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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)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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.

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The board (the “**Board**”) of directors (the “**Directors**”) of Kinetix Systems Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2019, together with the corresponding comparative figures of 2018. The information should be read in conjunction with the prospectus of the Company dated 30 June 2018 (the “**Prospectus**”). Capitalised terms used in this announcement shall have the same respective meanings as those defined in the Prospectus unless otherwise stated.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2019

		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	215,641	193,518
Cost of sales		<u>(178,378)</u>	<u>(150,645)</u>
Gross profit		37,263	42,873
Other income and gains	6	331	65
Selling expenses		(6,071)	(5,446)
Allowance for expected credit losses, net of reversal	8	(649)	(8,425)
Administrative and general expenses		(27,976)	(26,429)
Listing expenses		–	(9,831)
Finance costs	7	<u>(214)</u>	<u>–*</u>
Profit/(loss) before tax	8	2,684	(7,193)
Income tax	10	<u>(1,076)</u>	<u>(1,829)</u>
Profit/(loss) for the year		<u>1,608</u>	<u>(9,022)</u>
Attributable to:-			
Owners of the Company		2,179	(9,008)
Non-controlling interests		<u>(571)</u>	<u>(14)</u>
Profit/(loss) for the year		<u>1,608</u>	<u>(9,022)</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings/(loss) per share	12		
– Basic and diluted		<u>0.27</u>	<u>(1.30)</u>

* *Less than HK\$1,000.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Profit/(loss) for the year	1,608	(9,022)
Other comprehensive income for the year	<u>—</u>	<u>—</u>
Total comprehensive income/(loss) for the year	<u>1,608</u>	<u>(9,022)</u>
Attributable to:-		
Owners of the Company	2,179	(9,008)
Non-controlling interests	<u>(571)</u>	<u>(14)</u>
	<u>1,608</u>	<u>(9,022)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Assets			
<i>Non-current assets</i>			
Property, plant and equipment		1,460	2,077
Right-of-use assets		3,995	—
Deposits	13	2,100	500
		7,555	2,577
<i>Current assets</i>			
Inventories		3,193	—
Trade and other receivables, deposits and prepayments	13	85,941	87,505
Contract assets		18,194	9,192
Due from immediate holding company	14	8	—*
Due from non-controlling shareholders of subsidiaries	14	258	31
Cash and cash equivalents		59,976	63,414
		167,570	160,142
Total assets		175,125	162,719
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	15	8,000	8,000
Reserves		80,802	78,743
Equity attributable to owners of the Company		88,802	86,743
Non-controlling interests		(539)	32
Total equity		88,263	86,775
<i>Non-current liabilities</i>			
Lease liabilities		2,025	—
Contract liabilities		33	—
		2,058	—
<i>Current liabilities</i>			
Trade and other payables and accruals	16	74,205	69,717
Tax payable		1,567	968
Lease liabilities		2,393	—
Contract liabilities		6,639	5,259
		84,804	75,944
Total liabilities		86,862	75,944
Total equity and liabilities		175,125	162,719

* Less than HK\$1,000.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to owners of the Company					Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000 (Note 15)	Share premium HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000		
1 January 2018	—*	—	10	44,542	44,552	—	44,552
Loss for the year	—	—	—	(9,008)	(9,008)	(14)	(9,022)
Other comprehensive income for the year	—	—	—	—	—	—	—
Total comprehensive loss for the year	—	—	—	(9,008)	(9,008)	(14)	(9,022)
Acquisition of a subsidiary	—	—	—	—	—	32	32
Non-controlling interests arising on the establishment of a subsidiary	—	—	—	—	—	14	14
Transactions with owners of the Company:-							
Capitalisation issue of shares (Note 15)	6,000	(6,000)	—	—	—	—	—
Issue of shares upon share offer (Note 15)	2,000	58,000	—	—	60,000	—	60,000
Listing expenses incurred in connection with issue of new shares	—	(8,801)	—	—	(8,801)	—	(8,801)
	8,000	43,199	—	—	51,199	—	51,199
31 December 2018	8,000	43,199	10	35,534	86,743	32	86,775
Impact on initial application of HKFRS 16 (Note 3(a))	—	—	—	(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

* Less than HK\$1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 P.O. Box 1350, Clifton House, 75 Fort Street, Grand Cayman KY1-1108.

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 and IT maintenance and support services. During the year, the Group has new principal activity of trading of entertainment products through an existing subsidiary and a newly established subsidiary. 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. 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.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

In the current year, the Group has applied for the first time the following new and amendments to HKFRSs issued by the HKICPA, which are mandatorily effective for the Group’s consolidated financial statements for the accounting period beginning on 1 January 2019:-

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

Except as described below, the application of the other new 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.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(a) HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 Leases (“HKAS 17”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019.

As at 1 January 2019, the Group recognised additional lease liabilities and measured right-of-use assets at the carrying amounts as if HKFRS 16 had been applied since commencement dates, but discounted using the incremental borrowing rates of the relevant group entities at the date of initial application by applying HKFRS 16.C8(b)(i) transition. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

When applying the modified retrospective approach under HKFRS 16 at transition, the Group applied the following practical expedients to leases previously classified as operating leases under HKAS 17, on lease-by-lease basis, to the extent relevant to the respective lease contracts:-

- i. excluded initial direct costs from measuring the right-of-use assets at the date of initial application; and
- ii. used hindsight based on facts and circumstances as at date of initial application in determining the lease term for the Group’s leases with extension and termination options.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average incremental borrowing rate applied is 4.12%.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(a) HKFRS 16 Leases (continued)

As a lessee (continued)

	At 1 January 2019 HK\$'000
Operating lease commitments disclosed as at 31 December 2018	5,799
Lease liabilities discounted at relevant incremental borrowing rates	5,419
Add: Termination option reasonably certain not to be exercised	743
Lease liabilities relating to operating leases recognised upon application of HKFRS 16 as at 1 January 2019	6,162
Analysed as	
Current	2,329
Non-current	3,833
	6,162

The carrying amount of right-of-use assets for own use as at 1 January 2019 comprises the following:-

	Right-of-use assets HK\$'000
	Note
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	6,042
Less: Accrued lease liability relating to rent-free period at 1 January 2019	(i) (563)
	5,479

(i) Rent-free period

The amount relates to accrued lease liability for lease of a property in which the lessor provided rent-free period. The carrying amount of the lease incentive liability under trade and other payables and accruals as at 1 January 2019 was adjusted to right-of-use assets at transition.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(a) HKFRS 16 Leases (continued)

As a lessee (continued)

The following table summarises the impact of transition to HKFRS 16 on retained profits at 1 January 2019.

	Impact of adopting HKFRS 16 at 1 January 2019 HK\$'000
Retained profits	35,534
Nature of adjustments	
– Depreciation of right-of-use assets	(2,344)
– Interests on lease liabilities	(309)
– Reversal of rental expenses	2,533
Impact at 1 January 2019	35,414

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2019. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2018 HK\$'000	Adjustments HK\$'000	Carrying amounts under HKFRS 16 at 1 January 2019 HK\$'000
Non-current Assets			
Right-of-use assets	–	5,479	5,479
Capital and Reserves			
Reserves	78,743	(120)	78,623
Current Liabilities			
Trade and other payables and accruals	69,717	(563)	69,154
Lease liabilities	–	2,329	2,329
Non-current liabilities			
Lease liabilities	–	3,833	3,833

Note: For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

4. 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 most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four (2018: three) 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.
- Segment of Others comprises trading of entertainment products (i.e. consoles and games).

During the year, the Group commenced the business of trading of entertainment products through a subsidiary and a newly established subsidiary and it is considered as a new operating and reportable segment by the most senior executive management.

(a) Segment revenue and results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management 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 general and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, depreciation and amortisation, interest income and interest expenses is presented.

4. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2019 is set out below.

	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	Others 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	<u>22,105</u>	<u>8,372</u>	<u>6,615</u>	<u>171</u>	<u>37,263</u>
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					<u>(34,579)</u>
Profit before tax					2,684
Income tax					<u>(1,076)</u>
Profit for the year					<u>1,608</u>

4. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

	Year ended 31 December 2018			
	IT solutions services			
	IT infrastructure solutions services <i>HK\$'000</i>	IT development solutions services <i>HK\$'000</i>	IT maintenance and support services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue	125,325	46,653	21,540	193,518
Reportable segment cost of sales	(103,106)	(34,124)	(13,415)	(150,645)
Reportable segment gross profit	<u>22,219</u>	<u>12,529</u>	<u>8,125</u>	<u>42,873</u>
Segment revenue	125,325	46,653	21,540	193,518
Segment result	22,219	12,529	8,125	42,873
Reconciliation:- Corporate and unallocated expenses, net				<u>(50,066)</u>
Loss before tax				(7,193)
Income tax				<u>(1,829)</u>
Loss for the year				<u>(9,022)</u>

(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 2019 is set out below.

	2019 HK\$'000	2018 HK\$'000
Hong Kong	195,505	192,166
Macau	19,115	1,352
Singapore	<u>1,021</u>	<u>—</u>
	<u><u>215,641</u></u>	<u><u>193,518</u></u>

4. SEGMENT INFORMATION (CONTINUED)

(b) Geographic information (continued)

The geographical information of the Group's non-current assets as at 31 December 2019 is set out below.

	2019 HK\$'000	2018 HK\$'000
Hong Kong	7,346	2,577
Macau	209	–
	<u>7,555</u>	<u>2,577</u>

(c) Information about major customers

During the year ended 31 December 2019, there is no customer located in Hong Kong, Macau and Singapore accounted for greater than 10% of the Group's total revenue (2018: Nil).

5. REVENUE

(a) Disaggregation of revenue

	2019 HK\$'000	2018 HK\$'000
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
IT solutions services		
IT infrastructure solutions services	123,529	125,325
IT development solutions services	53,487	46,653
IT maintenance and support services	28,590	21,540
Trading of entertainment products	10,035	–
	<u>215,641</u>	<u>193,518</u>

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

	IT solutions services				IT maintenance and support services				Trading of entertainment products		Total	
	IT infrastructure solutions services		IT development solutions services		IT maintenance and support services		Trading of entertainment products		Total			
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At a point in time	120,476	117,798	–	–	–	–	10,035	–	130,511	117,798		
Over time	3,053	7,527	53,487	46,653	28,590	21,540	–	–	85,130	75,720		
	<u>123,529</u>	<u>125,325</u>	<u>53,487</u>	<u>46,653</u>	<u>28,590</u>	<u>21,540</u>	<u>10,035</u>	<u>–</u>	<u>215,641</u>	<u>193,518</u>		

5. REVENUE (CONTINUED)

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

As at 31 December 2019, HK\$49,342,000 (2018: HK\$40,197,000) 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 24 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.

6. OTHER INCOME AND GAINS

	2019 HK\$'000	2018 HK\$'000
Bank interest income	329	26
Foreign exchange gains, net	—	17
Sundry income	2	22
	<u>331</u>	<u>65</u>

7. FINANCE COSTS

An analysis of finance costs is as follows:-

	2019 HK\$'000	2018 HK\$'000
Interest on lease liabilities	214	—
Other bank charges	—	—*
	<u>214</u>	<u>—*</u>

* Less than HK\$1,000.

8. PROFIT/(LOSS) BEFORE TAX

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Auditor's remuneration		
– Audit services	295	268
– Non-audit services**	180	304
Cost of hardware and software recognised as expenses	105,681	102,258
Cost of IT solutions services*	40,228	34,572
Cost of IT maintenance and support services*	21,947	13,399
Cost of inventories recognised as expenses	9,864	–
Depreciation of property, plant and equipment	723	489
Loss on write-off of property, plant and equipment	–	76
Depreciation of right-of-use assets	2,193	–
Allowance for expected credit losses (“ECL”), net of reversal	649	8,425
Foreign exchange differences, net	183	(17)
Minimum lease payments under operating lease		
– office premises	–	2,012
– director's quarter	–	540
Provision for onerous contracts, net of reversal [#]	658	416
Retirement fund scheme contributions	1,319	1,247
Directors' fee, salaries, allowance and other benefits in kind		
– Directors of the Company (<i>Note 9</i>)	3,217	3,828
– Other staff*	33,331	30,057
	<u>33,331</u>	<u>30,057</u>

* Included in cost of IT solution services and cost of IT maintenance and support services are subcontracting costs and staff costs amounted to HK\$47,164,000 (2018: HK\$36,235,000) and HK\$15,011,000 (2018: HK\$11,736,000), respectively, for the year ended 31 December 2019.

[#] 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 2019, interim results for the six months ended 30 June 2019 and third quarterly results for the nine months ended 30 September 2019 (2018: (i) the services provided by the Company's auditor for acting as the reporting accountants of the Company for the Listing and (ii) the agreed-upon procedures provided relating to interim results for the six months ended 30 June 2018 and third quarterly results for the nine months ended 30 September 2018).

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

9. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Directors' fee, salaries, allowance and other benefits in kind	4,177	5,487
Retirement fund scheme contributions	86	118
Total compensation paid to key management personnel	<u>4,263</u>	<u>5,605</u>

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 2019:-

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

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

For the year ended 31 December 2018:-

	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 professional resources)	–	672	18	690
Leung Patrick Cheong Yu (Sales director)	–	693	18	711
Wong Chun Pan Dennis (Head of sales) (Note (v))	–	740	14	754
Wong Tsun Ho Ian (Head of enterprise services) (Note (vii))	–	679	18	697
Independent non-executive directors				
Cheung Wah Kit Jason (Note (iv))	28	–	–	28
Yeung Wai Keung (Note (iv))	28	–	–	28
Lam Yau Hin (Note (iv))	28	–	–	28
	<u>84</u>	<u>3,744</u>	<u>86</u>	<u>3,914</u>

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) Mr. Cheung Wah Kit Jason, Mr. Yeung Wai Keung and Mr. Lam Yau Hin were appointed as independent non-executive directors on 22 June 2018.
- (v) Mr. Wong Chun Pan Dennis resigned as an executive director on 1 October 2018.
- (vi) Ms. Lam Shun Ka (formerly known as Lam Yuk Shan) is appointed as the Company's independent non-executive director on 7 March 2019.
- (vii) Mr. Wong Tsun Ho Ian resigned as an executive director on 1 October 2019.

10. 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.

Details of income tax are as follows:-

	2019 HK\$'000	2018 HK\$'000
Current tax – Hong Kong		
– provision for the year	1,096	1,863
– prior year overprovision	(20)	(34)
	<u>1,076</u>	<u>1,829</u>

11. DIVIDEND

No dividend have been declared or paid by the Company during the year (2018: HK\$nil).

12. EARNINGS/(LOSS) PER SHARE

	2019 HK\$'000	2018 HK\$'000
Profit/(loss) and total comprehensive income/(loss) for the year attributable to the owners of the Company	<u>2,179</u>	<u>(9,008)</u>
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share (in thousand)	<u>800,000</u>	<u>692,603</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 issued by the Company dated 30 June 2018 had been effective on 1 January 2018.

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the years ended 31 December 2019 and 2018, respectively as the Group had no potentially dilutive ordinary shares in issue for the relevant years ended. The basic earnings/(loss) per share equals to the diluted earnings/(loss) per share.

13. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	<i>Notes</i>	2019 HK\$'000	2018 <i>HK\$'000</i>
Trade receivables	(a)	36,943	38,904
Unbilled receivables	(b)	35,486	42,731
Deposits	(c)	3,624	3,889
Prepayments	(d)	11,387	1,520
Others		601	961
		88,041	88,005

	2019 HK\$'000	2018 <i>HK\$'000</i>
Analysed as:-		
Non-current portion	2,100	500
Current portion	85,941	87,505
	88,041	88,005

(a) Trade receivables

	2019 HK\$'000	2018 <i>HK\$'000</i>
Trade receivables	45,447	46,842
Less: allowance for ECL	(8,504)	(7,938)
	36,943	38,904

At 1 January 2018, trade receivables from contract with customers amounted to HK\$22,553,000.

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

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:-

	2019 HK\$'000	2018 <i>HK\$'000</i>
0–30 days	30,928	27,774
31–90 days	5,236	10,174
91–180 days	230	880
Over 180 days	549	76
	36,943	38,904

13. 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 due date at the end of the reporting period:-

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Neither past due nor impaired	31,018	23,299
Less than 1 month past due	2,346	12,713
1 to 3 months past due	3,025	2,541
3 to 6 months past due	68	275
More than 6 months past due	486	76
	<u>36,943</u>	<u>38,904</u>

(b) Unbilled receivables

	2019 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
Unbilled receivables	35,961	43,207
Less: allowance for ECL	(475)	(476)
	<u>35,486</u>	<u>42,731</u>

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.

(c) Deposits

As at 31 December 2019, included in deposits are margin deposits of HK\$376,000 (2018: HK\$1,072,000), which 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 2019, prepayments mainly represent advances to suppliers for software of HK\$2,500,000 (2018: HK\$nil) and entertainment products of HK\$6,000,000 (2018: HK\$nil).

14. DUE FROM IMMEDIATE HOLDING COMPANY/NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

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

15. 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
At 31 December 2018, 1 January 2019 and 31 December 2019	10,000,000,000	100,000
		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
800,000,000 ordinary shares as at 31 December 2018, 1 January 2019 and 31 December 2019		8,000

* *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.

On 16 July 2018, pursuant to the written resolutions of the shareholders of the Company, the directors were authorised to capitalise an amount of HK\$5,999,999 from the amount standing to the credit of the share premium amount of the Company to pay up in full at par 599,999,900 shares for allotment and issue to the persons whose name appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis.

On 16 July 2018, the shares of the Company were listed on GEM of the Stock Exchange and 200,000,000 shares were issued by the Company at the offer price of HK\$0.3 per share. Out of the total proceeds from issuance of shares upon share offer of HK\$60,000,000, an amount of HK\$2,000,000, representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining amount of the proceeds of HK\$58,000,000, before listing expenses incurred in connection with issue of new shares and capitalisation issue of shares, were credited to the share premium account.

16. TRADE AND OTHER PAYABLES AND ACCRUALS

	Notes	2019 HK\$'000	2018 HK\$'000
Trade payables	(a)	17,973	29,073
Accrued purchases and service costs	(b)	54,256	36,250
Other payables and accruals		1,976	4,394
		74,205	69,717

16. TRADE AND OTHER PAYABLES AND ACCRUALS (CONTINUED)

- (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:-

	2019 HK\$'000	2018 HK\$'000
0-30 days	14,000	18,884
31-60 days	2,470	3,754
61-90 days	1,182	45
Over 90 days	321	6,390
	<u>17,973</u>	<u>29,073</u>

(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.

17. CONTINGENT LIABILITIES

As at 31 December 2019, the margin deposits of the Group amounted to HK\$376,000 (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.

18. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the Group obtained general banking facilities up to HK\$25,000,000. The banking facilities are secured by the deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 provided by the Company. Up to the date of consolidated financial statements, the Group has drawn down term loan of HK\$5,359,000.

19. CAPITAL COMMITMENTS

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

	2019 HK\$'000	2018 HK\$'000
Contracted for, but not provided for:- Equipment	<u>1,600</u>	<u>—</u>

MANAGEMENT DISCUSSION AND ANALYSIS

Established in 1998, we are currently a well-established IT services provider with business portfolio including provision of IT infrastructure solutions services, IT development solutions services, and IT maintenance and support services, with approximately 21 years of experience in the IT consulting services industry in Hong Kong. Our principal businesses include IT infrastructure solutions services, IT development solutions services and IT maintenance and support services.

BUSINESS REVIEW

For FY2019, the Group recorded a profit attributable to equity shareholders of the Company of approximately HK\$2.2 million as compared to the loss attributable to equity shareholders of the Company of approximately HK\$9.0 million in FY2018. The increase in profit was mainly attributable to (i) decrease in the allowance for expected credit loss of customers by approximately HK\$7.8 million, (ii) decrease in the one-off incurrence of listing expenses by expenses by HK\$9.8 million, decrease in gross profit by HK\$5.6 million, and (iii) was partially offset by the increase in legal and professional fee by HK\$1.4 million during FY2019.

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 FY2019 amounted to approximately HK\$53.5 million, representing approximately 24.8% of the total revenue for FY2019. The revenue derived from this segment increased by approximately 14.6% from approximately HK\$46.7 million for FY2018 to approximately HK\$53.5 million for FY2019. The increase was primarily due to the increase in total numbers of IT development solutions projects undertaken in FY2019.

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 from a number of authorized distributors or third party suppliers and integrating them with our clients' IT systems. The revenue generated from this segment in FY2019 amounted to approximately HK\$123.5 million, representing approximately 57.3% of the total revenue for FY2019. The revenue derived from this segment decreased by approximately 1.4% from approximately HK\$125.3 million for FY2018 to approximately HK\$123.5 million for FY2019. The decrease was mainly attributable to the decrease in average amount of revenue recognized per project in FY2019.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment in FY2019 amounted to approximately HK\$28.6 million, representing approximately 13.3% of the total revenue for FY2019. The revenue derived from this segment increased by approximately 33.0% from approximately HK\$21.5 million for FY2018 to approximately HK\$28.6 million for FY2019. The increase was primarily due to the increase in average amount of revenue recognized per project during FY2019.

Others

In line with the development of the Company, some subsidiaries were established in the fourth quarter of 2019. One of the subsidiaries plans to develop an E-Commerce business which includes trading of entertainment products. The revenue generated for this segment amounted to approximately HK\$10.0 million, representing approximately 4.6% of the total revenue for FY2019.

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 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

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 2019 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 2019, the Group has utilised proceeds from the listing of approximately HK\$3.1 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 2019 HK\$’million	Amount actually used up to 31 December 2019 HK\$’million
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	1.32	1.32
Provision of cloud computing and IoT products	9.15	—	—
Develop technical support centre to enhance our service quality	2.92	1.75	1.60
Strengthen our marketing efforts	2.34	1.17	—
Enhance the expertise of our professional team	1.75	0.94	0.20
Enhance our Group’s management information system	5.19	2.12	—
Working capital and other general corporate purposes	2.14	0.91	—
Total	34.10	8.21	3.12

The remaining net proceeds are intended to be 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.
- (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.

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 the consolidated financial statements.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts.

Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

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

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.

OUTLOOK AND PROSPECTS

Looking forward, the Group considers the global business environment will become more challenging. The Group will continue to face various risks and uncertainties including the volatility of Hong Kong interest rates, the risk of US-China trade war, and global outbreak of coronavirus disease that may adversely affect its business and overall short-term performance. It could lead to negative global economic impacts and the Group expects that Hong Kong's economy will further deteriorate and worsen. It may result in the Group reducing orders and putting pressure on our pricing terms and our profitability in the short term. Therefore, the Group shall provide customers with specific IT solution services through its newly established subsidiaries, thereby expanding and diversifying its revenue sources. The Group will closely monitor the impact of the macro issues and trade dispute on our performance, and will carefully plan and develop strategies to manage these factors to provide the best possible results to shareholders in the medium to longer term.

FINANCIAL REVIEW

Revenue

The Group's revenue for FY2019 amounted to approximately HK\$215.6 million, representing an increase of approximately HK\$22.1 million or 11.4% compared to FY2018 (2018: approximately HK\$193.5 million). The increase was mainly attributable to the increase in revenue generated from provision of IT development solutions services by approximately HK\$6.8 million; (ii) IT maintenance and support services projects by approximately HK\$7.1 million; and (iii) others by approximately HK\$10.0 million.

Gross profit and gross profit margin

The Group's gross profit for FY2019 amounted to approximately HK\$37.3 million, representing decrease of approximately HK\$5.6 million or 13.1% compared to FY2018 (2018: approximately HK\$42.9 million), and the decrease was mainly attributable to decrease in gross profit of IT development solutions services due to increase in direct labour cost; and the decrease in gross profit of IT maintenance and support services due to

increase in direct labour cost and the cost of subcontractors during FY2019. The Group's gross profit margin decreased from approximately 22.2% for FY2018 to approximately 17.3% for FY2019 as the decrease was mainly attributable to the decrease in gross profit margin of IT development solutions services projects which was due to more staff cost required in certain projects in government sector; and decrease in gross profit margin of IT maintenance and support services project which was caused by a project associated with comparatively lower gross profit margin during FY2019.

Selling expenses

The Group's selling expenses for FY2019 amounted to approximately HK\$6.1 million, representing an increase of approximately HK\$0.7 million or 13.0% compared to FY2018 (2018: approximately HK\$5.4 million). Such increase was mainly attributed by the increase in sales commission which was in line with the increase in revenue in FY2019.

Administrative and general expenses

The Group's administrative expenses for FY2019 amounted to approximately HK\$28.0 million, representing an increase of approximately HK\$1.6 million or 6.1% compared to FY2018 (2018: approximately HK\$26.4 million). Such increase was mainly due to the increase in legal and professional fee by HK\$1.4 million.

Profit/(loss) and total comprehensive income/(loss) for the year

The Group increased profit for FY2019 by approximately HK\$10.6 million compared to loss of approximately HK\$9.0 million for FY2018. The profit was mainly attributable to (i) decrease in the allowance for expected credit loss of customers of the Group by approximately HK\$7.8 million, (ii) decrease in the one-off incurrence of listing expenses by approximately HK\$9.8 million, decrease in gross profit by HK\$5.6 million for FY2019 and was offset by increase in legal and professional fee by HK\$1.4 million.

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 FY2019, and our use of cash primarily relates to operating activities and purchase of property, plant and equipment. During FY2019, we did not have any bank borrowings. As at 31 December 2019, we had cash and cash equivalents of approximately HK\$60.0 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 31 December 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 31 December 2019. Our liquidity position has further been strengthened by using the cash generated from our operating activities and fund raising as a result of that the Shares were listed on the Stock Exchange on 16 July 2018. 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 FY2019. 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.

Commitments

Our contract commitments involve leases of our office premises and director's quarter. As at 31 December 2019, the Group's operating lease commitments were nil (31 December 2018: approximately HK\$5.8 million).

Capital structure

As at 31 December 2019, the capital structure of the Company comprised issued share capital and reserves.

Capital Expenditure

Our capital expenditure for the FY2018 and FY2019 was HK\$2.3 million and approximately HK\$0.1 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 of the Company, 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 of the Company. 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 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 2019, the Group had a total of 116 employees (31 December 2018: 85). Total staff costs (including key management personnel and directors' emoluments) were approximately HK\$38.0 million for FY2019, as compared to approximately HK\$35.3 million for FY2018. The increase in the number of employees for FY2019 was mainly attributable to the increase in the number of employees employed for the Group's development of Enterprise Resource Planning ("ERP") business.

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 of the Company). 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 2019 and up to the date of this announcement.

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 FY2019, 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\$ and EUR. During FY2019 and FY2018, 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 FY2019 and FY2018.

DONATION

During FY2019, the Group made donations for charitable purpose totaling approximately HK\$10,000 (2018: approximately HK\$13,000).

SIGNIFICANT INVESTMENTS

During FY2019, 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 2019 amounted to approximately HK\$1.6 million (2018: Nil).

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During FY2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

CHARGES ON GROUP ASSETS

As at 31 December 2019, there is no charge on assets of the Group.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no other contingent liabilities except for Note 28 to the consolidated financial statements.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 18 in the announcement, there is no significant event subsequent to 31 December 2019.

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 FY2019, 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 of the Company 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 announcement.

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 FY2019.

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 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 FY2019, 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.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2019 as set out in the preliminary announcement have been agreed by the Group's auditors, Moore Stephens CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

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

Hong Kong, 23 March 2020

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

This announcement, for which the directors of the Company 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 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.