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KINETIX SYSTEMS HOLDINGS LIMITED

健冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

**INTERIM RESULTS ANNOUNCEMENT
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

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

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

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

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2021

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2021, together with the unaudited comparative figures for the corresponding period in 2020 as follows:

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

For the three months and six months ended 30 June 2021

	Notes	Three months ended 30 June		Six months ended 30 June	
		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	5(a)	53,274	75,534	112,385	159,210
Cost of sales		<u>(47,449)</u>	<u>(62,233)</u>	<u>(93,071)</u>	<u>(135,264)</u>
Gross profit		5,825	13,301	19,314	23,946
Other income, other gains or losses	5(b)	929	757	1,117	842
Selling expenses		(2,677)	(2,651)	(5,568)	(4,178)
Administrative and general expenses		(12,859)	(8,156)	(24,290)	(17,062)
(Allowance for)/reversal of expected credit losses, net		(102)	(159)	143	(1,102)
Finance costs		<u>(304)</u>	<u>(69)</u>	<u>(488)</u>	<u>(112)</u>
(Loss)/profit before tax	6	(9,188)	3,023	(9,772)	2,334
Income tax	8	<u>(37)</u>	<u>(568)</u>	<u>(234)</u>	<u>(903)</u>
(Loss)/profit for the period		(9,225)	2,455	(10,006)	1,431
Other comprehensive income		<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total comprehensive (loss)/income for the period		<u>(9,225)</u>	<u>2,455</u>	<u>(10,006)</u>	<u>1,431</u>
Attributable to:					
Owners of the Company		(8,951)	2,292	(9,361)	2,409
Non-controlling interests		<u>(274)</u>	<u>163</u>	<u>(645)</u>	<u>(978)</u>
Total comprehensive (loss)/income for the period		<u>(9,225)</u>	<u>2,455</u>	<u>(10,006)</u>	<u>1,431</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
(Loss)/earnings per share					
– Basic and diluted	10	<u>(1.00)</u>	<u>0.29</u>	<u>(1.11)</u>	<u>0.30</u>

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2021

		As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
	Notes		
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	11	10,293	1,224
Right-of-use assets	12	18,152	1,733
Intangible assets	13	46,667	–
Finance lease receivables		4,840	7,240
Deposits and prepayments	14	–	2,931
Deposit and prepayment for a life insurance policy		6,729	6,747
Deferred tax assets		24	96
		<u>86,705</u>	<u>19,971</u>
<i>Current assets</i>			
Inventories		16,511	15,303
Finance lease receivables		4,752	4,658
Trade and other receivables, deposits and prepayments	14	67,191	85,939
Contract assets		31,393	24,904
Due from immediate holding company		47	17
Due from non-controlling shareholders of subsidiaries		243	243
Cash and cash equivalents		25,720	35,793
		<u>145,857</u>	<u>166,857</u>
Total assets		<u><u>232,562</u></u>	<u><u>186,828</u></u>
Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	16	9,600	8,000
Reserves		128,157	91,118
		<u>137,757</u>	<u>99,118</u>
Equity attributable to owners of the Company		137,757	99,118
Non-controlling interests		(1,861)	(1,216)
Total equity		<u>135,896</u>	<u>97,902</u>

		As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
	<i>Notes</i>		
<i>Non-current liabilities</i>			
Lease liabilities		18,042	4,331
		18,042	4,331
<i>Current liabilities</i>			
Trade and other payables and accruals	15	50,890	61,825
Tax payable		1,595	1,551
Bank borrowings	18	4,058	6,778
Due to non-controlling shareholders of subsidiaries		3,044	1,684
Lease liabilities		6,240	4,472
Contract liabilities		12,797	8,285
		78,624	84,595
Total liabilities		96,666	88,926
Total equity and liabilities		232,562	186,828

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2021

	Attributable to owners of the Company							
	Share capital	Share premium	Other reserve	Convertible bonds equity reserve	Retained profits	Total	Non-controlling interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 January 2020								
(audited)	8,000	43,199	10	–	37,593	88,802	(539)	88,263
Profit/(loss) for the period	–	–	–	–	2,409	2,409	(978)	1,431
Other comprehensive income for the period	–	–	–	–	–	–	–	–
Total comprehensive income/(loss) for the period	–	–	–	–	2,409	2,409	(978)	1,431
30 June 2020								
(unaudited)	8,000	43,199	10	–	40,002	91,211	(1,517)	89,694
1 January 2021								
(audited)	8,000	43,199	10	–	47,909	99,118	(1,216)	97,902
Loss for the period	–	–	–	–	(9,361)	(9,361)	(645)	(10,006)
Other comprehensive income for the period	–	–	–	–	–	–	–	–
Total comprehensive loss for the period	–	–	–	–	(9,361)	(9,361)	(645)	(10,006)
Recognition of equity component of convertible bonds	–	–	–	10,149	–	10,149	–	10,149
Convertible bonds conversion	1,600	46,400	–	(10,149)	–	37,851	–	37,851
30 June 2021								
(unaudited)	9,600	89,599	10	–	38,548	137,757	(1,861)	135,896

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2021

	Six months ended 30 June	
	2021	2020
	(Unaudited) <i>HK\$'000</i>	(Unaudited) <i>HK\$'000</i>
Net cash generated from/(used in) operating activities	6,116	(20,146)
Net cash used in investing activities	(9,977)	(173)
Net cash (used in)/generated from financing activities	(6,212)	20,754
Net (decrease)/increase in cash and cash equivalents	(10,073)	435
Cash and cash equivalents at beginning of period	35,793	59,976
Cash and cash equivalents at end of period	25,720	60,411

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2021

1. GENERAL

The Company was incorporated in the Cayman Islands on 16 September 2016 as an exempted company with limited liability. The registered office of the Company is Windward 3, Regatta Office Park, P.O. Box 1350, Grand Cayman, KY1-1108, Cayman Islands.

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

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2021 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). The principal accounting policies used in preparing the unaudited interim condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's annual financial statements for the year ended 31 December 2020.

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

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

The accounting policies adopted in the preparation of the unaudited interim condensed consolidated financial statements are same as those applied in the preparation of the Group's annual financial statements for the year ended 31 December 2020, except for the new and revised HKFRSs and interpretations issued by HKICPA that are first effective for the current accounting period of the Group. The followings are the significant changes to the accounting policy applied in these unaudited interim condensed consolidated financial statements for the period presented as a result of adoption of these amendments.

Convertible bonds

Convertible bonds that contain an equity component that can be converted into ordinary shares at the option of the purchaser, where the number of shares to be issued is fixed, are accounted for as compound financial instruments, i.e. they contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured at fair value based on the future interest and principal payments, discounted at the prevailing market rate of interest for similar non-convertible instruments. The equity component is the difference between the initial fair value of the convertible bonds as a whole and the initial fair value of the liability component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. Interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the convertible bonds equity reserve until either the bonds are converted or redeemed. If the bonds are converted, the convertible bonds equity reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bonds are redeemed, the convertible bonds equity reserve is released directly to retained profits.

Intangible assets

Intangible assets acquired separately and with finite useful lives are carried at costs less accumulated amortisation and accumulated impairment losses, if any. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement when the asset is derecognised.

4. SEGMENT INFORMATION

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

Geographical information

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

	Three months ended 30 June		Six months ended 30 June	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Hong Kong	52,579	74,427	110,852	155,889
Macau	695	1,107	1,533	3,321
	<u>53,274</u>	<u>75,534</u>	<u>112,385</u>	<u>159,210</u>

Information about major customers

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

	Three months ended		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Customer A	*	12,941	*	19,675
Customer B	*	14,968	*	38,330
Customer C	*	17,687	*	17,798
Customer D	6,689	*	*	*
Customer E	10,243	*	*	*
Customer F	5,710	*	*	*

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

5. REVENUE, OTHER INCOME, OTHER GAINS OR LOSSES

An analysis of the Group's revenue and other income, other gains or losses is as follows:

	Three months ended		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15, types of goods or services				
IT solutions services				
IT infrastructure solutions services	21,080	45,098	38,507	103,978
IT development solutions services	16,937	14,445	47,441	26,888
IT maintenance and support services	8,421	3,050	16,160	6,506
Trading of entertainment products	6,836	12,941	10,277	21,838
Total income	53,274	75,534	112,385	159,210

(a) **Information about segment revenue**

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

For the three months ended 30 June 2021					
	IT solutions services				Total (Unaudited) HK\$'000
	IT	IT	IT	Trading of	
	infrastructure	development	maintenance	entertainment	
	solutions	solutions	and support	products	
	services	services	services		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	21,024	–	–	6,836	27,860
Over time	56	16,937	8,421	–	25,414
Revenue from external customers	21,080	16,937	8,421	6,836	53,274
For the three months ended 30 June 2020					
	IT solutions services				Total (Unaudited) HK\$'000
	IT	IT	IT	Trading of	
	infrastructure	development	maintenance	entertainment	
	solutions	solutions	and support	products	
	services	services	services		
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	44,982	–	–	12,941	57,923
Over time	116	14,445	3,050	–	17,611
Revenue from external customers	45,098	14,445	3,050	12,941	75,534

For the six months ended 30 June 2021

	IT solutions services				Total (Unaudited) HK\$'000
	IT	IT	IT	Trading of	
	infrastructure	development	maintenance	entertainment	
	solutions	solutions	and support	products	
	services	services	services	(Unaudited)	
	(Unaudited)	(Unaudited)	(Unaudited)	HK\$'000	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	38,278	–	–	10,277	48,555
Over time	229	47,441	16,160	–	63,830
Revenue from external customers	38,507	47,441	16,160	10,277	112,385

For the six months ended 30 June 2020

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

(b) **Other income, other gains or losses**

The balance mainly represents finance lease interest income and compensation rebate for the six months ended 30 June 2021.

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

6. (LOSS)/PROFIT BEFORE TAX

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

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration				
– Audit services	46	–	102	–
– Non-audit services**	60	60	120	120
Cost of hardware and software recognised as expenses	23,502	43,081	43,874	95,686
Cost of IT solutions services*	11,636	5,776	28,675	15,477
Cost of IT maintenance and support services*	5,076	1,272	9,892	2,679
Cost of inventory recognised as an expense	6,477	12,418	9,725	21,091
Depreciation of property, plant and equipment	470	183	908	358
Depreciation of right-of-use assets	1,341	562	2,064	1,131
Amortisation of intangible assets	800	–	1,333	–
Allowance for/(reversal of) expected credit losses	102	159	(143)	1,102
Provision for/(reversal of) onerous contracts#	758	(314)	905	331
Loss on disposal of property, plant and equipment	–	2	–	2
Foreign exchange differences, net	66	138	56	112
Premium charges on a life insurance policy	40	49	80	9
Lease payments under short-term leases	247	2	453	5
Retirement fund scheme contributions	473	502	973	915
Directors' fee, salaries, allowances and other benefits in kind				
– Directors of the Company	1,308	1,311	2,160	1,978
– Other staff	11,637	12,057	25,496	23,031

* Included in the above costs are subcontracting costs amounting to HK\$12,532,000 (three months ended 30 June 2020: HK\$1,736,000) and HK\$30,062,000 (six months ended 30 June 2020: HK\$9,657,000) for the three months and six months ended 30 June 2021, respectively.

** Non-audit services represent the AUP services provided relating to interim results for the six months ended 30 June 2021 (2020: interim results for the six months ended 30 June 2020).

Included in cost of sales.

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	Three months ended		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Directors' fee	75	45	139	90
Short-term employee benefits	1,033	1,031	2,021	1,888
Post-employment benefits	17	28	35	46
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total compensation paid to key management personnel	<u>1,125</u>	<u>1,104</u>	<u>2,195</u>	<u>2,024</u>

8. INCOME TAX

	Three months ended		Six months ended	
	30 June		30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax	5	568	161	903
Deferred tax	32	–	73	–
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	<u>37</u>	<u>568</u>	<u>234</u>	<u>903</u>

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

9. DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 June 2021 (30 June 2020: HK\$nil).

10. (LOSS)/EARNINGS PER SHARE

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
(Loss)/profit and total comprehensive (loss)/income for the period attributable to the owners of the Company	<u>(8,951)</u>	<u>2,292</u>	<u>(9,361)</u>	<u>2,409</u>
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share (in thousands)	891,429	800,000	845,967	800,000
Effect of dilutive ordinary shares arising from convertible bonds (in thousands)	<u>68,571</u>	<u>–</u>	<u>86,630</u>	<u>–</u>
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share (in thousands)	<u>960,000</u>	<u>800,000</u>	<u>932,597</u>	<u>800,000</u>

For the three months ended 30 June 2021 and six months ended 30 June 2021, the convertible bonds had an anti-dilutive effect to the basic loss per share calculation. Therefore, the conversion of the potential dilutive share is not assumed in the computation of diluted loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2021, the Group acquired items of property, plant and equipment with cost of approximately HK\$9,979,000 (six months ended 30 June 2020: HK\$174,000) and disposal of property, plant and equipment with net book value is HK\$nil (six months ended 30 June 2020: HK\$2,000). No property, plant and equipment were written off during the six months ended 30 June 2021 and 2020.

12. RIGHT-OF-USE ASSETS

During the six months ended 30 June 2021, the Group leased right-of-use asset for a new office in Shanghai with cost of approximately HK\$18,563,000 (six months ended 30 June 2020: HK\$nil).

13. INTANGIBLE ASSETS

During the six months ended 30 June 2021, the Group acquired exclusive LED products agency selling rights from a third party at a consideration of approximately HK\$48,000,000 (six months ended 30 June 2020: HK\$nil).

The consideration is settled by way of issuing convertible bonds of the Company on 1 February 2021. These convertible bonds were fully converted into 160,000,000 ordinary shares on 10 May 2021.

14. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade receivables	34,232	39,260
Unbilled receivables	20,992	40,685
Deposits	2,605	5,546
Prepayments	8,343	3,011
Prepayment for a life insurance policy	160	160
Others	859	208
	<u>67,191</u>	<u>88,870</u>
Analysed as:		
Non-current portion	–	2,931
Current portion	<u>67,191</u>	<u>85,939</u>
	<u>67,191</u>	<u>88,870</u>
	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade receivables, gross	42,316	47,387
Less: Allowance for expected credit losses	<u>(8,084)</u>	<u>(8,127)</u>
	<u>34,232</u>	<u>39,260</u>

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

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
0–30 days	27,546	22,558
31–90 days	5,000	8,829
91–180 days	461	7,148
Over 180 days	<u>1,225</u>	<u>725</u>
	<u>34,232</u>	<u>39,260</u>

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

15. TRADE AND OTHER PAYABLES AND ACCRUALS

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Trade payables	23,567	22,559
Accrued purchases and service costs	23,181	36,200
Other payables and accruals	4,142	3,066
	<u>50,890</u>	<u>61,825</u>

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

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
0–30 days	11,345	13,740
31–60 days	5,950	7,042
61–90 days	5,873	1,176
Over 90 days	399	601
	<u>23,567</u>	<u>22,559</u>

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 2020 and 30 June 2021	<u>10,000,000,000</u>	<u>100,000</u>
		Share capital HK\$'000
800,000,000 ordinary shares at 31 December 2020		8,000
Convertible bonds conversion (<i>Note</i>)		<u>1,600</u>
960,000,000 ordinary shares at 30 June 2021		<u>9,600</u>

Note: On 10 May 2021, the conversion rights attached to the convertible bonds issued by the Company on 1 February 2021 have been converted into 160,000,000 shares at the total amount of HK\$1,600,000. All the outstanding ordinary shares have been fully converted.

17. RELATED PARTY TRANSACTIONS

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

	Three months ended 30 June		Six months ended 30 June	
	2021	2020	2021	2020
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Employee benefit expense and retirement fund scheme contributions to the spouse of the Chairman	-	113	-	113

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

18. BANK BORROWINGS

As at 30 June 2021, the Group had term loan of HK\$4,058,000 (31 December 2020: HK\$6,778,000). 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 plus interest and other charges provided by the Company.

19. CAPITAL COMMITMENTS

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

	As at 30 June 2021 (Unaudited) HK\$'000	As at 31 December 2020 (Audited) HK\$'000
Contracted for, but not provided for:		
Acquisition of equipment	-	320
Leasehold improvement	1,164	-
	<u>1,164</u>	<u>320</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 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 AND OUTLOOK

For the six months ended 30 June 2021 (“**Interim 2021**”), the Group recorded a loss of approximately HK\$10.0 million as compared to the net profit of approximately HK\$1.4 million for the six months ended 30 June 2020 (“**Interim 2020**”). The turning from profit to loss for the interim period was mainly attributed to (i) the decrease in gross profit by approximately HK\$4.6 million; (ii) the increase in staff cost in administrative and selling expenses by approximately HK\$3.5 million due to increase in number of staff and commission expenses; (iii) increase in rental payment by approximately HK\$0.4 million due to additional offices used by subsidiaries; and (iv) the increase in depreciation and amortisation by approximately HK\$2.8 million.

Provision of IT development solutions services

This segment provides IT development solutions services that generally include system analysis and design, software development and technology consultancy. The revenue generated from this segment accounted for approximately 42.2% of the total revenue for Interim 2021. The revenue from this segment increased by approximately 76.2% from approximately HK\$26.9 million for Interim 2020 to approximately HK\$47.4 million for Interim 2021. The increase was primarily due to the increase in the total number of projects awarded in Interim 2021.

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 Interim 2021 amounted to approximately HK\$38.5 million, representing approximately 34.3% of the total revenue for Interim 2021. The revenue derived from this segment decreased by approximately 63.0% from approximately HK\$104.0 million for Interim 2020 to approximately HK\$38.5 million for Interim 2021. The decrease was primarily due to a slight decrease in the total number of projects awarded with a considerably decrease in average project size of IT infrastructure solutions services projects undertaken in Interim 2021.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment amounted to approximately HK\$16.2 million, representing approximately 14.4% of the total revenue for Interim 2021. The revenue derived from this segment increased by approximately 149.2% from approximately HK\$6.5 million for Interim 2020 to approximately HK\$16.2 million for Interim 2021. The significant increase in revenue from this segment was primarily due to the increase in the average amount of revenue recognised per project.

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\$10.3 million, representing approximately 9.1% of the total revenue for Interim 2021. The revenue derived from this segment decreased by approximately 52.8% from approximately HK\$21.8 million for Interim 2020 to approximately HK\$10.3 million for Interim 2021. The decrease in revenue was because (i) both the total number of orders and quantities sold reduced; and (ii) the average order value decreased.

PROSPECTS AND OUTLOOK

For Interim 2021, the Group's decrease in income when comparing to the same period in 2020, reflects that the outbreak of COVID-19 pandemic (the "**COVID-19**") is still adversely affect the Group's business and its overall short-term performance. The Group will review its current business strategies and assets structure continuously to face various risks and uncertainties arising from COVID-19 interruptions and the global challenging environment. Our group will implement strict cost control and enhance our competitiveness by enhancing existing segments. Looking forward, our Group will seize the opportunities for the business expansion in Shanghai, actively cooperate with the People Republic of China's (the "**PRC**") government, accelerate the integration of its IT infrastructure solution services and IT development solutions services to participate and contribute to the PRC's economic development, in order to generate best possible results for shareholders in the medium to longer term.

FINANCIAL REVIEW

Revenue

The Group's revenue for Interim 2021 amounted to approximately HK\$112.4 million, representing a decrease of approximately HK\$46.8 million or 29.4% compared to Interim 2020 (2020: approximately HK\$159.2 million). The decrease was attributable to: (i) the decrease in the revenue generated from provision of IT infrastructure solutions services by approximately HK\$65.5 million; and (ii) the decrease in the revenue generated from trading of entertainment products by approximately HK\$11.5 million but was partially offset by: (i) the increase in provision of IT development solutions services by approximately HK\$20.5 million; and (ii) the increase in provision of IT maintenance and support services by approximately HK\$9.7 million.

Gross profit and gross profit margin

The gross profit of the Group decreased by approximately 19.2% from approximately HK\$23.9 million for Interim 2020 to approximately HK\$19.3 million for Interim 2021 as the decrease was mainly attributable to the decrease in gross profit of IT infrastructure solutions services and trading of entertainment products. The gross profit margin of the Group increased from approximately 15.0% for Interim 2020 to approximately 17.2% for Interim 2021. The increase was mainly attributable to the decrease in cost of IT infrastructure solutions services projects associated with comparatively higher gross profit margin projects during Interim 2021.

Selling expenses

For Interim 2021, the Group's selling expenses amounted to approximately HK\$5.6 million, representing the increase of approximately HK\$1.4 million or 33.3% as compared to Interim 2020 of approximately HK\$4.2 million. Such increase was mainly attributed to the increase in sales commission expenses by approximately HK\$0.8 million due to the sales commission scheme changed in Interim 2021 and the increase in staff cost by approximately HK\$0.6 million due to increase in number of sales staff.

Administrative and general expenses

The Group's administrative expenses for Interim 2021 amounted to approximately HK\$24.3 million, representing increase of approximately HK\$7.2 million or 42.4% as compared to Interim 2020 (2020: approximately HK\$17.1 million). Such increase was mainly attributed by (i) the increase in depreciation and amortisation by approximately HK\$2.8 million mainly due to the newly set up office in the PRC and the acquisition of intangible assets; (ii) the increase in staff cost by approximately HK\$2.0 million due to the increase in number of staff; and (iii) increase in rent by approximately HK\$0.4 million due to some subsidiaries set up offices in Hong Kong and Macau.

Loss for the period

The Group recorded net loss of approximately HK\$10.0 million for Interim 2021, as compared to profit of approximately HK\$1.4 million for Interim 2020. The turning from profit to loss for the interim period was mainly attributed to the net effect of: (i) the decrease in gross profit by approximately HK\$4.6 million; (ii) the increase in staff cost in administrative and selling expenses by approximately HK\$3.5 million due to increase in number of staff and commission expenses; (iii) increase in rental payment by approximately HK\$0.4 million due to additional offices used by subsidiaries; and (iv) the increase in depreciation and amortisation by approximately HK\$2.8 million.

Liquidity and financial resources

The Group financed its operations primarily through cash generated from its operating activities. As at 30 June 2021, the Group had cash and cash equivalents of approximately HK\$25.7 million (31 December 2020: approximately HK\$35.8 million), which were cash at banks and in hand. As at 30 June 2021, the Group has bank borrowings of approximately HK\$4.1 million (31 December 2020: HK\$6.8 million). The Group has a credit facility from the Bank of East Asia of HK\$25.0 million as at 30 June 2021 (31 December 2020: HK\$25.0 million), 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 was calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was 5.2% as at 30 June 2021 (31 December 2020: 19.3%). The Group expects its liquidity position would further be strengthened by using the cash generated from its operating activities and fund raising as a result of the listing of the shares of the Company (the “**Shares**”) on GEM of the Stock Exchange on 16 July 2018. Going forward, the Group intends to use its capital for its operations and the expansion plans as stated in the prospectus dated 30 June 2018 (the “**Prospectus**”).

Capital structure

As at 30 June 2021, the capital structure of the Company comprised issued share capital, and reserves. On 10 May 2021, the Company issued a total of 160,000,000 Shares at the aggregate nominal value of HK\$1.6 million upon the conversion of the convertible bonds of HK\$48.0 million at the conversion price of HK\$0.3 per conversion shares. For further details of the conversion, please refer to the paragraph headed “Use of Proceeds – Issue of HK\$48.0 million convertible bonds under general mandate” below in this announcement.

SIGNIFICANT INVESTMENTS

During Interim 2021, the Group did not hold any significant investment in properties or equity interest in any other company other than the subsidiaries.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During Interim 2021, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2021, the Group had a total of 136 employees (30 June 2020: 116). Total staff costs (including directors' emoluments) were approximately HK\$29.0 million for Interim 2021, as compared to approximately HK\$25.9 million for Interim 2020.

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

SHARE OPTION SCHEME

The share option scheme of the Company (the “**Share Option Scheme**”) is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 22 June 2018. No options have been granted, exercised or cancelled, or agreed to be granted, under the Share Option Scheme from the date of its adoption to 30 June 2021 and up to the date of this announcement.

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, there was no other plan for material investments or capital assets as at 30 June 2021.

CHARGES ON GROUP ASSETS

As at 30 June 2021, except for the banking facilities which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31.0 million plus interest and other charges provided by the Company, there were no other charges on the Group's assets (31 December 2020: HK\$31.0 million).

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK\$. During Interim 2021, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents, trade payables and bank borrowings which are denominated in US\$ and EUR. During Interim 2021 and Interim 2020, the Group did not adopt any hedging strategy but the management continuously monitored the foreign exchange risk exposure on a case-by-case basis. The Group did not use any hedging contracts to engage in speculative activities during Interim 2021 and Interim 2020.

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

During Interim 2021, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 June 2021, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, are as follows:

The Company

Director	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Mr. Yu Larry	Interest in controlled corporations ⁽²⁾	415,000,000 Shares (L)	43.23%

Notes:

(1) The letter "L" denotes a person's long position (as defined under Part XV of the SFO) in the Shares.

(2) The Company is held as to approximately 43.23% by Vigorous King Limited, which in turn is held as to 100% by Mr. Yu Larry.

Associated Corporation – Vigorous King Limited

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

Save as disclosed above, as at 30 June 2021, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 30 June 2021 so far as the Directors were aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

The Company

Shareholders	Capacity/ Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Vigorous King Limited ⁽²⁾	Beneficial owner	415,000,000 Shares (L)	43.23%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of spouse	415,000,000 Shares (L)	43.23%
Ms. Leung Ruby Huey Boon	Beneficial owner	56,930,000 Shares (L)	5.93%
Mr. Leung Clement Kam Hon ⁽⁴⁾	Interest of spouse	56,930,000 Shares (L)	5.93%
Ms. Yiu Wai Ki	Beneficial owner	73,400,000 Shares (L)	7.65%

Shareholders	Capacity/ Nature of interest	Number and class of securities⁽¹⁾	Approximate percentage of interest in the Company
Mr. Leung Wan Hung ⁽⁵⁾	Interest of spouse	73,400,000 Shares (L)	7.65%
Mr. Lam Sze Chun Jackson	Beneficial owner	142,560,000 Shares (L)	14.85%
Goldlink Hong Kong Investment Limited ⁽⁶⁾	Beneficial owner	50,000,000 Shares (L)	5.21%
Rich Trend Hong Kong Investment Limited ⁽⁷⁾	Beneficial owner	50,000,000 Shares (L)	5.21%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the Shares.
- (2) Vigorous King Limited is held as to 100% by Mr. Yu Larry. Therefore, Mr. Yu Larry is deemed to be interested in the Shares which Vigorous King Limited is interested in by virtue of the SFO.
- (3) Ms. Tong Po Ki Vicky is the spouse of Mr. Yu Larry. Therefore, Ms. Tong is deemed to be interested in the Shares which Mr. Yu Larry is interested in by virtue of the SFO.
- (4) Mr. Leung Clement Kam Hon is the spouse of Ms. Leung Ruby Huey Boon. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Leung Ruby Huey Boon is interested in by virtue of the SFO.
- (5) Mr. Leung Wan Hung is the spouse of Ms. Yiu Wai Ki. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Yiu Wai Ki is interested in by virtue of the SFO.
- (6) Goldlink Hong Kong Investment Limited is held as to 100% by Mr. Lam Sze Chun Jackson. Therefore, Mr. Lam is deemed to be interested in the Shares which Goldlink Hong Kong Investment Limited is interested in by virtue of the SFO.
- (7) Rich Trend Hong Kong Investment Limited is held as to 100% by Mr. Lam Sze Chun Jackson. Therefore, Mr. Lam is deemed to be interested in the Shares which Rich Trend Hong Kong Investment Limited is interested in by virtue of the SFO.

Save as disclosed above, as at 30 June 2021, the Directors were not aware of any persons who/entities which had an interest or short position in the Shares or underlying Shares, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

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

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions of the Corporate Governance Code (the “**CG Code**”) as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for Interim 2021, 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 Larry is the chairman and the chief executive officer of the Company. In view of Mr. Yu 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 Larry taking up both roles for effective management and business development. Therefore, the Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstances.

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

Following the retirement of Mr. Lam Yau Hin as an independent non-executive Director upon the conclusion of the annual general meeting of the Company held on 29 June 2021, the nomination committee was not comprised of a majority of independent non-executive directors as required under code provision A.5.1 of the Corporate Governance Code as set out in Appendix 15 of the GEM Listing Rules. On 6 August 2021, Mr. Li Xiaoping (“**Mr. Li**”) was appointed as an independent non-executive Director and a member of the remuneration committee and nomination committee of the Company and the nomination committee comprised Ms. Lam Shun Ka as chairman, and Mr. Li and Mr. Yu Larry as members. Accordingly, the Company had fulfilled the requirements under the code provision A.5.1 of the Corporate Governance Code in Appendix 15 to the GEM Listing Rules.

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.

NON-COMPLIANCE WITH RULES 5.05(1), 5.05(2), 5.28 AND 5.34 OF THE GEM LISTING RULES

Following the resignation of Mr. Yeung Wai Keung as independent non-executive Director on 1 March 2021, the Company only had two independent non-executive Directors, thus the number of the independent non-executive Directors fell below the minimum number required under Rule 5.05(1) of the GEM Listing Rules. Following the appointment of Dr. He Dazhi as independent non-executive Director on 1 April 2021, the number of independent non-executive Directors had satisfied the minimum number required under Rule 5.05(1) of the GEM Listing Rules.

Following the retirement of Mr. Lam Yau Hin as an independent non-executive Director upon the conclusion of the annual general meeting of the Company held on 29 June 2021, (i) the number of independent non-executive Directors fell below the minimum number required under Rule 5.05(1) of the GEM Listing Rules; (ii) no independent non-executive Director had appropriate professional qualifications or accounting or related financial management expertise as required in Rule 5.05 (2) of the GEM Listing Rules; (iii) the number of independent non-executive Directors fell below one-third of the Board as required under Rule 5.05A of the GEM Listing Rules; (iv) the number of members of the audit committee of the Board fell below the minimum number requirement, no member of the audit committee has appropriate professional qualifications or accounting or related financial management expertise, and the audit committee has not been chaired by an independent non-executive Director as required under Rule 5.28 of the GEM Listing Rules; and (v) the remuneration committee was not comprised of a majority of independent non-executive directors as required under Rule 5.34 of the GEM Listing Rules.

On 6 August 2021, Mr. Li was appointed as an independent non-executive Director and a member of the remuneration committee and nomination committee of the Company.

Following the appointment of Mr. Li, (i) the Board had three independent non-executive Directors; (ii) the number of independent non-executive Directors represented at least one-third of the Board; (iii) the remuneration committee comprised Ms. Lam Shun Ka as the chairman, and Mr. Li and Mr. Yu Larry as members; and (iv) the nomination committee comprised Ms. Lam Shun Ka as chairman, and Mr. Li and Mr. Yu Larry as members. Accordingly, the Company had fulfilled the requirements under Rules 5.05(1), 5.05A and 5.34 of the GEM Listing Rules, respectively.

However, pursuant to Rule 5.05(2) and Rule 5.28 of the GEM Listing Rules, the Company must have at least one of the independent non-executive Directors and one of the members of the audit committee with appropriate professional qualifications or accounting or related financial management expertise. As at the date of this announcement, the Company has not met the relevant requirements under Rules 5.05(2) and 5.28 of the GEM Listing Rules. The Company has been in the process of identifying suitable candidates to fill up the vacancy within three months from 29 June 2021 in order to comply with the GEM Listing Rules and will make further announcement(s) as and when appropriate.

INTERESTS IN COMPETING BUSINESS

During the Interim 2021, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

USE OF PROCEEDS

(a) The net proceeds of the Group raised from the initial public offering

The net proceeds from the listing of the shares on GEM of the Stock Exchange (the “**Listing**”) was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 30 June 2021, the Group has utilised proceeds from the listing of approximately HK\$23.5 million and a summary of use of proceeds are set out in the table below:

	As set out in the Prospectus <i>HK\$ million</i>	Amount expected to be used up to 30 June 2021 <i>HK\$ million</i>	Amount actually used up to 30 June 2021 <i>HK\$ million</i>	Balance as at 30 June 2021 <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	5.34	5.34	1.76	31 December 2021
Expand the application of ERP system in our IT development solutions services	1.17	0.86	0.86	0.31	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	7.44	6.57	2.58	31 December 2021
Develop technical support centre to enhance our service quality	2.92	2.92	2.92	–	Fully utilised
Strengthen our marketing efforts	2.34	2.33	1.23	1.11	31 December 2021
Enhance the expertise of our professional team	1.75	1.75	1.21	0.54	31 December 2021
Enhance our Group’s management information system	5.19	4.42	1.23	3.96	31 December 2021
Working capital and other general corporate purposes	2.14	1.84	1.84	0.30	31 December 2021
Total	<u>34.10</u>	<u>29.24</u>	<u>23.54</u>	<u>10.56</u>	

Up to 30 June 2021, the actual application of the net proceeds from the Listing 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, developing IT solutions services tailored for finance and insurance sectors, maintaining 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 the period, potential large-scale IT solutions services, business opportunities, IT application and development solutions for cloud products and IT projects has been delayed; and
- (ii) the uncertain business environment, the continuous shock of COVID-19 and certain social distancing measures imposed by the government, has considerable impact on the marketing efforts of the Group and enhancement of professional team and 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 heighten the Group's cash position and liquidity to respond to future challenging economic environment.

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 handle the changing market conditions and strive for better business performance for the Group. The remaining net proceeds are intended to be applied in accordance with the proposed application set forth in the Prospectus.

(b) Issue of HK\$48,000,000 convertible bonds (the “Convertible Bonds”) under general mandate

On 21 December 2020, the Company entered into a conditional sale and purchase agreement (the “**Agreement**”) with the Dalian Luminary Technology Inc. (the “**Vendor**”), pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the exclusive LED products agency selling rights, at the consideration of HK\$48,000,000. The Convertible Bonds carry the right to convert into conversion shares at the conversion price of HK\$0.30 (subject to adjustment) per conversion share. On 1 February 2021, the Company completed the issue of convertible bonds in the aggregate principal amount of HK\$48,000,000 to the Vendor.

Details of the application of the net proceeds of the issue of the Convertible Bond are as follows:

Intended Use	Amount of net proceeds allocated	Amount of net proceeds utilised as at 30 June 2021	Amount of net proceeds unutilised as at 30 June 2021
As the consideration for the acquisition of the exclusive LED products agency selling rights	HK\$48 million	HK\$48 million	–

On 1 February 2021, the acquisition of the exclusive LED products agency selling rights was completed and the proceeds from the issue of the Convertible Bonds were fully used to settle the consideration of the acquisition. For further details of the acquisition of the exclusive LED products agency selling rights and the issue of the Convertible Bonds, please refer to the announcements of the Company dated 21 December 2020, 6 January 2021 and 1 February 2021.

On 10 May 2021, the Company received a transfer notice from the Vendor in respect of the transfer of Convertible Bonds in the total principal amount of (i) HK\$18,000,000 to Lam Sze Chun Jackson (“**Mr. Lam**”); (ii) HK\$15,000,000 to Goldlink Hong Kong Investment Limited (“**Goldlink**”) a company incorporated in Hong Kong with limited liability; and (iii) HK\$15,000,000 to Rich Trend Hong Kong Investment Limited (“**Rich Trend**”) a company incorporated in Hong Kong with limited liability. Mr. Lam is the sole shareholder and the ultimate beneficial owner of Goldlink and Rich Trend. On 10 May 2021, the Company received conversion notices from Mr. Lam, Goldlink, Rich Trend for conversion of an aggregate principal amount of HK\$48 million in the Convertible Bonds at the conversion price of HK\$0.30 per conversion share that (i) 60,000,000 Conversion Shares were issued and allotted to Mr. Lam, (ii) 50,000,000 Conversion Shares were issued and allotted to Goldlink and (iii) 50,000,000 Conversion Shares were issued and allotted to Rich Trend.

COMPLIANCE WITH RULES 5.28 TO 5.39 OF THE GEM LISTING RULES

In the opinion of the Directors, save as disclosed herein, the Company has complied with Rules 5.28 to 5.39 of the GEM Listing Rules concerning board practices and procedures during the six months ended 30 June 2021.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the six months ended 30 June 2021 and this announcement, and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosure has been made.

DIVIDENDS

The Board has resolved not to declare dividend for the six months ended 30 June 2021.

DISCLOSURE OF INFORMATION

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

IMPORTANT EVENTS AFTER THE REPORTING PERIOD

Save as elsewhere disclosed in this announcement, there is no important event after Interim 2021.

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

Hong Kong, 13 August 2021

As at the date of this announcement, the Board comprises Mr. Yu Larry, Mr. Leung Patrick Cheong Yu and Mr. Law Cheung Moon as executive Directors; Mr. Cheng Kwan Ngai, Ms. Chen Jie and Mr. Tang Biao as non-executive Directors; Ms. Lam Shun Ka, Dr. He Dazhi and Mr. Li Xiaoping as independent non-executive Directors.

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

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