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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 2020

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

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

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2020

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 2020, together with the corresponding comparative figures of 2019. 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 2020

		2020	2019
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	5	282,362	215,641
Cost of sales		<u>(234,805)</u>	<u>(178,378)</u>
Gross profit		47,557	37,263
Other income, other gains and losses	6	8,154	148
Selling expenses		(8,990)	(6,071)
Reversal of/(allowance for) expected credit losses		743	(649)
Administrative and general expenses		(35,702)	(27,793)
Finance costs	7	<u>(437)</u>	<u>(214)</u>
Profit before tax	8	11,325	2,684
Income tax	10	<u>(1,686)</u>	<u>(1,076)</u>
Profit for the year		<u>9,639</u>	<u>1,608</u>
Attributable to:			
Owners of the Company		10,316	2,179
Non-controlling interests		<u>(677)</u>	<u>(571)</u>
Profit for the year		<u>9,639</u>	<u>1,608</u>
		<i>HK cents</i>	<i>HK cents</i>
Earnings per share	12		
– Basic and diluted		<u>1.29</u>	<u>0.27</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	<i>Notes</i>	2020 HK\$'000	2019 HK\$'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment		1,224	1,460
Right-of-use assets		1,733	3,995
Finance lease receivables	13	7,240	–
Deposits and prepayments	14	2,931	2,100
Deposit and prepayment for a life insurance policy		6,747	–
Deferred tax assets		96	–
		19,971	7,555
<i>Current assets</i>			
Inventories		15,303	3,193
Finance lease receivables	13	4,658	–
Trade and other receivables, deposits and prepayments	14	85,939	85,941
Contract assets		24,904	18,194
Due from immediate holding company	15	17	8
Due from non-controlling shareholders of subsidiaries	15	243	258
Cash and cash equivalents		35,793	59,976
		166,857	167,570
Total assets		186,828	175,125
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	16	8,000	8,000
Reserves		91,118	80,802
Equity attributable to owners of the Company		99,118	88,802
Non-controlling interests		(1,216)	(539)
Total equity		97,902	88,263
<i>Non-current liabilities</i>			
Lease liabilities		4,331	2,025
Contract liabilities		–	33
		4,331	2,058
<i>Current liabilities</i>			
Trade and other payables and accruals	17	61,825	74,205
Tax payable		1,551	1,567
Bank borrowings	18	6,778	–
Due to non-controlling shareholders of subsidiaries	15	1,684	–
Lease liabilities		4,472	2,393
Contract liabilities		8,285	6,639
		84,595	84,804
Total liabilities		88,926	86,862
Total equity and liabilities		186,828	175,125

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	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
	(Note 16)						
31 December 2018	8,000	43,199	10	35,534	86,743	32	86,775
Impact on initial application of HKFRS 16	—	—	—	(120)	(120)	—	(120)
1 January 2019 (restated)	8,000	43,199	10	35,414	86,623	32	86,655
Profit/(loss) for the year	—	—	—	2,179	2,179	(571)	1,608
Other comprehensive income for the year	—	—	—	—	—	—	—
Total comprehensive income/(loss) for the year	—	—	—	2,179	2,179	(571)	1,608
Non-controlling interests arising on the establishment of subsidiaries	—	—	—	—	—	—*	—*
31 December 2019	8,000	43,199	10	37,593	88,802	(539)	88,263
Profit/(loss) for the year	—	—	—	10,316	10,316	(677)	9,639
Other comprehensive income for the year	—	—	—	—	—	—	—
Total comprehensive income/(loss) for the year	—	—	—	10,316	10,316	(677)	9,639
Non-controlling interests arising on the establishment of subsidiary	—	—	—	—	—	—*	—*
31 December 2020	8,000	43,199	10	47,909	99,118	(1,216)	97,902

* Less than HK\$1,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

1. CORPORATE INFORMATION

Kinetix Systems Holdings Limited (the “Company”) was incorporated as an exempted company with limited liability in the Cayman Islands on 16 September 2016 and its shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing”) by way of shares offer (the “Share Offer”) on 16 July 2018. The registered office of the Company is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company is an investment holding company. The principal activities of the Group are provision of information technology (“IT”) infrastructure solutions services, IT development solutions services, IT maintenance and support services and trading of entertainment products. In the opinion of the directors of the Company, the ultimate and immediate holding company of the Company is Vigorous King Limited, a company incorporated in the British Virgin Islands (“BVI”) which is wholly owned by Mr. Yu Pak Lun Larry (“Mr. Yu”), who is also the Chairman, Chief Executive Officer and Executive Director of the Company.

2. BASIS OF PREPARATION AND PRESENTATION

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

The consolidated financial statements have been prepared on historical cost basis and presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. Historical cost is generally based on the fair value at the consideration given in exchange for goods and services. All values are rounded to the nearest thousand except when otherwise indicated. It should be noted that accounting estimates and assumptions have been used in preparation of the consolidated financial statements. Although these estimates are based on management’s best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates.

3. ADOPTION OF AMENDMENTS TO HKFRSs

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

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

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

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

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

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

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

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

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

4. SEGMENT INFORMATION

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

– IT solutions services

- (i) IT infrastructure solutions services: this segment earns revenue in relation to analyses of customers' existing IT infrastructure, procurement of hardware and/or software, installation and testing and integration services.
- (ii) IT development solutions services: this segment earns revenue from designing of IT development solutions to cater to customers' special requirements which involves system analysis and design, software development and technology consultancy.

- IT maintenance and support services: this segment represents ongoing IT maintenance and support services to systems developed by the Group and maintenance and support services on hardware and software purchased or developed from third party suppliers.
- Trading of entertainment products (i.e, consoles and games).

(a) Segment revenue and results

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

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

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

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

Year ended 31 December 2019

	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>	Trading of entertainment products <i>HK\$'000</i>	Total <i>HK\$'000</i>
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><u>1,608</u></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 2020 is set out below.

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Hong Kong	274,791	195,505
Macau	7,571	19,115
Singapore	<u>–</u>	<u>1,021</u>
	<u>282,362</u>	<u>215,641</u>

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

	2020 HK\$'000	2019 HK\$'000
Hong Kong	2,716	5,246
Macau	241	209
	<u>2,957</u>	<u>5,455</u>

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

(c) Information about major customers

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

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

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

5. REVENUE

(a) Disaggregation of revenue

	2020 HK\$'000	2019 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	133,268	123,529
IT development solutions services	74,586	53,487
IT maintenance and support services	27,654	28,590
Trading of entertainment products	46,854	10,035
	<u>282,362</u>	<u>215,641</u>

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

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

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

For IT infrastructure solutions services and IT development solutions services, as at 31 December 2020, HK\$52,225,000 (2019: HK\$49,342,000) is the aggregated amount of the transaction price allocated to the remaining performance obligations that are unsatisfied as of the end of the reporting period, based on the contracts entered into with customers. The Group will recognise the expected revenue in future when or as a performance obligation is satisfied, which is expected to occur over the next 12 to 48 months. For contracts for IT maintenance and support services, since they are expected to occur within 12 months, the transaction price of allocated to these unsatisfied contracts is not disclosed as permitted under HKFRS 15.

6. OTHER INCOME, OTHER GAINS AND LOSSES

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

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

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2020 HK\$'000	2019 HK\$'000
Interest on lease liabilities	245	214
Interest on bank borrowings	192	–
	<u>437</u>	<u>214</u>

8. PROFIT BEFORE TAX

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

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

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

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

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

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

9. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

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

	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)	–	1,179	30	1,209
Law Cheung Moon (Head of enterprise services)	–	664	22	686
Leung Patrick Cheong Yu (Sales director)	–	972	18	990
Independent non-executive directors:				
Yeung Wai Keung (Note (viii))	60	–	–	60
Lam Yau Hin	60	–	–	60
Lam Shun Ka (Note (iv))	60	–	–	60
Non-executive director:				
Cheng Kwan Ngai (Note (vii))	<u>7</u>	<u>–</u>	<u>–</u>	<u>7</u>
	<u>187</u>	<u>2,815</u>	<u>70</u>	<u>3,072</u>

For the year ended 31 December 2019:

	Directors' fee HK\$'000	Salaries, allowance and other benefits in kind HK\$'000 (Note (iii))	Contribution to defined contribution plan HK\$'000	Total HK\$'000
Executive directors:				
Yu Pak Lun Larry (Chief executive officer)	–	960	18	978
Law Cheung Moon (Head of enterprise services)	–	664	18	682
Leung Patrick Cheong Yu (Sales director)	–	918	18	936
Wong Tsun Ho Ian (Head of enterprise services) (Note (vi))	–	485	14	499
Independent non-executive directors:				
Cheung Wah Kit Jason (Note (v))	21	–	–	21
Yeung Wai Keung (Note (viii))	60	–	–	60
Lam Yau Hin	60	–	–	60
Lam Shun Ka (Note (iv))	49	–	–	49
	<u>190</u>	<u>3,027</u>	<u>68</u>	<u>3,285</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) Ms. Lam Shun Ka (formerly known as Lam Yuk Shan) is appointed as the Company's independent non-executive director on 7 March 2019.
- (v) Mr. Cheung Wah Kit Jason resigned as an independent non-executive director on 8 May 2019.
- (vi) Mr. Wong Tsun Ho Ian resigned as an executive director on 1 October 2019.
- (vii) Mr. Cheng Kwan Ngai is appointed as the Company's non-executive director on 20 November 2020.
- (viii) Mr. Yeung Wai Keung resigned as an independent non-executive director on 1 March 2021.

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. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Details of income tax are as follows:

	2020 HK\$'000	2019 HK\$'000
Current tax – Hong Kong		
– provision for the year	1,833	1,096
– prior year overprovision	(51)	(20)
	<u>1,782</u>	<u>1,076</u>
Deferred tax	(96)	–
	<u>1,686</u>	<u>1,076</u>

11. DIVIDEND

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

12. EARNINGS PER SHARE

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

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

13. FINANCE LEASE RECEIVABLES

The Group entered into finance lease arrangements as a lessor for security systems. The terms of finance leases entered into are 3 years. All interest rates inherent in the leases are fixed at the contract date over the lease terms.

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

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

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

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Analysed as:		
Non-current portion	2,931	2,100
Current portion	85,939	85,941
	<u>88,870</u>	<u>88,041</u>

(a) Trade receivables

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Trade receivables	47,387	45,447
Less: allowance for ECL	(8,127)	(8,504)
	<u>39,260</u>	<u>36,943</u>

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:

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

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

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

(b) Unbilled receivables

	2020 HK\$'000	2019 HK\$'000
Unbilled receivables	40,797	35,961
Less: allowance for ECL	(112)	(475)
	<u>40,685</u>	<u>35,486</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 2020, deposits mainly represent deposit paid to a supplier of HK\$1,000,000 (2019: HK\$1,000,000), deposit paid for acquisition of property, plant and equipment of HK\$2,880,000 (2019: HK\$1,600,000) and margin deposits of HK\$340,000 (2019: HK\$376,000). Margin deposits were pledged to a bank to secure the bank to provide performance guarantee to the Group for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers.

(d) Prepayments

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

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

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

16. SHARE CAPITAL

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

17. TRADE AND OTHER PAYABLES AND ACCRUALS

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

(a) Trade payables

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

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

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

(b) Accrued purchases and service costs

The accrued purchases and service costs were mainly attributable to services carried out by subcontractors/goods provided by suppliers which will be billed within the next twelve months from the end of the reporting dates in accordance with the payment terms stipulated in the relevant contracts, quotation, purchase orders and service agreements entered into between the Group and the suppliers or subcontractors.

18. BANK BORROWINGS

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

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

The Group's interest-bearing bank borrowings are secured by way of the following:

- The deed of assignment over life insurance policy purchased for the Company's director with carrying amount of HK\$6,907,000;
- The Company has guaranteed HK\$31,000,000 plus interest and other charges relating to the liabilities of the Group.

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

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

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

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

19. CONTINGENT LIABILITIES

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

20. EVENTS AFTER THE REPORTING PERIOD

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

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

21. CAPITAL COMMITMENTS

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

	2020 <i>HK\$'000</i>	2019 <i>HK\$'000</i>
Contracted for, but not provided for:		
Acquisition of equipment	<u>320</u>	<u>1,600</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, IT maintenance and support services, with approximately 22 years of experience in the IT consulting services industry in Hong Kong. Our principal businesses include IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and trading of entertainment products.

BUSINESS REVIEW

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

Provision of IT infrastructure solutions services

This segment provides IT infrastructure solutions services to our clients by advising them the hardware and/or software that their IT systems would require and procuring the relevant hardware and/or software and integrating them with our client's IT systems. The revenue generated from this segment in FY2020 amounted to approximately HK\$133.3 million, representing approximately 47.2% of the total revenue for FY2020. The revenue derived from this segment increased by approximately 7.9% from approximately HK\$123.5 million for FY2019 to approximately HK\$133.3 million for FY2020. The increase was primarily due to the increase in average contract value of projects awarded and the increase in amount of revenue recognised per project in FY2020.

Provision of IT development solutions services

This segment provides IT development solutions services that generally include system analysis and design, software development and technology consultancy. The revenue generated from this segment in FY2020 amounted to approximately HK\$74.6 million, representing approximately 26.4% of the total revenue for FY2020. The revenue derived from this segment increased by approximately 39.4% from approximately HK\$53.5 million for FY2019 to approximately HK\$74.6 million for FY2020. The increase was primarily due to the increase in total number of IT development solution services projects undertaken and the increase in average contract value of projects awarded in FY2020.

Provision of IT maintenance and support services

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

Trading of entertainment products

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

BUSINESS OBJECTIVES AND USE OF PROCEEDS

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

- (1) developing IT solutions services tailored for finance and insurance sectors
- (2) expanding the application of Enterprise Resource Planning ("ERP") system in our IT development solutions services
- (3) maintaining fund for performance bond and contract deposit
- (4) provision of cloud computing and IoT products
- (5) developing technical support centre to enhance our service quality
- (6) strengthening our marketing efforts
- (7) enhancing the expertise of our professional team
- (8) enhancing the Group's management information system

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

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

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

Up to 31 December 2020, the actual application of the net proceeds from the initial public offering were used according to the intentions previously disclosed in the Prospectus. However, save for the use of proceeds for expanding the application of ERP system in our IT development solutions services, develop IT solutions services tailored for finance and

insurance sectors, maintain fund for performance bond and contract deposit, development technical support centre to enhance our service quality and as general working capital which was in line with the timeline as disclosed in the Prospectus, there was a general delay in the timeline in the use of proceeds due to the following reasons:

- (i) given the macroeconomic situation during FY2020, potential large-scale IT solutions services business opportunities, IT application and development solutions for cloud products and IoT projects has been delayed; and
- (ii) given the uncertain business environment, the outbreak of COVID-19 and certain social restrictions imposed by the government, it has considerable impact on the Group's marketing efforts and enhancement of management information system. It is financially prudent to prolong the timeline for the Group's business plans (including marketing events and participating in IT industry exhibitions), which would enhance the cash position and liquidity of the Group to respond to the challenging economic environment ahead.

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

MAJOR RISKS AND UNCERTAINTIES

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

- (1) We rely on a supplier's hardware and software for our provision of IT infrastructure and development solutions services, and any shortage or delay in the supply of hardware and software from its authorised distributors or any deterioration of business relationship with that supplier and/or its authorised distributor(s) may materially and adversely affect our results of operations.
- (2) Our operations may be affected by concentrating on a few key suppliers. Should there be any loss of key suppliers or disruption in their supply, our business and results of operations could be materially and adversely affected.
- (3) Our Group is exposed to credit risk of our clients.

- (4) We may encounter cost overruns or delays in our IT infrastructure and development solutions projects and our business, financial position and results of operation may be materially and adversely affected.
- (5) We are unable to control the quality of the hardware and/or software provided by our suppliers. Should the products provided by our suppliers be defective or fail to meet the required standards, our business and reputation may be adversely affected.
- (6) Part of our works are subcontracted to subcontractors. Our operations and financial results may be adversely affected by any delay or defects in their work.
- (7) It may be difficult for us to maintain our high business partnership rankings with the IT products vendors and distributors.
- (8) Our current standing offer agreement with the Hong Kong Government will expire in July 2021. There is no assurance that we will continue to provide quality professional services as an approved contractor of the Hong Kong Government and its statutory bodies.
- (9) It may be difficult for us to recruit, train and retain capable and experienced sales staff and highly skilled technical staff. If there is any shortfall in our workforce or increase in labour cost, our business operations may be materially impeded and our financial results may be adversely affected.
- (10) Our business may be adversely affected if we fail to retain certain key executives and senior management or find suitable replacements since our performance relies heavily on them.
- (11) We are exposed to potential liabilities for damages as a result of our negligent acts or omissions in our services.
- (12) We may be vicariously liable for the acts or omissions of our staff and face claims or legal actions brought by our clients for damages as a result of the negligent conduct or fault of our staff.
- (13) During the implementation of IT infrastructure and development solutions projects, we may record net cash outflows. If we take up too many significant projects in the future, we may not have sufficient working capital, which may affect our financial position.
- (14) The project basis of our IT projects create uncertainty as to our future revenue streams.
- (15) Our business and our financial performance may be adversely affected by any infringement of our intellectual property rights or any infringement by us of the intellectual property rights of others, in particular our clients.
- (16) There may be adverse impact on our reputation and business operations in the event of leakage or misappropriation of confidential information handled by us.

- (17) Our success hinges on our ability to keep pace with the rapid changes in IT technology and to provide innovative solutions, services and products in response to rapidly evolving market demand. Our business, financial conditions and result of operations may be adversely impacted if we fail to do so.
- (18) We are subject to various risks relating to the development of cloud computing and IoT solutions.
- (19) We may not be able to successfully implement our strategies, or achieve our business objectives.
- (20) We may not be adequately insured against losses and liabilities arising from our operations.
- (21) We have not registered the tenancy agreement in respect of the lease of the premises in Kwun Tong.
- (22) Our operations may be affected adversely by the outbreak of COVID-19.

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

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

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

- (1) encouraging staff to participate the voluntary Universal Community Testing Programme;
- (2) implementing “work from home” policy unless mandatory physical present in office or requested by on-site clients;
- (3) requesting staff must wear surgical mask in office area, especially when they have internal/external meeting;
- (4) requesting staff to present negative COVID-19 test results conducted 1 day prior to before every shift change;

- (5) conducting mandatory body temperature check before entering office;
- (6) requesting staff not to travel to those areas severely affected by COVID-19 unless necessary, and those who return from the affected areas shall be quarantined for 14 days; and
- (7) requesting staff to report the residential building/area have the confirmed case of COVID-19.

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

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

OUTLOOK AND PROSPECTS

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

FINANCIAL REVIEW

Revenue

The Group's revenue for FY2020 amounted to approximately HK\$282.4 million, representing an increase of approximately HK\$66.8 million or 31.0% compared to FY2019 (2019: approximately HK\$215.6 million). The increase was attributable to increase in revenue generated from provision of (i) IT infrastructure solutions services projects by approximately HK\$9.8 million mainly due to the increase in average contract value of projects awarded; (ii) IT development solutions services projects approximately HK\$21.1 million mainly due to

the increase in average contract value of project awarded; and (iii) trading of entertainment products by approximately HK\$36.9 million but partially offset by the decrease in provision of IT maintenance and support services projects by approximately HK\$0.9 million.

Gross profit and gross profit margin

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

Selling expenses

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

Administrative and general expenses

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

Profit and total comprehensive income for the year

The Group increased profit for FY2020 by approximately HK\$8.0 million compared to profit of approximately HK\$1.6 million for FY2019. The profit was mainly attributable to the increase in gross profit by approximately HK\$10.3 million; increase in other income and other gains and loss by approximately HK\$8.1 million mainly due to the increase in government subsidies; partially offset by the increase in selling, administrative and general expenses by approximately HK\$10.8 million mainly due to the increase in staff cost; and increase

in reversal of expected credit losses by approximately HK\$1.3 million primarily due to the decrease in the likelihood or risk of default based on historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at 31 December 2020 as well as the forecast of future conditions.

FINANCIAL POSITION

Liquidity and financial resources

We maintained a healthy liquidity position, with working capital financed primarily through cash generated from our operating activities during FY2020, and our use of cash primarily relates to operating activities and purchase of property, plant and equipment. As at 31 December 2020, we had cash and cash equivalents of approximately HK\$35.8 million (31 December 2019: approximately HK\$60.0 million), which were cash at banks and in hand. Up to the date of consolidated financial statements, the Group has bank borrowings of approximately HK\$6.8 million. The Group have a credit facility from the Bank of East Asia of HK\$25.0 million as at 31 December 2020 (31 December 2019: nil) which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31.0 million plus interest and other charges provided by the Company. The Group's gearing ratio, which is calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was 19.3% as at 31 December 2020 (31 December 2019: nil). Our liquidity position has further been strengthened by using the cash generated from our operating activities and fund raising of the debt and the Shares were listed on the Stock Exchange on the Listing Date. Going forward, we intend to use our capital for our operations and the expansion plans as stated in the Prospectus.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2020. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Capital structure

As at 31 December 2020, the capital structure of the Company comprised issued share capital and reserves and bank borrowing.

Capital expenditure

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

Dividend policy

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

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

EMPLOYEES AND REMUNERATION POLICIES

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

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

The Company has adopted a share option scheme as incentive to Directors and eligible employees, details of the scheme are set out in the section headed “Share Option Scheme” below.

SHARE OPTION SCHEME

The share option scheme of the Company (the “Share Option Scheme”) is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 22 June 2018. No options have been granted, exercised or cancelled, or agreed to be granted, under the Share Option Scheme from the date of its adoption to 31 December 2020 and up to the date of this 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 FY2020, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including deposit for a life insurance policy, trade receivables, cash and cash equivalents and bank borrowing which are denominated in US\$. During FY2020 and FY2019, the Group did not adopt any hedging strategy but the management continuously monitored the foreign exchange risk exposure on a case-by-case basis. The Group did not use any hedging contracts to engage in speculative activities during FY2020 and FY2019.

DONATION

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

SIGNIFICANT INVESTMENTS

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

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

CHARGES ON GROUP ASSETS

As at 31 December 2020, except for the banking facilities which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31.0 million plus interest and other charges provided by the Company, there were no other charges on the Group's asset (2019: nil).

CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no other contingent liabilities except for Note 19 of this announcement.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in Note 20 of this announcement, there is no significant event subsequent to 31 December 2020.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is critical to effective management, successful business growth and a healthy corporate culture that will benefit the Company's stakeholders as a whole. The Directors will continue to review their corporate governance practices to enhance their corporate governance standard, comply with increasingly tightened regulatory requirements from time to time, and meet the growing expectations of the Shareholders and other stakeholders of the Company.

The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for FY2020, save for the deviation from such code disclosed below.

The CG Code in Appendix 15 to the GEM Listing Rules provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu Pak Lun Larry is the chairman and the chief executive officer of the Company. In view of Mr. Yu Pak Lun Larry is one of the co-founders of the Group and has been operating and managing the Group since 1998, the Board believes that it is in the best interest of the Group to have Mr. Yu Pak Lun Larry taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

Under the CG Code provision A.1.8, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Currently, the Company does not have insurance cover for legal action against its Directors. Every Director is, subject to the provisions of the applicable laws, indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto pursuant to the Articles of Association of the Company. However, as the risk management and internal control systems of our Group is effective and constantly under review, and as all the executive Directors and management are familiar with the operation of the Group and the information technology industry, the Board believes that the risk of the Directors being sued or getting involved in litigation in their capacity as Directors is relatively low, and hence the Board is of the view that the benefits of the insurance may not outweigh the cost. Therefore, the Board considers that the Directors' exposure to risk is manageable. Save for the deviations as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code since the Listing Date up to the date of this 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 FY2020.

ANNUAL GENERAL MEETING

Notice of the annual general meeting of the Company will be published and dispatched to the Company's shareholders in the manner required by the GEM Listing Rules in due course.

AUDIT COMMITTEE

The Audit Committee has reviewed with management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the annual consolidated financial statements for FY2020, and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made. There was no disagreement from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

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 2020 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, 24 March 2021

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. Cheng Kwan Ngai and Ms. Chen Jie as non-executive directors; Mr. Lam Yau Hin, 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.