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KINETIX SYSTEMS HOLDINGS LIMITED

健冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2019

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

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

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

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Kinetix Systems Holdings Limited (the “**Company**”) is pleased to announce the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “**Group**”) for the six months ended 30 June 2019, together with the unaudited comparative figures for the corresponding period in 2018 as follows:–

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

For the three months and six months ended 30 June 2019

		Three months ended 30 June		Six months ended 30 June	
		2019	2018	2019	2018
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	5	38,235	39,590	89,897	88,849
Cost of sales		<u>(27,506)</u>	<u>(31,005)</u>	<u>(67,787)</u>	<u>(67,559)</u>
Gross profit		10,729	8,585	22,110	21,290
Other income	5	29	20	52	3
Selling expenses		(1,732)	(1,183)	(3,124)	(2,373)
Administrative and general expenses		(7,063)	(6,406)	(12,451)	(12,913)
Reversal of/(allowance for) expected credit losses		445	(330)	445	(330)
Listing expenses		–	(7,801)	–	(8,399)
Finance costs		(72)	–*	(118)	–*
Profit/(loss) before tax	6	2,336	(7,115)	6,914	(2,722)
Income tax	8	(517)	(445)	(1,211)	(993)
Profit/(loss) for the period		1,819	(7,560)	5,703	(3,715)
Other comprehensive income		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive income/(loss) for the period		<u>1,819</u>	<u>(7,560)</u>	<u>5,703</u>	<u>(3,715)</u>
Attributable to:–					
Owners of the Company		1,919	(7,560)	5,722	(3,715)
Non-controlling interests		(100)	–	(19)	–
Total comprehensive income/(loss) for the period		<u>1,819</u>	<u>(7,560)</u>	<u>5,703</u>	<u>(3,715)</u>
		HK cents	HK cents	HK cents	HK cents
Earnings/(loss) per share					
– Basic and diluted	10	<u>0.24</u>	<u>(1.26)</u>	<u>0.72</u>	<u>(0.62)</u>

* Less than HK\$1,000.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019

	Notes	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	11	1,747	2,077
Right-of-use assets		4,393	–
Deposits		500	500
		<u>6,640</u>	<u>2,577</u>
<i>Current assets</i>			
Due from immediate holding company	12	–*	–*
Due from non-controlling interests	12	287	31
Trade and other receivables and prepayments	13	62,900	87,505
Contract assets	14	12,846	9,192
Cash and cash equivalents		73,382	63,414
		<u>149,415</u>	<u>160,142</u>
Total assets		<u><u>156,055</u></u>	<u><u>162,719</u></u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	17	8,000	8,000
Reserves		84,345	78,743
		<u>92,345</u>	<u>86,743</u>
Equity attributable to owners of the Company		92,345	86,743
Non-controlling interests		13	32
Total equity		<u>92,358</u>	<u>86,775</u>
<i>Non-current liabilities</i>			
Lease liabilities		2,904	–
<i>Current liabilities</i>			
Trade and other payables and accruals	15	44,247	69,717
Contract liabilities	14	12,738	5,259
Lease liabilities		2,105	–
Current tax payable		1,703	968
		<u>60,793</u>	<u>75,944</u>
Total liabilities		<u>63,697</u>	<u>75,944</u>
Total equity and liabilities		<u><u>156,055</u></u>	<u><u>162,719</u></u>

* Less than HK\$1,000.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018 (audited)	–*	–	10	44,542	44,552	–	44,552
Loss for the period	–	–	–	(3,715)	(3,715)	–	(3,715)
Other comprehensive income for the period	–	–	–	–	–	–	–
Total comprehensive loss for the period	–	–	–	(3,715)	(3,715)	–	(3,715)
At 30 June 2018 (unaudited)	–*	–	10	40,827	40,837	–	40,837
At 1 January 2019 (audited and as previously reported)	8,000	43,199	10	35,534	86,743	32	86,775
Impact on initial application of HKFRS 16 (Note 3)	–	–	–	(120)	(120)	–	(120)
At 1 January 2019 (unaudited and restated)	8,000	43,199	10	35,414	86,623	32	86,655
Profit for the period	–	–	–	5,722	5,722	(19)	5,703
Other comprehensive income for the period	–	–	–	–	–	–	–
Total comprehensive income for the period	–	–	–	5,722	5,722	(19)	5,703
At 30 June 2019 (unaudited)	8,000	43,199	10	41,136	92,345	13	92,358

* Less than HK\$1,000.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Six months ended 30 June	
	2019	2018
	(Unaudited) HK\$'000	(Unaudited) HK\$'000
Net cash generated from/(used in) operating activities	10,007	(1,826)
Net cash used in investing activity	(39)	(1,141)
Net cash used in financing activity	—*	—*
Net increase/(decrease) in cash and cash equivalents	9,968	(2,967)
Cash and cash equivalents at beginning of the period	63,414	34,676
Cash and cash equivalents at end of the period	<u>73,382</u>	<u>31,709</u>

* Less than HK\$1,000.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. GENERAL

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

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

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2019 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). The principal accounting policies used in preparing the unaudited interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2018.

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

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

New and Amendments to HKFRSs that are mandatorily effective for the current period

The Group has applied the following new and amendments to HKFRSs issued by HKICPA for the first time in the current period:–

HKFRS 16	Leases
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015–2017 Cycle

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are same as those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2018, except for the new and revised HKFRSs and interpretations issued by HKICPA that are first effective for the current accounting period of the Group. There has been no significant change to the accounting policy applied in these unaudited interim condensed consolidated financial statements for the period presented as a result of adoption of these amendments, except for the adoption of HKFRS 16 "Leases".

HKFRS 16 Leases

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

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

HKFRS 16 Leases (Continued)

Before the adoption of HKFRS 16, commitments under operating leases for future periods were not recognised by the Group as liabilities. Operating lease expenses were recognised in the consolidated statement of comprehensive income over the lease period on a straight-line basis.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 “Leases”. These liabilities were measured at the present value of the remaining lease payments, discounted using the Group’s incremental borrowing rate as of 1 January 2019. The weighted average Group’s incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.12%.

Right-of-use assets are measured at their carrying amount as if HKFRS 16 had been applied since the commencement date, discounted using the Group’s incremental borrowing rate at the date of initial application.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset’s useful life and the lease term on a straight-line basis.

On transition of HKFRS 16, the Group recognised right-of-use assets and lease liabilities, with difference recognised in retained profits on 1 January 2019. The impact of such on transition is summarised below:–

Consolidated Statement of Financial Position

	As at 1 January 2019 HK\$’000
Increase in right-of-use assets	5,479
Decrease in trade and other payables and accruals	(563)
Increase in lease liabilities	6,162
Decrease in retained profits	(120)
	<u> </u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

4. SEGMENT INFORMATION

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

Geographical information

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	33,833	39,587	81,617	88,066
Macau	4,014	3	7,699	783
Singapore	388	–	581	–
	<u>38,235</u>	<u>39,590</u>	<u>89,897</u>	<u>88,849</u>

Information about major customers

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Customer A	6,995	4,326	*	*
Customer B	*	4,373	*	*
Customer C	4,772	*	*	*

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

5. REVENUE AND OTHER INCOME

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	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	26,181	21,884	51,275	51,215
IT development solutions services	5,593	10,895	24,685	23,359
IT maintenance and support services	6,461	6,811	13,937	14,275
	<u>38,235</u>	<u>39,590</u>	<u>89,897</u>	<u>88,849</u>

(a) Information about segment revenue

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

	For the three months ended 30 June 2019			
	IT solutions services			
	IT infrastructure solutions services	IT development solutions services	IT maintenance and support services	Total
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	24,221	–	–	24,221
Over time	1,960	5,593	6,461	14,014
	<u>26,181</u>	<u>5,593</u>	<u>6,461</u>	<u>38,235</u>
Revenue from external customers	<u>26,181</u>	<u>5,593</u>	<u>6,461</u>	<u>38,235</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

5. REVENUE AND OTHER INCOME (CONTINUED)

(a) Information about segment revenue (Continued)

	For the three months ended 30 June 2018			
	IT solutions services			
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	21,539	–	–	21,539
Over time	345	10,895	6,811	18,051
Revenue from external customers	21,884	10,895	6,811	39,590

	For the six months ended 30 June 2019			
	IT solutions services			
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	48,400	–	–	48,400
Over time	2,875	24,685	13,937	41,497
Revenue from external customers	51,275	24,685	13,937	89,897

	For the six months ended 30 June 2018			
	IT solutions services			
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	48,448	–	–	48,448
Over time	2,767	23,359	14,275	40,401
Revenue from external customers	51,215	23,359	14,275	88,849

Other income

The balance mainly represents bank interest income and sundry income for the six months ended 30 June 2019 and 30 June 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

6. PROFIT/(LOSS) BEFORE TAX

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration:–				
– Non-audit services				
current period provision	60	58	120	58
prior period (over)/under provision	(2)	–	–	15
Cost of hardware and software recognised as expenses	19,405	18,580	38,363	39,968
Cost of IT solutions services*	3,103	6,417	19,632	17,958
Cost of IT maintenance and support services*	4,752	6,008	9,546	9,633
Depreciation of property, plant and equipment	186	64	369	120
Depreciation of right-of-use assets	543	–	1,086	–
Loss on write-off of property, plant and equipment (Note 11)	–	2	–	52
Foreign exchange differences, net	4	(18)	12	1
Minimum lease payments under operating leases				
– Office premises	5	456	5	1,105
– Director's quarter	–	135	–	270
Provision for onerous contracts [#]	246	–	246	–
(Reversal of)/allowance for expected credit losses (Note 13)	(445)	330	(445)	330
Retirement fund scheme contributions (included in staff costs below)	318	318	641	627
Employee benefit expense (excluding compensation of key management personnel (Note 7))				
– Wages and salaries (including retirement fund contributions)	8,596	8,270	16,250	15,504

* Included in the above costs are subcontracting costs amounting to HK\$8,863,000, HK\$21,262,000, HK\$4,472,000 and HK\$21,872,000 for the three months and six months ended 30 June 2018 and 30 June 2019, respectively.

[#] Included in cost of sales.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors' fee	50	–	100	–
Short-term employee benefits	1,018	1,515	1,873	2,940
Post-employment benefits	23	32	45	63
	<u>1,091</u>	<u>1,547</u>	<u>2,018</u>	<u>3,003</u>
Total compensation paid to key management personnel	<u>1,091</u>	<u>1,547</u>	<u>2,018</u>	<u>3,003</u>

8. INCOME TAX

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax	517	445	1,168	993
Prior year underprovision	–	–	43	–
	<u>517</u>	<u>445</u>	<u>1,211</u>	<u>993</u>
	<u>517</u>	<u>445</u>	<u>1,211</u>	<u>993</u>

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

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2019 (30 June 2018: Nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

10. EARNINGS/(LOSS) PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2019	2018	2019	2018
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Profit/(loss) and total comprehensive income/(loss) for the period attributable to the owners of the Company	<u>1,919</u>	<u>(7,560)</u>	<u>5,722</u>	<u>(3,715)</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share (in thousands)	<u>800,000</u>	<u>600,000</u>	<u>800,000</u>	<u>600,000</u>

The number of ordinary shares for the purpose of calculating basic earnings/(loss) per share has been determined on the assumption that the capitalisation issue disclosed in the prospectus dated 30 June 2018 (the “**Prospectus**”) that had been effective on 1 January 2018.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the three months and six months ended 30 June 2019 and 30 June 2018 as the Group had no potentially dilutive ordinary shares in issue for the relevant periods ended. The basic earnings/(loss) per share equals to the diluted earnings/(loss) per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired items of property, plant and equipment with cost of approximately HK\$39,000 (six months ended 30 June 2018: HK\$1,141,000). No property, plant and equipment were written off during the six months ended 30 June 2019 (six months ended 30 June 2018: cost of approximately HK\$278,000 were written off, resulting in loss of approximately HK\$52,000).

12. DUE FROM IMMEDIATE HOLDING COMPANY/NON-CONTROLLING INTERESTS

The amounts due from immediate holding company and non-controlling interests are non-trade in nature, unsecured, interest-free and repayable on demand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

		As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
	Notes		
Trade receivables	(a)	23,121	38,904
Unbilled receivables	(b)	19,766	42,731
Deposits		3,414	3,889
Prepayments		3,629	1,520
Payment in advance		13,470	961
		<u>63,400</u>	<u>88,005</u>
Analysed as:–			
Non-current portion		500	500
Current portion		<u>62,900</u>	<u>87,505</u>
		<u>63,400</u>	<u>88,005</u>

(a) Trade receivables

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Trade receivables	31,085	46,842
Less: allowance for expected credit losses	<u>(7,964)</u>	<u>(7,938)</u>
	<u>23,121</u>	<u>38,904</u>

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

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
0–30 days	10,623	27,774
31–90 days	8,765	10,174
91–180 days	3,656	880
Over 180 days	<u>77</u>	<u>76</u>
	<u>23,121</u>	<u>38,904</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(a) Trade receivables (continued)

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

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
At beginning of the period/year	(7,938)	–
Expected credit losses recognised	<u>(26)</u>	<u>(7,938)</u>
At end of the period/year	<u><u>(7,964)</u></u>	<u><u>(7,938)</u></u>

At 30 June 2019, the Directors had determined an allowance for expected credit losses of trade receivables amounted to approximately HK\$7,964,000 (31 December 2018: HK\$7,938,000).

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

(b) Unbilled receivables

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Unbilled receivables	19,780	43,207
Less: allowance for expected credit losses	<u>(14)</u>	<u>(476)</u>
	<u><u>19,766</u></u>	<u><u>42,731</u></u>

These unbilled receivables were neither past due nor impaired.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

14. CONTRACT ASSETS/LIABILITIES

Contract assets or contract liabilities involving IT infrastructure solutions, IT development solutions and IT maintenance and support service income. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Contract liability is recognised when a customer pays consideration, before the Group satisfies the related performance obligation.

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Contract assets	12,848	9,203
Less: allowance for expected credit losses	(2)	(11)
	<u>12,846</u>	<u>9,192</u>

15. TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Trade payables	11,904	29,073
Accrued purchases and service costs	28,140	36,250
Other payables and accruals	4,203	4,394
	<u>44,247</u>	<u>69,717</u>

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

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
0–30 days	8,114	18,884
31–60 days	619	3,754
61–90 days	–	45
Over 90 days	3,171	6,390
	<u>11,904</u>	<u>29,073</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2019

16. CONTINGENT LIABILITIES

As at 30 June 2019, the margin deposits of the Group amounted to HK\$652,000 (31 December 2018: HK\$1,072,000). 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.

17. SHARE CAPITAL

	Number of ordinary shares of the Company	Share capital HK\$'000
Authorised ordinary shares of HK\$0.01 each:–		
At 1 January 2018	38,000,000	380
Increase on 22 June 2018 (<i>Note</i>)	9,962,000,000	99,620
	<u>10,000,000,000</u>	<u>100,000</u>
At 31 December 2018 and 30 June 2019	<u>10,000,000,000</u>	<u>100,000</u>
		Share capital HK\$'000
Issued and fully paid:–		
100 ordinary shares as at 1 January 2018		–*
Capitalisation issue of 599,999,900 shares on 16 July 2018		6,000
Issuance of 200,000,000 new shares on 16 July 2018		2,000
		<u>8,000</u>
800,000,000 ordinary shares at 31 December 2018 and 30 June 2019		<u>8,000</u>

* Less than HK\$1,000.

Note: On 22 June 2018, the shareholder resolved to increase the authorised share capital of the Company from HK\$380,000 to HK\$100,000,000 by creation of an additional 9,962,000,000 shares, each ranking pari passu with the shares then in issue in all respects.

18. OPERATING LEASE ARRANGEMENT

At the end of the reporting period, the Group had minimum outstanding commitments under non-cancellable operating leases in respect of office premises and director's quarter as follows:–

	As at 30 June 2019 (Unaudited) HK\$'000	As at 31 December 2018 (Audited) HK\$'000
Within one year	74	2,173
In the second and fifth years, inclusive	<u>–</u>	<u>3,626</u>
	<u>74</u>	<u>5,799</u>

19. RELATED PARTY TRANSACTIONS

- (a) No transactions with related parties were made for the six months ended 30 June 2018 and 30 June 2019, respectively.
- (b) Details of compensation of key management personnel of the Group are included in Note 7.

MANAGEMENT DISCUSSION AND ANALYSIS

Established in 1998, we are currently a well-established IT services provider with business portfolio including provision of IT infrastructure solutions services, IT development solutions services, and IT maintenance and support services, with approximately 20 years of experience in the IT consulting services industry in Hong Kong. Our principal businesses include IT infrastructure solutions services, IT development solutions services and IT maintenance and support services.

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 June 2019 (“**Interim 2019**”), the Group recorded a profit attributable to owners of the Company of approximately HK\$5.7 million as compared to the loss attributable to owners of the Company of approximately HK\$3.7 million for the six months ended 30 June 2018 (“**Interim 2018**”). The increase in profit was mainly due to decrease in the Group’s administrative and general expenses and listing expenses by approximately HK\$8.9 million for the six months ended 30 June 2019.

Provision of IT infrastructure solutions services

This segment provides IT infrastructure solutions services to our clients by advising them the hardware and/or software that their IT systems would require and procuring the relevant hardware and/or software. The revenue generated from this segment in Interim 2019 accounted to approximately HK\$51.3 million, representing approximately 57.0% of the total revenue for Interim 2019. No significant fluctuation was noted.

Provision of IT development solutions services

This segment provides IT development solutions services that generally include system analysis and design, software development and technology consultancy. The revenue generated from this segment accounted for approximately 27.5% of the total revenue for Interim 2019. The revenue from this segment increased by approximately 5.6% from approximately HK\$23.4 million for Interim 2018 to approximately HK\$24.7 million for Interim 2019, the increase was primarily due to increase in total number of IT development solutions services projects undertaken in Interim 2019.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment amounted to approximately HK\$13.9 million, representing approximately 15.5% of the total revenue for Interim 2019. The revenue derived from this segment slightly decrease by approximately 2.8% from approximately HK\$14.3 million for Interim 2018 to approximately HK\$13.9 million for Interim 2019, the decrease in revenue from this segment was primarily due to the decrease in total numbers of IT maintenance and support services projects undertaken in Interim 2019.

PROSPECTS AND OUTLOOK

For Interim 2019, the Group maintained its target to record relatively stable revenue and profit. In view of the uncertainties in the business environment and the signs of a global economic slowdown, the Group expects that volatility of Hong Kong interest rates and the risk of US-China trade war may continue adversely affect its business and overall short-term performance. The Group will closely monitor the impact of macro issues and trade dispute on its performance. The Group will be cautious in managing the business risk; be prepared to respond to changes in such 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. In addition, it will continue to focus on its core businesses, providing innovative and integrated IT consulting services to customers that enable its corporate and institution customers to extract maximum value from its IT engagements.

FINANCIAL REVIEW

Revenue

The Group's revenue for Interim 2019 amounted to approximately HK\$89.9 million, representing an increase of approximately HK\$1.1 million or 1.2% compared to Interim 2018 (2018: approximately HK\$88.8 million). The increase was attributable to increase in revenue generated from provision of IT development solutions services by approximately HK\$1.3 million; and was offset by decrease in provision of IT maintenance and support services projects by approximately HK\$0.4 million.

Gross profit and gross profit margin

The gross profit of the Group increased approximately 3.8% from approximately HK\$21.3 million for Interim 2018 to approximately HK\$22.1 million for Interim 2019 as the increase was mainly attributable to increase in gross profit of IT infrastructure solutions services due to increase in total numbers of infrastructure solutions services projects undertaken in Interim 2019. The gross profit margin of the Group has no significant fluctuation noted.

Selling expenses

For Interim 2019, the Group's selling expenses amounted to approximately HK\$3.1 million, representing the increase of approximately HK\$0.7 million or 29.2% as compared to Interim 2018 of approximately HK\$2.4 million. Such increase was mainly attributed by the increase in average staff headcount in sales department and the increase in average staff salaries due to more senior staff for sales department recruited for Interim 2019.

Administrative and general expenses

The Group's administrative expenses for Interim 2019 amounted to approximately HK\$12.5 million, representing decrease of approximately HK\$0.4 million or 3.1% as compared to Interim 2018 (2018: approximately HK\$12.9 million). Such decrease was mainly attributed by decrease in staff cost in administrative expenses by HK\$1.8 million due to decrease in number of senior staff in administrative and finance department for Interim 2019; and was offset by increase in professional fee for listing compliance by HK\$1.2 million.

Profit and total comprehensive income for the period

The Group increased profit by approximately HK\$9.4 million for Interim 2019, as compared to loss of approximately HK\$3.7 million for Interim 2018. The increase was mainly attributable to net effect of (i) the decrease in listing expenses by approximately HK\$8.4 million; (ii) the decrease in staff cost in administrative expenses by HK\$1.8 million; (iii) the decrease in allowance for expected credit losses by HK\$0.8 million; and (iv) the increase in professional fee for listing compliance by HK\$1.2 million.

Liquidity and financial resources

We financed our operations primarily through cash generated from our operating activities. During Interim 2019, we did not have any bank borrowings. As at 30 June 2019, we had cash and cash equivalents of approximately HK\$73.4 million (31 December 2018: approximately HK\$63.4 million), which were cash at banks and in hand. The Group did not have any credit facilities from banks as at 31 December 2018 and 30 June 2019, respectively. 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 Nil as at 30 June 2019 (31 December 2018: Nil). We expect that our liquidity position would further be strengthened by using the cash generated from our operating activities and fund raising as a result of that the ordinary shares (the "**Shares**") were listed on the Stock Exchange on 16 July 2018 (the "**Listing Date**"). Going forward, we intend to use our capital for our operations and the expansion plans as stated in our Prospectus.

Capital structure

As at 30 June 2019, the capital structure of the Company comprised issued share capital, the Shares and reserves.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK\$. During Interim 2019, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents and trade payables which are denominated in US\$. During Interim 2019 and Interim 2018, the Group did not adopt any hedging strategy but the management continuously monitored the foreign exchange risk exposure on a case-by-case basis. The Group did not use any hedging contracts to engage in speculative activities during Interim 2019 and Interim 2018.

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

During Interim 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 the Interim 2019, 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 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.

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 for the Interim 2019.

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. The Company had also made specific enquiry of all the Directors and the Company was not aware of any noncompliance with, the required standard of dealings and its code of conduct regarding securities transactions by the Directors for the Interim 2019.

AUDIT COMMITTEE

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the Interim 2019 and this announcement, and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

SHARE OPTION SCHEME

The share option scheme of the Company (the “**Share Option Scheme**”) is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 22 June 2018. No options have been granted, exercised or cancelled, or agreed to be granted, under the Share Option Scheme from the date of its adoption to 30 June 2019 and up to date of this announcement.

USE OF PROCEEDS

The actual net proceeds of the Group raised from the initial public offering on the Listing Date was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 30 June 2019, the Group has utilised proceeds from the listing of approximately HK\$140,000 and a summary of use of proceeds are set out in the table below:–

	As set out in the Prospectus <i>HK\$'million</i>	Amount expected to be used up to 30 June 2019 <i>HK\$'million</i>	Amount actually used up to 30 June 2019 <i>HK\$'million</i>
Develop IT solutions services tailored for finance and insurance sectors	7.10	–	–
Expand the application of ERP system in our IT development solutions services	1.17	–	–
Maintain fund for performance bond and contract deposit	2.34	0.74	0.04
Provision of cloud computing and IoT products	9.15	–	–
Develop technical support centre to enhance our service quality	2.92	1.76	–
Strengthen our marketing efforts	2.34	0.59	–
Enhance the expertise of our professional team	1.75	0.52	0.10
Enhance our Group's management information system	5.19	1.12	–
Working capital and other general corporate purposes	2.14	0.60	–
Total	<u>34.10</u>	<u>5.33</u>	<u>0.14</u>

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2019, the interests or short positions of the Directors and the chief executive of the Company in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the “SFO”)), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, are as follows:–

The Company

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

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) The Company is held as to approximately 75% by Vigorous King Limited, which in turn is held as to 100% by Mr. Yu Pak Lun Larry.

Associated Corporation – Vigorous King Limited

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

Save as disclosed above, as at 30 June 2019, none of the Directors nor the chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2019, 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	600,000,000 Shares (L)	75%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of Spouse	600,000,000 Shares (L)	75%

Notes:

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

Save as disclosed above, as at 30 June 2019, 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.

SIGNIFICANT INVESTMENTS

During the Interim 2019, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in the Prospectus, during the Interim 2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 88 employees (30 June 2018: 83). Total staff costs (including directors' emoluments) were approximately HK\$18,268,000 for the Interim 2019, as compared to approximately HK\$18,507,000 for the same period last year.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, there was no other plan for material investments or capital assets as at 30 June 2019.

CHARGES ON GROUP ASSETS

As at 30 June 2019, there is no charge on assets of the Group.

CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no other contingent liabilities except for Note 16 to the Unaudited Condensed Consolidated Financial Statements as disclosed above.

INTERESTS IN COMPETING BUSINESS

During the Interim 2019, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

INTERESTS OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Cinda International Capital Limited (“**Cinda**”) to be its compliance adviser. As at 30 June 2019, 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.

DIVIDENDS

The Board has resolved not to declare an interim dividend for the six months ended 30 June 2019.

DISCLOSURE OF INFORMATION

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as elsewhere disclosed in this announcement, there is no important event after Interim 2019.

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

Hong Kong, 13 August 2019

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

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

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