,100
Deposit and prepayment for a life insurance policy	20	**6,747**	–
Deferred tax assets	31	**96**	–
		19,971	7,555
Current assets			
Inventories	21	**15,303**	3,193
Finance lease receivables	18	**4,658**	–
Trade and other receivables, deposits and prepayments	19	**85,939**	85,941
Contract assets	23	**24,904**	18,194
Due from immediate holding company	22	**17**	8
Due from non-controlling shareholders of subsidiaries	22	**243**	258
Cash and cash equivalents	24	**35,793**	59,976
		166,857	167,570
Total assets		**186,828**	175,125
Equity and liabilities			
Capital and reserves			
Share capital	25	**8,000**	8,000
Reserves	26	**91,118**	80,802
Equity attributable to owners of the Company		**99,118**	88,802
Non-controlling interests		**(1,216)**	(539)
Total equity		**97,902**	88,263
Non-current liabilities			
Lease liabilities	27	**4,331**	2,025
Contract liabilities	28	**–**	33
		4,331	2,058
Current liabilities			
Trade and other payables and accruals	29	**61,825**	74,205
Tax payable		**1,551**	1,567
Bank borrowings	30	**6,778**	–
Due to non-controlling shareholders of subsidiaries	22	**1,684**	–
Lease liabilities	27	**4,472**	2,393
Contract liabilities	28	**8,285**	6,639
		84,595	84,804
Total liabilities		**88,926**	86,862
Total equity and liabilities		**186,828**	175,125

The consolidated financial statements on pages 53 to 129 were approved and authorised for issue by the Board of Directors on 24 March 2021 and were signed on its behalf by

Yu Pak Lun Larry
Executive Director

Law Cheung Moon
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Attributable to owners of the Company						
	Share capital	Share premium	Other reserve	Retained profits	Total	Non-controlling interests	Total equity
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	(Note 25)	*(Note 26(a))*	*(Note 26(b))*				
31 December 2018	8,000	43,199	10	35,534	86,743	32	86,775
Impact on initial application of HKFRS 16	–	–	–	(120)	(120)	–	(120)
1 January 2019 (restated)	8,000	43,199	10	35,414	86,623	32	86,655
Profit/(loss) for the year	–	–	–	2,179	2,179	(571)	1,608
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive income/(loss) for the year	–	–	–	2,179	2,179	(571)	1,608
Non-controlling interests arising on the establishment of subsidiaries	–	–	–	–	–	–*	–*
31 December 2019	**8,000**	**43,199**	**10**	**37,593**	**88,802**	**(539)**	**88,263**
Profit/(loss) for the year	**–**	**–**	**–**	**10,316**	**10,316**	**(677)**	**9,639**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income/(loss) for the year	**–**	**–**	**–**	**10,316**	**10,316**	**(677)**	**9,639**
Non-controlling interests arising on the establishment of subsidiary	**–**	**–**	**–**	**–**	**–**	**–***	**–***
31 December 2020	**8,000**	**43,199**	**10**	**47,909**	**99,118**	**(1,216)**	**97,902**

* *Less than HK$1,000.*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Notes	2020 HK$'000	2019 HK$'000
Cash flows from operating activities			
Profit before tax		**11,325**	2,684
Adjustments for:			
Depreciation of property, plant and equipment	*16*	**735**	723
Depreciation of right-of-use assets	*17*	**2,262**	2,193
Loss on write-off property, plant and equipment	*10*	**2**	–
(Reversal of)/allowance for expected credit losses		**(743)**	649
Bank interest income	*8*	**(178)**	(329)
Premium charges on a life insurance policy	*10*	**129**	–
Gain on derecognition of right-of-use assets under sublease arrangement	*8*	**(1,563)**	–
Finance lease interest income	*8*	**(283)**	–
Imputed interest income from a deposit for a life insurance policy	*8*	**(101)**	–
Finance costs	*9*	**437**	214
Provision for onerous contracts, net of reversal	*10*	**645**	658
		12,667	6,792
Increase in inventories		**(17,215)**	(3,193)
Decrease in finance lease receivables		**2,623**	–
Decrease/(increase) in trade and other receivables, deposits and prepayments		**71**	(691)
Increase in contract assets		**(6,707)**	(8,996)
(Decrease)/increase in trade and other payables and accruals		**(13,025)**	4,393
Increase in contract liabilities		**1,613**	1,413
Increase in amounts due to non-controlling shareholders of subsidiaries		**1,684**	–
Cash used in operations		**(18,289)**	(282)
Bank interest received		**178**	329
Hong Kong profits tax paid		**(1,798)**	(477)
Net cash used in operating activities		**(19,909)**	(430)
Cash flows from investing activities			
Purchases of property, plant and equipment		**(501)**	(106)
Payment for a life insurance policy		**(6,935)**	–
Repayments from/(advances to) non-controlling shareholders of subsidiaries		**15**	(227)
Advances to immediate holding company		**(9)**	(8)
Cash used in investing activities		**(7,430)**	(341)
Cash flows from financing activities			
Repayments of lease liabilities	*40*	**(3,430)**	(2,667)
Finance costs paid	*40*	**(192)**	–
Proceeds from bank loans	*40*	**24,434**	–
Repayment of bank loans	*40*	**(17,656)**	–
Net cash generated from/(used in) financing activities		**3,156**	(2,667)
Decrease in cash and cash equivalents		**(24,183)**	(3,438)
Cash and cash equivalents at beginning of the year		**59,976**	63,414
Cash and cash equivalents at end of the year	*24*	**35,793**	59,976

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE 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 trading of entertainment products. In the opinion of the directors of the Company, the ultimate and immediate holding company of the Company is Vigorous King Limited, a company incorporated in the British Virgin Islands ("BVI") which is wholly owned by Mr. Yu Pak Lun Larry ("Mr. Yu"), who is also the Chairman, Chief Executive Officer and Executive Director of the Company.

2. BASIS OF PREPARATION AND PRESENTATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements also comply with applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on GEM of the Stock Exchange.

The consolidated financial statements have been prepared on historical cost basis and presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company. Historical cost is generally based on the fair value at the consideration given in exchange for goods and services. All values are rounded to the nearest thousand except when otherwise indicated. It should be noted that accounting estimates and assumptions have been used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in Note 5 "Critical accounting judgements and key sources of estimation uncertainty".

3. ADOPTION OF AMENDMENTS TO HKFRSs

In the current year, the Group has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the Group's consolidated financial statements for the accounting period beginning on 1 January 2020:

Amendments to HKAS1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

In addition, in the preparation of the consolidated financial statements for the year ended 31 December 2020, the Group has early applied the Amendments to HKFRS 16 COVID-19-Related Rent Concessions, which are mandatorily effective for annual reporting periods beginning on or after 1 June 2020.

Except as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

(a) Impacts on early application of Amendment to HKFRS 16 COVID-19-Related Rent Concessions

The Group has early applied the amendment for the first time in the current year. The amendment introduces a new practical expedient for lessees to elect not to assess whether a COVID-19-related rent concession is a lease modification. The practical expedient only applies to rent concessions occurring as a direct consequence of the COVID-19 that meets all of the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 Leases if the changes were not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the consolidated profit or loss in the period in which the event occurs.

The application of the amendment had no impact to the opening retained profits at 1 January 2020. The Group has derecognised the part of lease liability that has been extinguished by the forgiveness of lease payments using the discount rates originally applied to these leases respectively, resulting in a decrease in the lease liabilities of HK$83,000, which has been recognised as variable lease payments in consolidated profit or loss for the current year.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated:

(a) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group has power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated profit or loss and consolidated statement of comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provisions for depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in consolidated profit or loss.

Depreciation is provided on the straight-line method, based on the estimated economic useful life of the individual assets, as follows:

Leasehold improvements	25% per annum
Furniture and fixtures	20% per annum
Equipment	30% per annum

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the consolidated profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Impairment of property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated at costs less accumulated depreciation and impairment, if any. In determining whether an asset is impaired, the Group has to exercise judgement and make estimation, particularly in assessing: (1) whether an event has occurred or any indicators that may affect the asset value; (2) whether the carrying value of an asset can be supported by the recoverable amount, in the case of value in use, the net present value of future cash flows which are estimated based upon the continued use of the asset; and (3) the appropriate key assumptions to be applied in estimating the recoverable amounts including cash flow projections and an appropriate discount rate. When it is not possible to estimate the recoverable amount of an individual asset (including right-of-use assets), the Group estimates the recoverable amount of the cash generating unit to which the assets belongs, including allocation of corporate assets when a reasonable and consistent basis of allocation can be established, otherwise recoverable amount is determined at the smallest group of cash generating units, for which the relevant corporate assets have been allocated. Changing the assumptions and estimates, including the discount rates or the growth rate in the cash flow projections, could materially affect the recoverable amounts.

(d) 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.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. Transaction costs that are directly attributable to the acquisition of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets and financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets and financial liabilities at fair value through profit or loss are recognised immediately in consolidated profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liabilities, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and subsequent measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9

The Group performs impairment assessment under expected credit loss ("ECL") model on financial assets (including amount due from immediate holding company/non-controlling shareholders of subsidiaries, other receivables, deposits, trade receivables, unbilled receivables and cash and cash equivalents), and other items (finance lease receivables and contract assets) which are subject to impairment assessment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, unbilled receivables, finance lease receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix based on the internal credit ratings (taking into consideration of the Group's historical credit loss experience, average actual date of receipt, customers' background, listing status and size of various groups of debtors).

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, in which case the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward- looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in consolidated profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets and other items subject to impairment assessment under HKFRS 9 (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data and forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights. The Group uses a practical expedient in estimating ECL on trade receivables, unbilled receivables, finance lease receivables and contract assets using a provision matrix taking into consideration historical credit loss experience, adjusted for forward looking information that is available without undue cost or effort.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a finance lease receivables, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the finance lease receivalbes in accordance wiith HKFRS 16.

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's amount due from immediate holding company/non-controlling shareholders of subsidiaries, other receivables, deposits, deposit for a life insurance policy, trade receivables, unbilled receivables, finance lease receivables and contract assets are each assessed as a separate group.);

- Historical credit loss experience;

- Average actual date of receipt;

- Background, listing status and size of various groups of debtors; and

- Internal credit ratings.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in consolidated profit or loss for all financial instruments with a corresponding adjustment to their carrying amount, with the exception of trade receivables, unbilled receivables, finance lease receivables and contract assets where the corresponding adjustment is recognised through a loss allowance account.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

Financial assets (continued)

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated profit or loss.

Financial liabilities and equity

Classification as debt or equity and measurement

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in consolidated profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Financial instruments (continued)

Financial liabilities and equity (continued)

Financial liabilities

All financial liabilities include trade and other payables, lease liabilities, bank borrowings and amounts due to non-controlling shareholders of subsidiaries are subsequently measured at amortised cost using the effective interest rate method.

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in consolidated profit or loss.

(f) Leases

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to lease of office premises of its subsidiaries that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. Lease payments on short-term leases are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

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

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities other than adjustments to lease liabilities resulting from COVID-19-related rent concessions in which the Group applied the practical expedient.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases (continued)

The Group as a lessee (continued)

Right-of-use assets (continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 Financial Instruments ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases (continued)

The Group as a lessee (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right- of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/ expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

Except for COVID-19-related rent concessions in which the Group applied the practical expedient, the Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities and lease incentives from lessor by making corresponding adjustments to the relevant right-of-use asset. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non- lease components.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases (continued)

The Group as a lessee (continued)

COVID-19-related rent concessions

In relation to rent concessions that occurred as a direct consequence of the COVID-19 pandemic, the Group has elected to apply the practical expedient not to assess whether the change is a lease modification if all of the following conditions are met:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and

- there is no substantive change to other terms and conditions of the lease.

A lessee applying the practical expedient accounts for changes in lease payments resulting from rent concessions the same way it would account for the changes applying HKFRS 16 if the changes are not a lease modification. Forgiveness or waiver of lease payments are accounted for as variable lease payments. The related lease liabilities are adjusted to reflect the amounts forgiven or waived with a corresponding adjustment recognised in the consolidated profit or loss in the period in which the event occurs.

The Group as a lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Amounts due from lessees under finance leases are recognised as receivables at commencement date at amounts equal to net investments in the leases, measured using the interest rate implicit in the respective leases. Initial direct costs (other than those incurred by manufacturer or dealer lessors) are included in the initial measurement of the net investments in the leases. Interest income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Leases (continued)

The Group as a lessor (continued)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Sublease

When the Group is an intermediate lessor, it accounts for the head lease and the sublease as two separate contracts.

The sublease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

(g) Foreign currency translation

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated profit or loss.

(h) Revenue from contracts with customers

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue from contracts with customers (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue from contracts with customers (continued)

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

i) Revenue from IT infrastructure solutions services

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue from contracts with customers (continued)

ii) Revenue from IT development solutions services

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

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

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

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.

iii) 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.

iv) Trading of 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.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(h) Revenue from contracts with customers (continued)

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group applies the practical expedient of expensing incremental costs to obtain contract if these costs would otherwise have been fully amortised to consolidated profit or loss within one year.

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party.

In this case, the Group controls the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as a principal, it recognises revenue on a gross basis.

(i) Borrowing costs

All borrowing costs are charged to the consolidated profit or loss in the period in which they are incurred.

(j) Income tax

Income tax represents the sum of current and deferred tax.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(j) Income tax (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(k) Other employee benefits

(i) Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administration expenses or to refund to the Group, in accordance with the rules of the MPF Schemes.

The employees of the subsidiaries within the Group which operate in Macau are required to participate in the pension scheme operated by the local municipal government. These subsidiaries are required to contribute a fixed amount to the pension scheme as specified by the local municipal government. The contributions are charged to the consolidated profit or loss as they become payable in accordance with the rules of the pension scheme.

(ii) 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 profit or loss 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 profit or loss.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) 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.

(m) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in consolidated profit or loss.

(n) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Group's parent;

or

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(n) Related parties (continued)

(b) (continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(o) Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

(p) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the nature of production processes, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors of the Company have considered the development, selection and disclosure of the Group's critical accounting judgements and estimates.

Judgements

In the process of applying the Group's accounting policies, the directors of the Company have made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:

Principal versus agent consideration

The Group engages in provision of IT solutions services, IT maintenance and support services and trading of entertainment products. IT solutions services represented IT infrastructure solutions services and IT development solutions services.

The Group concluded that the Group acts as the principal for such transactions as it controls the specified good or service before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the goods and services, the Group has price risk and discretion in establishing the price for the goods and services as well as inventory risk. When the Group satisfies the performance obligation, the Group recognises revenue in gross amount of consideration to which the Group expects to be entitled as specified in contracts. During the year ended 31 December 2020, the Group recognised revenue related to provision of IT infrastructure solutions services of HK$133,268,000 (2019: HK$123,529,000), IT development solutions services of HK$74,586,000 (2019: HK$53,487,000), IT maintenance and support services of HK$27,654,000 (2019: HK$28,590,000) and trading of entertainment products of HK$46,854,000 (2019: HK$10,035,000), respectively.

Revenue recognition from certain provision of IT solutions services which are treated as one performance obligation and over time

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

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Judgements (continued)

Revenue recognition from certain provision of IT solutions services which are treated as one performance obligation and over time (continued)

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

For the revenue from IT solutions services recognised over time, the Group recognised revenue by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. The progress was measured by the percentage of completion, with reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and no profit is recognised. Management reviewed and revised the estimates of contract revenue and contract costs for each contract as the contract progresses. Management used significant judgements 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 judgements are required in determining whether the above mentioned IT solutions services should be treated as one performance obligation and the progress towards complete satisfaction of the performance obligation at the reporting date. The recognition is sensitive to changes in total budget costs. For the year ended 31 December 2020, revenue from the related IT infrastructure solutions services of HK$576,000 (2019: HK$3,053,000) and IT development solutions services of HK$74,586,000 (2019: HK$53,487,000) were recognised over time. The information about the revenue from IT solutions over time is disclosed in Note 7.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Judgements (continued)

Judgement in identifying whether contracts signed with a customer contain a lease

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

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

The customer has exclusive use of the security systems.

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

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

Since the security systems were originally leased by the Group by a 3-year lease contract from a supplier (“head lease”) and re-leased to the above-mentioned customer (“sublessee”), the directors of the Company regarded this as a sublease arrangement (“sublease arrangement”) (see Notes 8, 17, 18 and 27).

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

Useful lives and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic 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. As at 31 December 2020, the carrying amounts of property, plant and equipment of HK$1,224,000 (2019: HK$1,460,000) subject to estimated useful lives and depreciation.

Allowance for expected credit losses for trade and unbilled receivables, finance lease receivables and contract assets

The Group uses a provision matrix to calculate expected credit losses for the trade and unbilled receivables, finance lease receivables and contract assets. The provision rates are based on internal credit ratings (taking into consideration of historical credit loss experience, average actual date of receipt, customers' background, listing status and size as groupings of various debtors). The provision matrix is based on the Group's historical default rates taking into consideration of quantitative and qualitative information and forward-looking information that is reasonable and supportable without undue costs or effort and risk of default. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and unbilled receivables, finance lease receivables and contract assets with significant balances and credit impaired are assessed for expected credit losses individually. The allowance for expected credit losses is sensitive to changes in estimates. The information about the Group's trade and unbilled receivables, finance lease receivables and contract assets and the expected credit losses are disclosed in Notes 19(a), 19(b), 18, 23 and 36(a)(ii), respectively.

Termination date of a life insurance policy

The Group entered into a life insurance policy to insure the Chairman of the Group during the year. The Group estimates the termination date of such life insurance policy is at the end of the twenty-first policy year in 2041. This estimate is based on the assumption that such life insurance policy would only be terminated at the age of the retirement of the Chairman of the Group. The actual retirement age of the Chairman may differ from estimation. Periodic review could result in a change in the amortisation of premium charges on a life insurance policy and imputed interest income from a deposit for a life insurance policy. As at 31 December 2020, the carrying amounts of deposit and prepayments for the life insurance policy are HK$6,907,000 (2019: nil) (Note 20).

6. SEGMENT INFORMATION

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker ("CODM") for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments. No operating segments have been aggregated to form the following reportable segments.

– IT solutions services

  (i) IT infrastructure solutions services: this segment earns revenue in relation to analyses of customers' existing IT infrastructure, procurement of hardware and/or software, installation and testing and integration services.

  (ii) IT development solutions services: this segment earns revenue from designing of IT development solutions to cater to customers' special requirements which involves system analysis and design, software development and technology consultancy.

– IT maintenance and support services: this segment represents ongoing IT maintenance and support services to systems developed by the Group and maintenance and support services on hardware and software purchased or developed from third party suppliers.

– Trading of entertainment products (i,e, consoles and games).

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results

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

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred during the year. The Group's other income and expense items, such as other income, other gains and losses, selling expenses, administrative and general expenses, reversal of/(allowance for) expected credit losses and finance costs, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, depreciation, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2020 is set out below.

	Year ended 31 December 2020				
	IT solutions services				
	IT infrastructure solutions services HK$'000	IT development solutions services HK$'000	IT maintenance and support services HK$'000	Trading of entertainment products HK$'000	Total HK$'000
Reportable segment revenue	133,268	74,586	27,654	46,854	282,362
Reportable segment cost of sales	(115,704)	(57,573)	(17,871)	(43,657)	(234,805)
Reportable segment gross profit	17,564	17,013	9,783	3,197	47,557
Segment revenue	133,268	74,586	27,654	46,854	282,362
Segment result	17,564	17,013	9,783	3,197	47,557
Reconciliation:					
Corporate and unallocated expenses, net					(36,232)
Profit before tax					11,325
Income tax					(1,686)
Profit for the year					9,639

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

	Year ended 31 December 2019				
	IT solutions services				
	IT infrastructure solutions services HK$'000	IT development solutions services HK$'000	IT maintenance and support services HK$'000	Trading of entertainment products HK$'000	Total HK$'000
Reportable segment revenue	123,529	53,487	28,590	10,035	215,641
Reportable segment cost of sales	(101,424)	(45,115)	(21,975)	(9,864)	(178,378)
Reportable segment gross profit	22,105	8,372	6,615	171	37,263
Segment revenue	123,529	53,487	28,590	10,035	215,641
Segment result	22,105	8,372	6,615	171	37,263
Reconciliation:					
Corporate and unallocated expenses, net					(34,579)
Profit before tax					2,684
Income tax					(1,076)
Profit for the year					1,608

(b) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

The geographical information of the Group's revenue from external customers for the year ended 31 December 2020 is set out below.

	2020 HK$'000	2019 HK$'000
Hong Kong	**274,791**	195,505
Macau	**7,571**	19,115
Singapore	**–**	1,021
	282,362	215,641

6. SEGMENT INFORMATION (CONTINUED)

(b) Geographic information (continued)

The geographical information of the Group's non-current assets as at 31 December 2020 is set out below.

	2020 HK$'000	2019 HK$'000
Hong Kong	**2,716**	5,246
Macau	**241**	209
	2,957	5,455

Note: Non-current assets excluded finance lease receivables, deposits and prepayments, deposit and prepayment for a life insurance policy and deferred tax assets.

(c) Information about major customers

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

	2020 HK$'000	2019 HK$'000
Customer A	**38,416**	*
Customer B	**34,083**	*

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

7. REVENUE

(a) Disaggregation of revenue

	2020 HK$'000	2019 HK$'000
Revenue from contract with customers within the scope of HKFRS 15, types of goods or services		
IT solutions services		
IT infrastructure solutions services	**133,268**	123,529
IT development solutions services	**74,586**	53,487
IT maintenance and support services	**27,654**	28,590
Trading of entertainment products	**46,854**	10,035
	282,362	215,641

7. REVENUE (CONTINUED)

(a) Disaggregation of revenue (continued)

Revenue from contract with customers within the scope of HKFRS 15 by timing of revenue recognition:

	IT solutions services									
	IT infrastructure solutions services		IT development solutions services		IT maintenance and support services		Trading of entertainment products		Total	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
At a point in time	**132,692**	120,476	**–**	–	**–**	–	**46,854**	10,035	**179,546**	130,511
Over time	**576**	3,053	**74,586**	53,487	**27,654**	28,590	**–**	–	**102,816**	85,130
	133,268	123,529	**74,586**	53,487	**27,654**	28,590	**46,854**	10,035	**282,362**	215,641

(b) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

For IT infrastructure solutions services and IT development solutions services, as at 31 December 2020, HK$52,225,000 (2019: HK$49,342,000) 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. 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.

8. OTHER INCOME, OTHER GAINS AND LOSSES

	2020 HK$'000	2019 HK$'000
Bank interest income	**178**	329
Finance lease interest income	**283**	–
Gain on finance lease arrangement *(Note (ii))*	**1,563**	–
Foreign exchange gains/(losses), net	**158**	(183)
Imputed interest income from deposit for a life insurance policy	**101**	–
Government grants *(Note (i))*	**5,762**	–
COVID-19 related rent concession *(Note 3(a))*	**83**	–
Sundry income	**26**	2
	8,154	148

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

Note (ii): This mainly arises from derecognition of right-of-use assets under sublease arrangement. Gain arose as the balance of the net investment in the sublease outweighs that of right-of-use assets of the head lease on date of derecognition (see Note 5).

9. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 HK$'000	2019 HK$'000
Interest on lease liabilities *(Note 40)*	**245**	214
Interest on bank borrowings *(Note 40)*	**192**	–
	437	214

10. PROFIT BEFORE TAX

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

	2020 HK$'000	2019 HK$'000
Auditor's remuneration		
– Audit services	**376**	295
– Non-audit services**	**180**	180
Cost of hardware and software recognised as expenses	**140,267**	105,681
Cost of IT solutions services*	**32,459**	40,228
Cost of IT maintenance and support services*	**17,777**	21,947
Cost of inventories recognised as expenses	**43,657**	9,864
Depreciation of property, plant and equipment *(Note 16)*	**735**	723
Loss on write-off of property, plant and equipment	**2**	–
Depreciation of right-of-use assets *(Note 17)*	**2,262**	2,193
Lease payments under short-term leases		
– office premises	**87**	61
Premium charges on a life insurance policy	**129**	–
Provision for onerous contracts, net of reversal#	**645**	658
Retirement fund scheme contributions	**1,850**	1,319
Directors' fee, salaries, allowance and other benefits in kind		
– Directors of the Company *(Note 11)*	**3,002**	3,217
– Other staff*	**49,452**	33,331

* Included in cost of IT solution services and cost of IT maintenance and support services are subcontracting costs and staff costs amounted to HK$31,255,000 (2019: HK$47,164,000) and HK$18,981,000 (2019: HK$15,011,000), respectively, for the year.

\# Included in cost of sales. When it is probable that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, provision for onerous contracts is recognised immediately. The directors of the Company reassessed the sufficiency of the provision at the end of the reporting period.

** Non-audit services represent the agreed-upon procedures provided relating to first quarterly results for the three months ended 31 March 2020, interim results for the six months ended 30 June 2020 and third quarterly results for the nine months ended 30 September 2020 (2019: the agreed-upon procedures provided relating to first quarterly results for the three months ended 31 March 2019, interim results for the six months ended 30 June 2019 and third quarterly results for the nine months ended 30 September 2019).

Note: The Group had no forfeited voluntary contributions available to offset future employer contributions against the pension schemes at the year end.

11. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	2020 **HK$'000**	2019 HK$'000
Directors' fee, salaries, allowance and other benefits in kind	**3,994**	4,177
Retirement fund scheme contributions	**99**	86
Total compensation paid to key management personnel	**4,093**	4,263

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

The following table sets out the remuneration received or receivable by the Company's directors:

For the year ended 31 December 2020:

	Directors' fee HK$'000	**Salaries, allowance and other benefits in kind HK$'000** *(Note (iii))*	**Contribution to defined contribution plan HK$'000**	**Total HK$'000**
Executive directors:				
Yu Pak Lun Larry (Chief executive officer)	–	1,179	30	1,209
Law Cheung Moon (Head of enterprise services)	–	664	22	686
Leung Patrick Cheong Yu (Sales director)	–	972	18	990
Independent non-executive directors:				
Yeung Wai Keung *(Note (viii))*	60	–	–	60
Lam Yau Hin	60	–	–	60
Lam Shun Ka *(Note (iv))*	60	–	–	60
Non-executive director:				
Cheng Kwan Ngai *(Note (vii))*	7	–	–	7
	187	2,815	70	3,072

11. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION (CONTINUED)

For the year ended 31 December 2019:

	Directors' fee HK$'000	Salaries, allowance and other benefits in kind HK$'000 *(Note (iii))*	Contribution to defined contribution plan HK$'000	Total HK$'000
Executive directors:				
Yu Pak Lun Larry				
(Chief executive officer)	–	960	18	978
Law Cheung Moon				
(Head of enterprise services)	–	664	18	682
Leung Patrick Cheong Yu				
(Sales director)	–	918	18	936
Wong Tsun Ho Ian				
(Head of enterprise services)				
(Note (vi))	–	485	14	499
Independent non-executive directors:				
Cheung Wah Kit Jason *(Note (v))*	21	–	–	21
Yeung Wai Keung *(Note (viii))*	60	–	–	60
Lam Yau Hin	60	–	–	60
Lam Shun Ka *(Note (iv))*	49	–	–	49
	190	3,027	68	3,285

Notes:

(i) No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No director waived or agreed to waive any emoluments during the year.

(ii) No share options have been granted, exercised or cancelled, or agreed to be granted during the year.

(iii) Salaries, allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or payable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

(iv) Ms. Lam Shun Ka (formerly known as Lam Yuk Shan) is appointed as the Company's independent non-executive director on 7 March 2019.

(v) Mr. Cheung Wah Kit Jason resigned as an independent non-executive director on 8 May 2019.

(vi) Mr. Wong Tsun Ho Ian resigned as an executive director on 1 October 2019.

(vii) Mr. Cheng Kwan Ngai is appointed as the Company's non-executive director on 20 November 2020.

(viii) Mr. Yeung Wai Keung resigned as an independent non-executive director on 1 March 2021.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Out of the five individuals with the highest emoluments, two for the year ended 31 December 2020 (2019: two), are directors whose emoluments are disclosed in Note 11.

The details of the remuneration for the year of the remaining three (2019: three) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2020 **HK$'000**	2019 HK$'000
Salaries, allowance and other benefits in kind	**3,495**	2,579
Retirement fund scheme contributions	**51**	54
Total	**3,546**	2,633

The number of the highest paid employees who are not the directors of Company whose remuneration fell within the following bands is as follows:

	2020 **No. of** **employees**	2019 No. of employees
Nil to HK$1,000,000	**–**	3
HK$1,000,001 to HK$1,500,000	**3**	–
	3	3

13. INCOME TAX

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

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

Details of income tax are as follows:

	2020 **HK$'000**	2019 HK$'000
Current tax – Hong Kong		
– provision for the year	**1,833**	1,096
– prior year overprovision	**(51)**	(20)
	1,782	1,076
Deferred tax *(Note 31)*	**(96)**	–
	1,686	1,076

13. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the subsidiaries are domiciled to the tax expense at the domestic income tax rate is as follows:

	2020 HK$'000	2019 HK$'000
Profit before tax	**11,325**	2,684
Tax at the domestic income tax rate of 16.5% (2019: 16.5%) *(Note)*	**1,868**	442
Income not subject to tax	**(1,149)**	(49)
Tax effect of deductible differences not recognised	**–**	46
Utilisation of deductible temporary differences not previously recognised	**(36)**	–
Tax effect of expenses that are not deductible in determining taxable profit	**481**	936
Tax effect of tax losses not recognised	**926**	7
Utilisation of tax losses not previously recognised	**(7)**	(2)
Tax effect of two-tiered tax rates	**(165)**	(165)
Effect of tax exemptions granted to Macau Subsidiaries	**(89)**	(79)
Tax effect of different tax rates in other jurisdictions	**(92)**	(30)
Others	**–**	(10)
Prior year overprovision	**(51)**	(20)
	1,686	1,076

Note: The domestic tax rate (which is Hong Kong Profit Tax rate) in the jurisdiction where the operation of the Group is substantially based is used.

At the end of the reporting period, the Group has not recognised deductible temporary differences of nil (2019: HK$220,000) and unused tax losses of HK$5,607,000 (2019: HK$40,000) which are available offset against future profits. No deferred tax asset has been recognised due to the unpredictability of future profit streams. The unrecognised tax losses may be carried forward indefinitely.

14. DIVIDEND

No dividend have been declared or paid by the Company during the year (2019: nil).

15. EARNINGS PER SHARE

	2020 **HK$'000**	2019 HK$'000
Profit and total comprehensive income for the year attributable to the owners of the Company	**10,316**	2,179
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousand)	**800,000**	800,000

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2020 and 2019, respectively as the Group had no potentially dilutive ordinary shares in issue for the relevant years ended. The basic earnings per share equals to the diluted earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Equipment HK$'000	Total HK$'000
Cost				
1 January 2019	1,459	57	2,035	3,551
Additions	–	8	98	106
31 December 2019	1,459	65	2,133	3,657
Additions	47	28	426	501
Written off	–	(3)	–	(3)
31 December 2020	**1,506**	**90**	**2,559**	**4,155**
Accumulated depreciation				
1 January 2019	202	34	1,238	1,474
Depreciation provided for the year	365	8	350	723
31 December 2019	567	42	1,588	2,197
Depreciation provided for the year	366	10	359	735
Written off	–	(1)	–	(1)
31 December 2020	**933**	**51**	**1,947**	**2,931**
Net book value				
31 December 2020	**573**	**39**	**612**	**1,224**
31 December 2019	892	23	545	1,460

17. RIGHT-OF-USE ASSETS

	Security systems HK$'000	Leased properties HK$'000	Total HK$'000
Cost			
At 1 January 2019	–	7,823	7,823
Additions	–	201	201
Modifications	–	508	508
At 31 December 2019	–	8,532	8,532
Addition	7,570	–	7,570
Derecognition upon a sublease arrangement (Note 5)	(7,570)	–	(7,570)
At 31 December 2020	**–**	**8,532**	**8,532**
Accumulated depreciation			
At 1 January 2019	–	2,344	2,344
Depreciation provided for the year	–	2,193	2,193
At 31 December 2019	–	4,537	4,537
Depreciation provided for the year	–	2,262	2,262
At 31 December 2020	**–**	**6,799**	**6,799**
Net Carrying Amount			
At 31 December 2020	**–**	**1,733**	**1,733**
At 31 December 2019	–	3,995	3,995

	2020 HK$'000	2019 HK$'000
Expense relating to short-term leases	**87**	61
Total cash outflow for leases	**3,517**	2,728

17. RIGHT-OF-USE ASSETS (CONTINUED)

For both years, the Group leases various office premises and a director's quarter for its operations. Lease contracts are entered into for fixed term of 12 months to 4 years, but may have extension option as described below. Lease terms are negotiated on an individual basis and contain different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

The Group regularly entered into short-term leases for office premises. As at 31 December 2020 and 2019, the portfolio of short-term leases is similar to the portfolio of short-term leases to which the short-term leases expense disclosed above.

Extension option

The Group has extension option in a lease for a office premise (2019: a office premise). This is used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The extension option held are exercisable only by the Group.

The Group assesses at lease commencement date whether it is reasonably certain to exercise the extension option. The potential exposures to these future lease payments for extension option in which the Group is not reasonably certain to exercise is summarised below:

	Lease liabilities recognised as at 31 December 2020 HK$'000	**Potential future lease payments not included in lease liabilities 31 December 2020 (undiscounted) HK$'000**	Lease liabilities recognised as at 31 December 2019 HK$'000	Potential future lease payments not included in lease liabilities 31 December 2019 (undiscounted) HK$'000
Office premise – Hong Kong	**1,956**	**8,003**	3,832	8,003

In addition, the Group reassesses whether it is reasonably certain to exercise an extension option upon the occurrence of either a significant event or a significant change in circumstances that is within the control of the lessee. During the year ended 31 December 2020, there is no such triggering event (2019: nil).

Rent concessions

During the year ended 31 December 2020, lessor of office premise provided rent concessions to the Group through rent reductions 10% for five months.

These rent concessions occurred as a direct consequence of COVID-19 pandemic and met all of the conditions in HKFRS 16.46B, and the Group applied the practical expedient not to assess whether the changes constitute lease modifications. The effects on changes in lease payments due to forgiveness or waiver by the lessor for the relevant lease of HK$83,000 were recognised as negative variable lease payments.

18. 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 (see Note 5). All interest rates inherent in the leases are fixed at the contract date over the lease terms.

There were no guaranteed residual value and unguaranteed residual value of leased assets and no contingent rent arrangement that needed to be recognised in both periods.

	Minimum lease payments 2020 HK$'000	**Present value of minimum lease payments 2020 HK$'000**	Minimum lease payments 2019 HK$'000	Present value of minimum lease payments 2019 HK$'000
Finance lease receivables comprise:				
Within one year	**5,049**	**4,658**	–	–
In the second year	**5,049**	**4,848**	–	–
In the third year	**2,427**	**2,392**	–	–
	12,525	**11,898**	–	–
Less: unearned finance income	**(627)**	**–**	–	–
Present value of minimum lease payment receivables	**11,898**	**11,898**	–	–
Analysed as:				
Current		**4,658**		–
Non-current		**7,240**		–
		11,898		–

As at 31 December 2020, the interest rates implicit in the above finance leases were 4% (2019: nil) per annum.

Details of impairment assessment are set out in Note 36(a)(ii).

19. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	Notes	**2020** **HK$'000**	2019 HK$'000
Trade receivables	*(a)*	**39,260**	36,943
Unbilled receivables	*(b)*	**40,685**	35,486
Deposits	*(c)*	**5,546**	3,624
Prepayments	*(d)*	**3,011**	11,387
Prepayment for a life insurance policy *(Note 20)*		**160**	–
Others		**208**	601
		88,870	88,041

	2020 **HK$'000**	2019 HK$'000
Analysed as:		
Non-current portion	**2,931**	2,100
Current portion	**85,939**	85,941
	88,870	88,041

(a) Trade receivables

	2020 **HK$'000**	2019 HK$'000
Trade receivables	**47,387**	45,447
Less: allowance for ECL	**(8,127)**	(8,504)
	39,260	36,943

The Group did not hold any collateral as a security of other credit enhancements over the impaired trade receivables.

19. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

(a) Trade receivables (continued)

The following is an aging analysis of trade receivables net of allowance for ECL from third parties presented based on the invoice date at the end of the reporting period:

	2020 HK$'000	2019 HK$'000
0 – 30 days	22,558	30,928
31 – 90 days	8,829	5,236
91 – 180 days	7,148	230
Over 180 days	725	549
	39,260	36,943

The following is an aging analysis of trade receivables net of allowance for ECL from third parties presented based on the due date at the end of the reporting period:

	2020 HK$'000	2019 HK$'000
Neither past due nor impaired	23,937	31,018
Less than 1 month past due	4,273	2,346
1 to 3 months past due	5,400	3,025
3 to 6 months past due	5,012	68
More than 6 months past due	638	486
	39,260	36,943

Details of impairment assessment of trade receivables are set out in Note 36(a)(ii).

(b) Unbilled receivables

	2020 HK$'000	2019 HK$'000
Unbilled receivables	40,797	35,961
Less: allowance for ECL	(112)	(475)
	40,685	35,486

19. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

(b) Unbilled receivables (continued)

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. Details of impairment assessment of unbilled receivables are set out in Note 36(a)(ii).

(c) Deposits

As at 31 December 2020, deposits mainly represent deposit paid to a supplier of HK$1,000,000 (2019: HK$1,000,000), deposit paid for acquisition of property, plant and equipment of HK$2,880,000 (2019: HK$1,600,000) and margin deposits of HK$340,000 (2019: HK$376,000). Margin deposits were pledged to a bank to secure the bank to provide performance guarantee to the Group for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers.

(d) Prepayments

As at 31 December 2020, prepayments mainly represent advances to suppliers for software of HK$1,489,000 (2019: software of HK$2,500,000 and entertainment products of HK$6,000,000).

20. DEPOSIT AND PREPAYMENT FOR A LIFE INSURANCE POLICY

	2020 **HK$'000**	2019 HK$'000
Deposit for a life insurance policy	**3,688**	–
Prepayment for a life insurance policy	**3,219**	–
	6,907	–
Less: current portion of prepayment for a life insurance policy (included in trade and other receivables *(Note 19)*)	**(160)**	–
Amounts included in non-current assets	**6,747**	–
Analysed as		
Current	**160**	–
Non-current	**6,747**	–
	6,907	–

20. DEPOSIT AND PREPAYMENT FOR A LIFE INSURANCE POLICY (CONTINUED)

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

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

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

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

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

As at 31 December 2020, deposit and prepayment for the life insurance policy amount to approximately US$885,000 (equivalent to approximately HK$6,907,000) in aggregate, of which HK$6,747,000 and 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 30.

21. INVENTORIES

	2020 **HK$'000**	2019 HK$'000
Finished goods	**15,303**	3,193

22. DUE FROM/(TO) IMMEDIATE HOLDING COMPANY/NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

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

Details of impairment assessment of these financial assets are set out in Note 36(a)(ii).

23. CONTRACT ASSETS

	2020	2019
	HK$'000	HK$'000
Arising from IT solutions services		
– IT infrastructure solutions services	**3**	29
– IT development solutions services	**24,903**	18,170
Less: allowance for ECL	**(2)**	(5)
	24,904	18,194

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the Group's future performance. The contract assets are transferred to trade receivables or unbilled receivables when the rights become unconditional.

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.

The significant increase in contract assets is resulted from the increase in ongoing IT solutions services at the end of the year.

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

Details of the impairment assessment are set out in Note 36(a)(ii).

24. CASH AND CASH EQUIVALENTS

	2020 HK$'000	2019 HK$'000
Savings accounts	**25,732**	55,206
Current accounts	**10,061**	4,766
Cash on hand	**–***	4
	35,793	59,976

Cash at banks earns interest at floating rates based on daily bank deposit rates.

* *Less than HK$1,000.*

25. 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 31 December 2020	10,000,000,000	100,000

	Share capital HK$'000
Issued and fully paid:	
800,000,000 ordinary shares as at 31 December 2019 and 31 December 2020	8,000

26. RESERVES

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity.

(a) Share premium

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

(b) Other reserve

Other reserve represents the difference between issued share capital of the Company issued during the reorganisation in preparation for the listing pursuant to which the Company became the holding company of the Group, and the aggregate value of the respective share capital/paid-in capital of the companies now comprising the Group and the amount of advances from immediate holding company capitalised.

27. LEASE LIABILITIES

	2020 HK$'000	2019 HK$'000
Lease liabilities payable:		
Within one year	**4,472**	2,393
Within a period of more than one year but not more than two years	**2,560**	2,025
Within a period of more than two years but not more than five years	**1,771**	–
	8,803	4,418
Less: portion classified as current liabilities	**(4,472)**	(2,393)
Non-current liabilities	**4,331**	2,025

Lease obligations that are denominated in HK$.

As at 31 December 2020, lease liabilities mainly represent lease liabilities arising from office premises of HK$2,025,000 (2019: leases liabilities arising from office premises and a director's quarter of HK$4,418,000) and security systems of HK$6,778,000 (2019: nil), respectively. The corresponding right-of-use assets of security systems were derecognised upon the head lease transfers to the sublessee (see Note 5).

The weighted average incremental borrowing rates applied to lease liabilities were 4.44% (2019: 4.28%).

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17.

28. CONTRACT LIABILITIES

	2020 HK$'000	2019 HK$'000
Arising from IT solutions services		
– IT infrastructure solutions services	**93**	1,302
– IT development solutions services	**6,814**	2,972
Arising from IT maintenance and support services	**1,378**	2,398
	8,285	6,672

28. CONTRACT LIABILITIES (CONTINUED)

The following table shows movements in contract liabilities:

	HK$'000
1 January 2019	5,259
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	(4,353)
Increase in contract liabilities as a result of receiving deposits	5,766
31 December 2019	6,672
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	(5,305)
Increase in contract liabilities as a result of receiving deposits	6,918
31 December 2020	**8,285**

	2020 **HK$'000**	2019 HK$'000
Analysed as:		
Non-current portion	**–**	33
Current portion	**8,285**	6,639
	8,285	6,672

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

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

– IT solutions services and IT maintenance and support services contracts

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

29. TRADE AND OTHER PAYABLES AND ACCRUALS

	Notes	2020 HK$'000	2019 HK$'000
Trade payables	*(a)*	**22,559**	17,973
Accrued purchases and service costs	*(b)*	**36,200**	54,256
Other payables and accruals		**3,066**	1,976
		61,825	74,205

(a) Trade payables principally comprise amounts outstanding for purchases and service costs and have an average credit term of 30 days.

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

	2020 HK$'000	2019 HK$'000
0 – 30 days	**13,740**	14,000
31 – 60 days	**7,042**	2,470
61 – 90 days	**1,176**	1,182
Over 90 days	**601**	321
	22,559	17,973

(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.

30. BANK BORROWINGS

	2020			2019		
	Effective contractual interest rate (%)	**Maturity**	**HK$'000**	Effective contractual interest rate (%)	Maturity	HK$'000
Current						
Bank loans – secured	**1.65% to 2.36%**	**2021–2025**	**6,778**	N/A	N/A	–

During the year ended 31 December 2020, the Group has obtained bank borrowings from a bank of HK$24,434,000 (Note 40).

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 HK$6,907,000 (Note 20);

(b) The Company has guaranteed HK$31,000,000 plus interest and other charges relating to the liabilities of the Group.

The bank borrowings carry interests at 1.5% per annum over the London Interbank Offered Rate ("LIBOR") to interest at 2% per annum over the Hong Kong Interbank Offered Rate ("HIBOR"), respectively.

All the bank loan agreement contains a "repayment on demand" clause and therefore, the outstanding balance has been classified as current liabilities.

Details of the repayment schedule in respect of the interest-bearing bank borrowings are as follows:

	2020	2019
	HK$'000	HK$'000
Bank borrowings repayable:		
Within one year or on demand	**3,259**	–
Within a period of more than one year but not exceeding two years	**1,092**	–
Within a period of more than two years but not exceeding five years	**2,427**	–
	6,778	–

31. DEFERRED TAX

The movements in deferred tax assets during the year are as follows:

	Accelerated tax depreciation HK$'000
1 January 2019 and 31 December 2019	–
Deferred tax credit to the consolidated income statement during the year *(Note 13)*	96
31 December 2020	**96**

32. CONTINGENT LIABILITIES

As at 31 December 2020, the margin deposits of the Group amounted to HK$340,000 (2019: HK$376,000). These were pledged to a bank to secure the bank to provide guarantee to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to their customers to whom performance guarantee have been given, such customers may demand the bank to pay them the sum or sum stipulated in such demand. The margin deposits will be forfeited or deducted to compensate the bank accordingly. The margin deposits will be released upon completion of the contract works.

33. RELATED PARTY TRANSACTIONS

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

	2020 **HK$'000**	2019 HK$'000
Employee benefit expense and retirement fund scheme contributions to the spouse of the Chairman	**113**	–

(b) Details of compensation of key management personnel of the Group are included in Note 11.

34. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

	2020 HK$'000	2019 HK$'000
Financial assets		
Amortised cost	**122,060**	134,695
Financial liabilities		
Amortised cost	**39,946**	22,494

35. FINANCIAL INFORMATION OF THE COMPANY

	Notes	**2020 HK$'000**	2019 HK$'000
Assets			
Non-current assets			
Investment in a subsidiary		**36,763**	36,763
Current assets			
Due from immediate holding company		**–***	–*
Due from a subsidiary		**45,846**	47,708
Prepayments		**230**	237
Cash and cash equivalents		**53**	53
		46,129	47,998
Total assets		**82,892**	84,761
Equity and liabilities			
Capital and reserves			
Share capital	*25*	**8,000**	8,000
Reserves	*(a)*	**74,661**	76,576
Total equity		**82,661**	84,576
Current liabilities			
Other payables and accruals		**231**	185
Due to a subsidiary		**–***	–*
Total liabilities		**231**	185
Total equity and liabilities		**82,892**	84,761

* *Less than HK$1,000.*

35. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

(a) Reserves

	Share premium *(Note 26(a))* HK$'000	Other reserve *(Note)* HK$'000	Accumulated losses HK$'000	Total HK$'000
1 January 2019	43,199	36,763	(1,440)	78,522
Loss for the year	–	–	(1,946)	(1,946)
Other comprehensive income for the year	–	–	–	–
Total comprehensive loss for the year	–	–	(1,946)	(1,946)
	43,199	36,763	(3,386)	76,576
31 December 2019 and 1 January 2020	43,199	36,763	(3,386)	76,576
Loss for the year	–	–	(1,915)	(1,915)
Other comprehensive income for the year	–	–	–	–
Total comprehensive loss for the year	–	–	(1,915)	(1,915)
31 December 2020	**43,199**	**36,763**	**(5,301)**	**74,661**

Note: Other reserve represents shareholder's deemed contribution arising from reorganisation in preparation for the listing pursuant to which the Company became the holding company of the Group.

36. FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The Group is exposed to a variety of risks including foreign currency risk, credit risk, liquidity risk and interest rate risk arising in the normal course of the business activities.

The Group does not have any written risk management policies and guidelines. The directors of the Company monitor the financial risk management of the Group and take such measures as considered necessary from time to time to minimise such financial risks.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to foreign currency risk related primarily to income and costs that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("US$") (2019: US$ and Euro ("EUR")). The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates. The Group mitigates this risk by conducting the sales and purchases transactions in the same currency, whenever possible.

In the opinion of the directors of the Company, the rate of exchange of the US$ to the HK$ is reasonably stable under the linked exchange rate system and, accordingly, the Group does not have any significant foreign exchange risk arising from US$.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised monetary assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate.

	Asset	
	2020 **HK$'000**	2019 HK$'000
USD	**9,752**	19,539
EUR	**81**	1,255

	Liabilities	
	2020 **HK$'000**	2019 HK$'000
USD	**4,593**	–

At 31 December 2020, if the HK$ had weakened/strengthened 10% against the USD with all other variables held constant, the Group's profit after tax and equity for the year would have been HK$431,000 (2019: HK$1,632,000) higher/lower, respectively.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(i) Foreign currency risk (continued)

At 31 December 2020, if the HK$ had weakened/strengthened 10% against the EUR with all other variables held constant, the Group's profit after tax and equity for the year would have been HK$7,000 (2019: HK$105,000) higher/lower, respectively.

(ii) Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to finance lease receivables, trade receivables, unbilled receivables, contract assets, other receivables, deposits, deposit for a life insurance policy, amounts due from immediate holding company/non-controlling shareholders of subsidiaries and bank balances. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and other items.

Trade receivables, unbilled receivables, finance lease receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other receivables, deposits and deposit for a life insurance policy

The directors of the Company make periodic individual assessment on the recoverability of other receivables, deposit for a life insurance policy, deposits to suppliers and other deposits based on past experience, and also quantitative and qualitative information that is reasonable and supportive forward-looking information. The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. The credit risks on the deposits and deposit for a life insurance policy as at 31 December 2020 are limited because the directors of the Company consider that the credit risk can be reduced because: (1) the counterparty where the deposit for a life insurance policy of HK$3,688,000 (2019: nil) and marginal deposit of HK$340,000 (2019: HK$376,000), are placed in a life insurance and general insurance operating entity/a bank with high credit ratings assigned by international credit – rating agencies (2) the directors of the Company consider the financial position of the counterparties where the deposits of HK$1,500,000 (2019: HK$1,500,000) are placed and consider that the credit risk is low.

The Group assessed the ECL for the remaining balances of other receivables and deposits were insignificant and thus no loss allowance was recognised.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

Due from immediate holding company/non-controlling shareholders of subsidiaries

The Group regularly monitors the business performance of the immediate holding company and non-controlling shareholders of subsidiaries. The directors of the Company believe that there is no significant increase in credit risk of these amounts since initial recognition and the Group provided impairment based on 12-month ECL. The balance of amount due from immediate holding company is considered to be insignificant while the Group's credit risks in the amounts due from non-controlling shareholders of subsidiaries are mitigated through the value of the assets held by these non-controlling shareholders and the power to participate the relevant activities of the respective subsidiaries. For the year ended 31 December 2020 and 2019, the Group assessed the ECL for amounts due from immediate holding company and non-controlling shareholders of subsidiaries are insignificant and thus no loss allowance was recognised.

Bank balances

The credit risks on bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries.

The Group's internal credit risk grading assessment comprises the following categories:

Types of customer	Internal credit rating	Description	Trade receivables/ unbilled receivables/ finance lease receivables/ contract assets	Other financial assets/other items
Public sector	Low risk	The counterparty has a low risk of default	Lifetime ECL – provision matrix	12-month ECL
Private sector – listed companies – private companies	Watch list	Debtor frequently repays after due dates but usually settle in full	Lifetime ECL – provision matrix	12-month ECL
Private sector – listed companies – private companies	Loss	There is evidence indicating the asset is credit impaired	Lifetime ECL – credit impaired	Lifetime ECL – credit impaired
Private sector – listed companies – private companies	Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets and other items, which are subject to ECL assessment:

	Notes	**Internal credit rating**	**12-month or lifetime ECL**	**2020 Gross carrying amount HK$'000**	**HK$'000**	2019 Gross carrying amount HK$'000	HK$'000
Financial assets at amortised costs							
Due from immediate holding company	*22*	*(Note 1)*	12-month ECL		**17**		8
Due from non-controlling shareholders of subsidiaries	*22*	*(Note 1)*	12-month ECL		**243**		258
Trade receivables	*19(a)*	*(Note 2)*	Lifetime ECL (provision matrix)	**39,508**		37,568	
			Lifetime ECL (credit impaired)	**7,879**	**47,387**	7,879	45,447
Unbilled receivables	*19(b)*	*(Note 2)*	Lifetime ECL (provision matrix)		**40,797**		35,961
Other receivables	*19*	*(Note 1)*	12-month ECL		**208**		–
Deposits	*19*	*(Note 1)*	12-month ECL		**2,166**		2,024
Deposit for a life insurance policy	*20*	*(Note 1)*	12-month ECL		**3,688**		–
Cash and cash equivalents	*24*	*(Note 3)*	12-month ECL		**35,793**		59,976
Other items							
Contract assets	*23*	*(Note 2)*	Lifetime ECL (provision matrix)		**24,906**		18,199
Finance lease receivables	*18*	*(Note 2)*	Lifetime ECL (provision matrix)		**11,898**		–

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

Notes:

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

2020

	Past due HK$'000	Repayable on demand HK$'000	Total HK$'000
Due from immediate holding company	–	17	17
Due from non-controlling shareholders of subsidiaries	–	243	243
Other receivables	–	208	208
Deposits	–	2,166	2,166
Deposit for a life insurance policy	–	3,688	3,688

2019

	Past due HK$'000	Repayable on demand HK$'000	Total HK$'000
Due from immediate holding company	–	8	8
Due from non-controlling shareholders of subsidiaries	–	258	258
Deposits	–	2,024	2,024

No allowance for ECL is made for amounts due from immediate holding company and non-controlling shareholders of subsidiaries, other receivables, deposits and deposit for a life insurance policy for the year ended 31 December 2020 (2019: nil).

2. For trade receivables, unbilled receivables, finance lease receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

   As part of the Group's credit risk management, the Group uses internal credit rating to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables, unbilled receivables, finance lease receivables and contract assets which are assessed based on provision matrix as at 31 December 2020 within lifetime ECL (not credit impaired). Credit-impaired debtor with gross carrying amounts of HK$7,879,000 (2019: HK$7,879,000) as at 31 December 2020 is assessed individually.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

Notes: (continued)

2. (continued)

Trade receivables, unbilled receivables, finance lease receivables and contract assets as at 31 December 2020

Internal credit rating	Average loss rate	Gross HK$'000	Loss allowance HK$'000
Public sector (low risk)	**0%**	**48,946**	**–**
Private sector (watch list)			
– listed companies	**0.3%**	**49,523**	**147**
– private companies	**1.2%**	**18,640**	**215**
Private sector (loss) – private company*	**100%**	**7,879**	**7,879**
		124,988	**8,241**

Trade receivables, unbilled receivables and contract assets as at 31 December 2019

Internal credit rating	Average loss rate	Gross HK$'000	Loss allowance HK$'000
Public sector (low risk)	0%	36,376	–
Private sector (watch list)			
– listed companies	2%	32,868	658
– private companies	2%	22,484	447
Private sector (loss) – private company*	100%	7,879	7,879
		99,607	8,984

The estimated loss rates are estimated based on internal credit ratings (taking into consideration of historical credit loss experience, average actual date of receipt, customers' background, listing status and size as groupings of various debtors) and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

* The Group has made 100% allowance for ECL in respect of this credit-impaired debtor in prior years.

3. Bank balances

Credit risk on bank balances is limited because the counterparties are reputable banks with high credit ratings assigned by international credit agencies. The Group assessed 12-month ECL for bank balances by reference to information relating to probability of default and loss given default of the respective credit rating grades published by external credit rating agencies. Based on the average loss rates, the 12-month ECL on bank balances is considered to be insignificant.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

Notes: (continued)

4. Total allowance for ECL

	2020 HK$'000	2019 HK$'000
At 1 January	**8,984**	8,425
Add: Impairment loss		
– Trade receivables	**247**	714
– Unbilled receivables	**107**	475
– Contract assets	**2**	5
Less: Impairment loss reversed		
– Trade receivables	**(624)**	(58)
– Unbilled receivables	**(470)**	(476)
– Contract assets	**(5)**	(11)
Less: Write-offs		
– Trade receivables – credit-impaired debtor	**–**	(90)
At 31 December	**8,241**	8,984

During the year ended 31 December 2020, the Group has made HK$247,000 (2019: HK$714,000), HK$107,000 (2019: HK$475,000) and HK$2,000 (2019: HK$5,000) impairment allowance ECL for trade receivables, unbilled receivables and contract assets, respectively, based on the lifetime provision matrix. Reversal of allowance for ECL of HK$624,000 (2019: HK$58,000), HK$470,000 (2019: HK$476,000) and HK$5,000 (2019: HK$11,000) for trade receivables, unbilled receivables and contract assets was made, respectively, based on the lifetime provision matrix during the year ended 31 December 2020.

(iii) 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 following table details the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(iii) Liquidity risk (continued)

	2020				
	Weighted average interest rate	**Within 1 year/ on demand HK$'000**	**Over 1 year HK$'000**	**Total undiscounted cash flows HK$'000**	**Carrying amount HK$'000**
Bank borrowings	**1.87%**	**6,955**	**–**	**6,955**	**6,778**
Due to non-controlling shareholders of subsidiaries	**–**	**1,684**	**–**	**1,684**	**1,684**
Lease liabilities	**4.44%**	**4,763**	**4,487**	**9,250**	**8,803**
Trade and other payables	**–**	**22,681**	**–**	**22,681**	**22,681**
		36,083	**4,487**	**40,570**	**39,946**

	2019				
	Weighted average interest rate	Within 1 year/ on demand HK$'000	Over 1 year HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Lease liabilities	4.28%	2,535	2,071	4,606	4,418
Trade and other payables	–	18,076	–	18,076	18,076
		20,611	2,071	22,682	22,494

Bank loans with a repayment on demand clause are included in the "Within 1 year/on demand" time band in the above maturity analysis. As at 31 December 2020, the aggregate carrying amounts of these bank loans amounted to HK$6,778,000 (2019: nil). Taking into account the Group's financial position, the directors of the Company do not believe that it is probable that the bank will exercise its discretionary rights to demand immediate repayment. The directors of the Company believe that the bank loans will be repaid 5 years after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreement, details of which are set out in the table below:

Maturity analysis – Bank loans with a repayment on demand clause based on scheduled repayments

	Less than 1 year HK$'000	**1–2 years** HK$'000	**2–5 years** HK$'000	**Over 5 years** HK$'000	**Total undiscounted cash flows** HK$'000	**Carrying amount** HK$'000
31 December 2020	**3,339**	**1,143**	**2,473**	**–**	**6,955**	**6,778**
31 December 2019	–	–	–	–	–	–

36. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's variable-rate deposit for a life insurance policy, bank balances and long term bank loans with floating interest rates. The Group is exposed to fair value interest rate risk in relation to finance lease receivables and lease liabilities.

If interest rates on deposit for a life insurance policy and bank balances had been 100 basis points higher and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2020 would increase by approximately HK$330,000 (2019: HK$501,000).

If interest rates on bank borrowings had been 100 basis points higher and all other variables were held constant, the Group's profit after tax for the year ended 31 December 2020 would decrease by approximately HK$57,000 (2019: nil).

37. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes bank borrowings, less cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and raise of new borrowings or the repayment of existing debt.

38. CAPITAL COMMITMENTS

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

	2020 **HK$'000**	2019 HK$'000
Contracted for, but not provided for:		
Acquisition of equipment	**320**	1,600

39. RECLASSIFICATION OF COMPARATIVE FIGURES

Certain amounts reflected in the previous year's consolidated financial statements have been reclassified to conform with the current year's presentation.

	Other income, other gains and losses HK$'000	**Administrative and general expenses** HK$'000
For the year ended 31 December 2019		
As previously stated	331	(27,976)
Reclassification (i)	(183)	183
As restated	148	(27,793)

(i) The Group reclassified foreign exchange losses, net of HK$183,000 from "administrative and general expenses" to "other income, other gains and losses" for the year ended 31 December 2019 in order to conform with the current year's presentation.

40. CASH FLOW INFORMATION

Reconciliation of liabilities from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Lease liabilities HK$'000 *(Note 27)*	**Bank borrowings** HK$'000 *(Note 30)*	**Total** HK$'000
At 31 December 2018	–	–	–
Adjustment upon application of HKFRS 16	6,162	–	6,162
As at 1 January 2019 (restated)	6,162	–	6,162
Changes from financing cash flows:			
Repayments of lease liabilities			
– Principal portion	(2,453)	–	(2,453)
– Interest portion	(214)	–	(214)
Total change from financing cash flows	(2,667)	–	(2,667)
Other changes:			
Increase in lease liabilities from entering into new lease during the year *(Note 17)*	201	–	201
Lease modification *(Note 17)*	508	–	508
Interest on lease liabilities *(Note 9)*	214	–	214
Total non-cash changes	923	–	923
At 31 December 2019	4,418	–	4,418
Changes from financing cash flows:			
Proceeds from bank loans *(Note 30)*	–	24,434	24,434
Repayment of bank loans	–	(17,656)	(17,656)
Borrowing cost paid	–	(192)	(192)
Repayments of lease liabilities			
– Principal portion	(3,185)	–	(3,185)
– Interest portion	(245)	–	(245)
Total change from financing cash flows	(3,430)	6,586	3,156
Other changes:			
Increase in lease liabilities from entering into new lease during the year *(Note 17)*	7,570	–	7,570
Interest expenses *(Note 9)*	–	192	192
Interest on lease liabilities *(Note 9)*	245	–	245
Total other changes	7,815	192	8,007
At 31 December 2020	**8,803**	**6,778**	**15,581**

41. EVENTS AFTER THE REPORTING PERIOD

On 21 December 2020, the Group entered into the agreement with the vendor, independent third party, pursuant to which the Group has conditionally agreed to acquire, and the vendor has conditionally agreed to sell, all the rights owned by the vendor in respect of worldwide exclusive agency sales and after-sales services (except Taiwan) of indoor and outdoor factory and other venues LED lighting design and products with a term of 15 years ("Exclusive LED Products Agency Selling Rights"), at the consideration of HK$48,000,000. The consideration shall be satisfied by the issue of the convertible bonds to the vendor.

After the end of the reporting period, all conditions precedent under the agreement have been fulfilled and the completion took place on 1 February 2021. Upon completion, the Group acquired the Exclusive LED Products Agency Selling Rights and issued zero coupon convertible bonds with a maturity date of 5 years from the date of issue of the convertible bonds, in an aggregate principal amount of HK$48,000,000 at the conversion price of HK$0.3 (subject to adjustment) to the vendor. Assuming the Conversion rights are exercised in full at the conversion price, a total of 160,000,000 new shares, being the conversion shares, will be allotted and issued to the vendor of the Exclusive LED Products Agency Selling Rights, representing approximately 20% of the issued capital of the Company as at the date of issuance and approximately 16.67% of the issued share capital of the Company as enlarged by the issue and allotment of the conversion shares. Up to the date of financial statements, these shares are not yet converted by the vendor.

42. NEW AND AMENDMENTS TO HKFRSS ISSUED BUT NOT YET EFFECTIVE

The Group has not applied the following new and amendments to HKFRSs, which have been issued but are not yet effective, in these consolidated financial statements:

HKFRS 17	Insurance Contracts and the related Amendments[1]
Amendments to HKFRS 3	Reference to the Conceptual Framework[2]
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	Interest Rate Benchmark Reform – Phase 2[3]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1	Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)[1]
Amendments to HKAS 16	Property, Plant and Equipment – Proceeds before Intended Use[2]
Amendments to HKAS 37	Onerous Contracts – Cost of Fulfilling a Contract[2]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2018–2020[2]

1 Effective for annual periods beginning on or after 1 January 2023.

2 Effective for annual periods beginning on or after 1 January 2022.

3 Effective for annual periods beginning on or after 1 January 2021.

4 Effective for annual periods beginning on or after a date to be determined.

The directors of the Company anticipate that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:

Name of the company	Place of incorporation/ establishment	Particulars of issued and fully paid-up share capital/registered capital	Attributable equity interest		Principal activities
			2020	2019	
Directly held					
Kinetix Limited*	British Virgin Islands	US$2	**100%**	100%	Investment holding
Indirectly held					
Kinetix Systems Limited	Hong Kong	HK$10,000	**100%**	100%	IT solutions and IT maintenance and supporting services
Rise Talent Limited*	Hong Kong	HK$10,000	**100%**	100%	Trading of entertainment products
Kinetix Information Systems (Macao) Limited*	Macau	MOP100,000	**51%**	51%	IT infrastructure solutions and IT maintenance and supporting services
D&C Consulting Company Ltd.*	Macau	MOP30,000	**51%**	51%	IT solutions and IT maintenance and supporting services
VizionX Limited* *(Note (a))*	Hong Kong	HK$100	**51%**	51%	IT solutions and IT maintenance and supporting services
Digital Plus Asia Limited* *(Note (b))*	Hong Kong	HK$100	**51%**	51%	IT solutions services and trading of entertainment products
Kisoforce Limited* *(Note (c))*	Hong Kong	HK$100	**51%**	51%	IT solutions and IT maintenance and supporting services

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

Name of the company	Place of incorporation/ establishment	Particulars of issued and fully paid-up share capital/registered capital	Attributable equity interest		Principal activities
			2020	2019	
Vizoforce Limited* *(Note (d))*	Hong Kong	HK$100	**70%**	N/A	IT solutions and IT maintenance and supporting services
Shanghai Kinetix Systems Company Limited* *(Note (e))*	The People's Republic of China	US$2,000,000	**N/A**	N/A	IT solutions and IT maintenance and supporting services

Notes:

(a) This subsidiary is established on 4 October 2019.

(b) This subsidiary is established on 10 October 2019.

(c) This subsidiary is established on 1 November 2019.

(d) This subsidiary is established on 17 February 2020.

(e) This subsidiary is established on 22 February 2021.

* Companies not audited by Moore Stephens CPA Limited or member firms of Moore Global Network Limited.

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

Name of subsidiaries	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	
		2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
D&C Consulting Company Ltd.	Macau	**49%**	49%	**865**	18	**–**	–	**890**	25
VizionX Limited	Hong Kong	**49%**	49%	**(752)**	105	**–**	–	**(647)**	105
Digital Plus Asia Limited	Hong Kong	**49%**	49%	**463**	(20)	**–**	–	**443**	(20)
Kisoforce Limited	Hong Kong	**49%**	49%	**(1,207)**	(982)	**–**	–	**(2,189)**	(982)
				(631)	(879)	**–**	–	**(1,503)**	(872)

43. PARTICULARS OF SUBSIDIARIES OF THE COMPANY (CONTINUED)

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

	D&C Consulting Company Ltd.		VizionX Limited		Digital Plus Asia Limited		Kisoforce Limited	
	2020 HK$'000	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000	**2020 HK$'000**	2019 HK$'000
Non-current assets	**240**	209	**–**	–	**89**	–	**–**	–
Current assets	**4,130**	742	**1,392**	5,708	**18,381**	7,055	**1,379**	–*
Current liabilities	**(2,553)**	(831)	**(2,712)**	(5,493)	**(17,566)**	(7,095)	**(5,846)**	(2,005)
Non-current liabilities	**–**	(69)	**–**	–	**–**	–	**–**	–
Net assets/(liabilities)	**1,817**	51	**(1,320)**	215	**904**	(40)	**(4,467)**	(2,005)
Revenue	**17,087**	2,649	**1,101**	5,576	**44,691**	979	**3,897**	–
Other income	**73**	–*	**162**	–	**561**	–	**1,080**	–
Expenses	**(15,238)**	(2,612)	**(2,798)**	(5,296)	**(44,117)**	(1,019)	**(7,440)**	(2,005)
Tax charge	**(156)**	–	**–**	(65)	**(191)**	–	**–**	–
Profit/(loss) for the year	**1,766**	37	**(1,535)**	215	**944**	(40)	**(2,463)**	(2,005)
Total comprehensive income/(loss) for the year	**1,766**	37	**(1,535)**	215	**944**	(40)	**(2,463)**	(2,005)
Net cash inflow/(outflow) from operating activities	**3,579**	(172)	**578**	–	**4,976**	–	**83**	–
Net cash (outflow)/inflow from investing activities	**(2,780)**	478	**–**	–	**(100)**	–	**–**	–
Net cash outflow from financing activities	**(106)**	(35)	**–**	–	**–**	–	**–**	–
Net cash inflow	**693**	271	**578**	–	**4,876**	–	**83**	–

* *Less than HK$1,000.*

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December				
	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	**2020** **HK$'000**
Revenue	184,247	180,970	193,518	215,641	**282,362**
Profit/(loss) before tax	21,462	8,054	(7,193)	2,684	**11,325**
Income tax	(4,265)	(2,069)	(1,829)	(1,076)	**(1,686)**
Profit/(loss) for the year	17,197	5,985	(9,022)	1,608	**9,639**
Attributable to:					
Owners of the Company	17,197	5,985	(9,008)	2,179	**10,316**
Non-controlling interests	–	–	(14)	(571)	**(677)**
	17,197	5,985	(9,022)	1,608	**9,639**

ASSETS AND LIABILITIES

	As at 31 December				
	2016 HK$'000	2017 HK$'000	2018 HK$'000	2019 HK$'000	**2020** **HK$'000**
Total assets	85,579	115,340	162,719	175,125	**186,828**
Total liabilities	(41,012)	(70,788)	(75,944)	(86,862)	**(88,926)**
	44,567	44,552	86,775	88,263	**97,902**
Equity attributable to owners of the Company	44,567	44,552	86,743	88,802	**99,118**
Non-controlling interests	–	–	32	(539)	**(1,216)**
	44,567	44,552	86,775	88,263	**97,902**