

kinetix

Kinetix Systems Holdings Limited

捷冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

2023 INTERIM REPORT



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

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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.

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

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Non-executive Directors

Ms. Chen Jie (resigned on 4 April 2023)
Mr. Tang Biao (resigned on 3 July 2023)

Independent Non-executive Directors

Ms. Lam Shun Ka
(formerly known as Lam Yuk Shan)
Dr. He Dazhi (resigned on 3 July 2023)
Mr. Li Xiaoping
Mr. Tong Tsz Kwan

COMPANY SECRETARY

Mr. Fung Kui Kei

REGISTERED OFFICE

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

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS

6/F, SML Tower
165 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

AUDITOR

Linksfield CPA Limited
*Certified Public Accountants and
Registered Public Interest Entity Auditor*
Unit 2001-2, 20th floor
Podium Plaza, 5 Hanoi Road
Tsim Sha Tsui, Kowloon

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
17/F, Far East Finance Centre
16 Harcourt Road, Hong Kong

STOCK CODE

8606

WEBSITE

www.kinetix.com.hk

FINANCIAL HIGHLIGHTS

- The total revenue of the Group amounted to approximately HK\$138.0 million for the six months ended 30 June 2023, decreased by approximately 2.4% as compared to that of the same period in 2022.
- The gross profit amounted to approximately HK\$29.4 million for the six months ended 30 June 2023, increased by approximately 24.6% as compared to that of the same period in 2022.
- The Group recorded a net loss of approximately HK\$5.9 million for the six months ended 30 June 2023, as compared to a net loss of approximately HK\$14.8 million for the six months ended 30 June 2022.
- The board of Directors (the “Board”) resolved not to recommend the payment of interim dividend for the six months ended 30 June 2023.

FINANCIAL RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2023

The Board hereby presents the unaudited condensed consolidated financial results of the Group for the six months ended 30 June 2023, together with the unaudited comparative figures for the corresponding period in 2022 as follows:

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

For the three months and six months ended 30 June 2023

	Notes	Three months ended 30 June		Six months ended 30 June	
		2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Revenue	5(a)	69,191	76,998	137,968	141,317
Cost of sales		(52,758)	(63,098)	(108,521)	(117,675)
Gross profit	5(b)	16,433	13,900	29,447	23,642
Other income and gains		617	265	865	487
Selling expenses		(3,355)	(3,994)	(6,204)	(7,626)
Administrative and general expenses		(13,842)	(14,139)	(29,530)	(30,137)
Allowance for expected credit losses		(445)	(133)	(97)	(325)
Finance costs		(262)	(383)	(515)	(665)
Loss before tax	6	(854)	(4,484)	(6,034)	(14,624)
Income tax credit/(expense)	8	109	(128)	108	(128)
Loss for the period		(745)	(4,612)	(5,926)	(14,752)
Attributable to:					
Owners of the Company		(185)	(3,800)	(5,677)	(13,644)
Non-controlling interests		(560)	(812)	(249)	(1,108)
Loss for the period		(745)	(4,612)	(5,926)	(14,752)
		HK cents	HK cents	HK cents	HK cents
Loss per share					
– Basic and diluted	10	(0.01)	(0.39)	(0.39)	(1.42)

	Three months ended 30 June		Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Loss for the period	(745)	(4,612)	(5,926)	(14,752)
Other comprehensive (loss)/income <i>Item that may be reclassified subsequently to profit or loss:</i>				
Exchange difference arising on translation of foreign operations	(257)	446	(320)	(28)
Other comprehensive (loss)/income for the period, net of tax	(257)	446	(320)	(28)
Total comprehensive loss for the period	(1,002)	(4,166)	(6,246)	(14,780)
Attributable to:				
Owners of the Company	(442)	(3,354)	(5,997)	(13,672)
Non-controlling interests	(560)	(812)	(249)	(1,108)
	(1,002)	(4,166)	(6,246)	(14,780)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

	Notes	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Assets			
<i>Non-current assets</i>			
Property, plant and equipment	11	5,839	6,909
Right-of-use assets		11,757	15,012
Intangible asset		–	–
Deposits and prepayments	12	1,412	1,470
Deposit and prepayment for a life insurance policy		6,667	6,681
		25,675	30,072
<i>Current assets</i>			
Inventories		3,374	6,748
Finance lease receivables		–	212
Trade and other receivables	12	84,218	100,287
Contract assets		39,159	36,078
Amount due from immediate holding company		278	78
Amounts due from non-controlling shareholders		243	243
Current income tax assets		–	944
Cash and cash equivalents		33,245	25,191
		160,517	169,781
Total assets		186,192	199,853

	Notes	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Equity			
<i>Capital and reserves</i>			
Share capital	14	14,459	9,639
Reserves		74,281	55,195
Equity attributable to owners of the Company		88,740	64,834
Non-controlling interests		(5,413)	(5,164)
Total equity		83,327	59,670
Liabilities			
<i>Non-current liabilities</i>			
Lease liabilities		8,743	12,297
Deferred income tax liabilities		58	145
		8,801	12,442
<i>Current liabilities</i>			
Trade and other payables	13	66,303	94,421
Contract liabilities		15,435	19,574
Bank borrowings	16	1,917	2,450
Amounts due to non-controlling shareholders		3,297	3,297
Lease liabilities		6,932	7,999
Current income tax liabilities		180	–
		94,064	127,741
Total liabilities		102,865	140,183
Total equity and liabilities		186,192	199,853

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2023

	Attributable to owners of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Share-based payment reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings/ accumulated losses HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
1 January 2022 (audited)	9,639	90,865	10	3,364	(10)	28,051	131,919	(2,316)	129,603
Loss for the period	-	-	-	-	-	(13,644)	(13,644)	(1,108)	(14,752)
Exchange difference arising from translation of foreign operations	-	-	-	-	(28)	-	(28)	-	(28)
Total comprehensive loss for the period	-	-	-	-	(28)	(13,644)	(13,672)	(1,108)	(14,780)
30 June 2022 (unaudited)	9,639	90,865	10	3,364	(38)	14,407	118,247	(3,424)	114,823
1 January 2023 (audited)	9,639	90,865	10	3,364	(37)	(39,007)	64,834	(5,164)	59,670
Loss for the period	-	-	-	-	-	(5,677)	(5,677)	(249)	(5,926)
Exchange difference arising from translation of foreign operations	-	-	-	-	(320)	-	(320)	-	(320)
Total comprehensive loss for the period	-	-	-	-	(320)	(5,677)	(5,997)	(249)	(6,246)
Transactions with owners in their capacity as owners: Shares issued under rights issue	4,820	26,507	-	-	-	-	31,327	-	31,327
Transaction cost incurred in respect of rights issue	-	(1,424)	-	-	-	-	(1,424)	-	(1,424)
30 June 2023 (unaudited)	14,459	115,948	10	3,364	(357)	(44,684)	(88,740)	(5,413)	83,327

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2023

	Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Net cash (used in)/generated from operating activities	(15,686)	5,906
Net cash used in investing activities	(732)	(286)
Net cash generated from/(used in) financing activities	24,731	(8,828)
Net increase/(decrease) in cash and cash equivalents	8,313	(3,208)
Cash and cash equivalents at beginning of period	25,191	29,966
Effect of foreign exchange rate changes	(259)	661
Cash and cash equivalents at end of period	33,245	27,419

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2023

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 entertainment products.

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited interim condensed consolidated financial statements for the six months ended 30 June 2023 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 of Hong Kong Limited (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 2022.

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 2022, except for the new and amendments to HKFRSs and interpretations issued by HKICPA that are first effective for the current accounting period of the Group. There has been no significant change to the accounting policy applied in these unaudited interim condensed consolidated financial statements for the period presented as a result of adoption of these amendments.

4. SEGMENT INFORMATION

The chief operating decision makers are identified as the executive Directors of the Group. 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 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	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Geographical markets:				
– Hong Kong	66,908	75,408	135,194	138,566
– Macau	1,435	1,590	1,710	2,751
– Singapore	838	–	968	–
– The UK	10	–	96	–
	69,191	76,998	137,968	141,317

Information about major customers

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

	Three months ended 30 June		Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Customer A	*	10,498	*	*
Customer B	7,665	–	*	–

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

5. REVENUE FROM CONTRACTS WITH CUSTOMERS, OTHER INCOME AND GAINS

(a) Revenue from contracts with customers

An analysis of the Group's revenue is as follows:

	Three months ended 30 June		Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Revenue				
IT solutions services				
IT infrastructure solutions services	31,542	23,914	61,767	47,286
IT development solutions services	26,399	32,732	51,421	60,840
IT maintenance and support services	11,250	19,467	24,780	32,306
Entertainment products	–	885	–	885
	69,191	76,998	137,968	141,317

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 2023					
IT solutions services					
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Entertainment products (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	21,477	-	-	-	21,477
Over time	10,065	26,399	11,250	-	47,714
Revenue from external customers	31,542	26,399	11,250	-	69,191

For the three months ended 30 June 2022					
IT solutions services					
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Entertainment products (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	16,228	-	-	885	17,113
Over time	7,686	32,732	19,467	-	59,885
Revenue from external customers	23,914	32,732	19,467	885	76,998

	For the six months ended 30 June 2023				
	IT solutions services				
	IT	IT	IT	Entertainment	Total
	infrastructure	development	maintenance		
solutions	solutions	and support			
services	services	services	(Unaudited)	(Unaudited)	
(Unaudited)	(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	42,581	–	1,854	–	44,435
Over time	19,186	51,421	22,926	–	93,533
Revenue from external customers	61,767	51,421	24,780	–	137,968

	For the six months ended 30 June 2022				
	IT solutions services				
	IT	IT	IT	Entertainment	Total
	infrastructure	development	maintenance		
solutions	solutions	and support			
services	services	services	(Unaudited)	(Unaudited)	
(Unaudited)	(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	25,903	–	–	885	26,788
Over time	21,383	60,840	32,306	–	114,529
Revenue from external customers	47,286	60,840	32,306	885	141,317

(b) Other income and gains

The balance mainly represents exchange gain for the six months ended 30 June 2023.

For the six months ended 30 June 2022, the balance mainly represents government grant and exchange gain.

6. LOSS BEFORE TAX

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

	Three months ended		Six months ended	
	30 June		30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Auditor's remuneration				
– Non-audit services	80	–	80	–
Cost of hardware and software recognised as expenses	27,756	18,410	57,910	46,082
Cost of IT solutions services*	9,708	27,702	18,577	44,153
Cost of IT maintenance and support services*	8,003	16,105	17,943	26,559
Cost of inventory recognised as an expense	–	881	–	881
Depreciation of property, plant and equipment	676	1,019	1,373	1,492
Depreciation of right-of-use assets	1,285	1,243	2,836	2,293
Amortisation of intangible asset	–	800	–	1,600
Allowance for expected credit losses	445	133	97	325
Loss on disposal of property, plant and equipment	–	–	1	52
Foreign exchange differences, net	(474)	(62)	(646)	(171)
Premium charges on a life insurance policy	40	40	80	80
Lease payments under short-term leases	–	689	–	1,437
Retirement fund scheme contributions	614	667	1,231	1,346
Directors' fee, salaries, allowances and other benefits in kind				
– Directors of the Company	553	670	1,320	1,458
– Other staff	11,614	18,675	24,046	38,100

* Included in the above costs are subcontracting costs amounting to HK\$19,165,000 (three months ended 30 June 2022: HK\$38,599,000) and HK\$39,878,000 (six months ended 30 June 2022: HK\$58,936,000) for the three months and six months ended 30 June 2023, respectively.

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	Three months ended 30 June		Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Directors' fee	(52)	63	11	126
Short-term employee benefits	604	581	1,283	1,306
Post-employment benefits	13	13	26	26
Total compensation paid to key management personnel	565	657	1,320	1,458

8. INCOME TAX CREDIT/(EXPENSE)

	Three months ended 30 June		Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Current tax – under-provision	64	–	21	–
Deferred tax	45	(128)	87	(128)
	109	(128)	108	(128)

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 2023 (30 June 2022: HK\$nil).

10. LOSS PER SHARE

(a) Basic loss per share

	Three months ended 30 June		Six months ended 30 June	
	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000	2023 (Unaudited) HK\$'000	2022 (Unaudited) HK\$'000
Loss for the period attributable to the owners of the Company	(185)	(3,800)	(5,677)	(13,644)
Weighted average number of ordinary shares in issue (in thousands)	1,445,850	963,900	1,445,850	963,900
Basic loss per share (Hong Kong cents)	(0.01)	(0.39)	(0.39)	(1.42)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume exercise of all potentially dilutive ordinary shares. The Company has potentially dilutive ordinary shares of share options. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's shares for the period) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

For the six months ended 30 June 2023 and 2022, diluted loss per share is the same as the basic loss per share as the exercise of potential ordinary shares in relation to the outstanding share options would have anti-dilutive effects to the basic loss per share.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2023, the Group acquired items of property, plant and equipment with cost of approximately HK\$532,000 (six months ended 30 June 2022: HK\$286,000) and no property, plant and equipment were written off during the six months ended 30 June 2023 (six months ended 30 June 2022: HK\$52,000). No property, plant and equipment were disposed during the six months ended 30 June 2023 and 2022.

12. TRADE AND OTHER RECEIVABLES

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Trade receivables	47,965	48,464
Unbilled receivables	29,335	42,443
Deposits	1,514	1,720
Prepayments	5,715	8,085
Prepayment for a life insurance policy	160	160
Other receivables	941	885
	85,630	101,757
Analysed as:		
Non-current portion	1,412	1,470
Current portion	84,218	100,287
	85,630	101,757

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Trade receivables, gross	51,746	58,001
Less: Allowance for expected credit losses	(3,781)	(9,537)
	47,965	48,464

The following is an aging analysis of trade receivables presented based on the invoice date, and net of expected credit losses.

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
0–30 days	19,589	35,034
31–90 days	16,384	7,245
91–180 days	4,609	2,109
Over 180 days	7,383	4,076
	47,965	48,464

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.

13. TRADE AND OTHER PAYABLES

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Trade payables	27,824	44,609
Accrued purchases and service costs	25,934	35,582
Other payables and accruals	12,545	14,230
	66,303	94,421

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

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
0–30 days	11,230	29,994
31–60 days	8,467	5,211
61–90 days	996	1,567
Over 90 days	7,131	7,837
	27,824	44,609

14. SHARE CAPITAL

	Number of ordinary shares of the Company	Share capital HK\$'000
Authorised ordinary shares of HK\$0.01 each At 30 June 2023 and 31 December 2022	10,000,000,000	100,000
Issued and fully paid:		
963,900,000 ordinary shares at 31 December 2022		9,639
481,949,998 ordinary shares issued under rights issue		4,820
1,445,849,998 ordinary shares at 30 June 2023		14,459

15. RELATED PARTY TRANSACTIONS

- (a) No transactions with related parties were made for the six months ended 30 June 2023 and 30 June 2022.
- (b) Details of compensation of key management personnel of the Group are included in Note 7 to the financial statements.

16. BANK BORROWINGS

	As at 30 June 2023 (Unaudited) HK\$'000	As at 31 December 2022 (Audited) HK\$'000
Secured bank borrowings including due for repayment after one year which contain a repayment in demand clause	1,917	2,450

The Group's interest-bearing bank borrowings are secured by the deed of assignment over life insurance policy purchased for the Company's director and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company.

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 24 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 entertainment products.

BUSINESS REVIEW AND OUTLOOK

For the six months ended 30 June 2023 ("Interim 2023"), the Group recorded a loss of approximately HK\$5.9 million as compared to the net loss of approximately HK\$14.8 million for the six months ended 30 June 2022 ("Interim 2022"). The decrease in loss for the Interim 2023 was mainly attributed to (i) the increase in gross profit by approximately HK\$5.8 million mainly represented by the increase in gross profit in the provision of IT development solutions services, (ii) the decrease in selling expenses by approximately HK\$1.4 million mainly represented by the decrease in selling and pre-sales cost, (iii) the decrease in administrative and general expenses by approximately HK\$0.6 million mainly represented by the decrease in amortisation of intangible asset and rental expenses, but partially offset by the increase in salaries expenses due to salary increment, and (iv) the increase in other income and gains by approximately HK\$0.4 million mainly represented by the increase in foreign exchange gains.

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 37.3% of the total revenue for Interim 2023. The revenue from this segment decreased by approximately 15.5% from approximately HK\$60.8 million for Interim 2022 to approximately HK\$51.4 million for Interim 2023. The decrease was primarily due to a slight decrease in the total number of projects awarded in Interim 2023.

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 2023 amounted to approximately HK\$61.8 million, representing approximately 44.8% of the total revenue for Interim 2023. The revenue derived from this segment increased by approximately 30.6% from approximately HK\$47.3 million for Interim 2022 to approximately HK\$61.8 million for Interim 2023. The increase was primarily due to an increase in the total number of projects awarded with an increase in total contract value of IT infrastructure solutions services projects in Interim 2023.

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\$24.8 million, representing approximately 17.9% of the total revenue for Interim 2023. The revenue derived from this segment decreased by approximately 23.3% from approximately HK\$32.3 million for Interim 2022 to approximately HK\$24.8 million for Interim 2023. The decrease in revenue from this segment was primarily due to the decrease in average contract value of IT maintenance and support services.

Entertainment products

This segment operates an e-commerce business which includes trading of entertainment products and consultant services for digital payment advisory on payment platform. The revenue generated from this segment decreased by approximately HK\$0.9 million comparing to Interim 2022. Such decrease due to no revenue was generated from this segment for Interim 2023, which is affected by the temporary reduction of exporting the entertainment products and consultant services.

PROSPECTS AND OUTLOOK

For Interim 2023, the Group's decrease in loss when comparing to Interim 2022 reveals that the Group has been resuming from the significant impact brought by the pandemic. In view of the Hong Kong Government and the PRC Government's removal of all the precautionary measures related to the pandemic, this results in an upturn of the global economy. Despite of this, there remains significant uncertainty from the aftermath of the pandemic in which the Group will need to monitor it closely.

During the Interim 2023, the Group was continuously focusing on its ongoing projects and devoting its efforts in seeking new potential business opportunities to strive for a turnaround from the previous losses. Leveraging the Group's industrial knowledge and solid experiences, the Group will focus on accelerating the integration of its IT infrastructure solution services and development solution services to ensure the competitiveness in its current business segments and offering of high quality and timely services to its clients. At the same time, the Group always aims to further seize its market share and enhance its reputation and sustainable growth in the industry by professional management in its expansion in technical and development solution services in the PRC. Looking forward, the Group remains prudent and optimistic about the prospect of the Group's core business in the long term. The Group will focus its efforts to regularly review its business strategies, asset structure and market environment and strive to maximize returns and value for our shareholders in the medium to long term.

FINANCIAL REVIEW

Revenue

The Group's revenue for Interim 2023 amounted to approximately HK\$138.0 million, representing a decrease of approximately HK\$3.3 million or 2.4% compared to Interim 2022 (2022: approximately HK\$141.3 million). The decrease was attributable to: (i) the decrease in the revenue generated from provision of IT development solutions services by approximately HK\$9.4 million; (ii) the decrease in the revenue generated from provision of IT maintenance and support services by approximately HK\$7.5 million; and (iii) the decrease in provision of entertainment products by approximately HK\$0.9 million but was partially offset by the increase in provision of IT infrastructure solution services by approximately HK\$14.5 million.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 24.6% from approximately HK\$23.6 million for Interim 2022 to approximately HK\$29.4 million for Interim 2023 as the increase was mainly attributable to the increase in gross profit of IT infrastructure solutions services projects, IT development solutions services projects and IT maintenance and support services projects. The gross profit margin of the Group increased from approximately 16.7% for Interim 2022 to approximately 21.3% for Interim 2023. The increase was mainly attributable to the increase in gross profit margin of IT development solutions services associated with comparatively lower cost of sales and some relatively high margin projects during Interim 2023.

Selling expenses

For Interim 2023, the Group's selling expenses amounted to approximately HK\$6.2 million, representing the decrease of approximately HK\$1.4 million or 18.7% as compared to Interim 2022 of approximately HK\$7.6 million. Such decrease was mainly attributed to (i) the decrease in sales commission by approximately HK\$0.3 million due to the decrease in number of sales staff; (ii) the decrease in selling and pre-sales cost by approximately HK\$0.8 million; and (iii) the decrease in advertising expenses by approximately HK\$0.3 million.

Administrative and general expenses

The Group's administrative expenses for Interim 2023 amounted to approximately HK\$29.5 million, representing the decrease of approximately HK\$0.6 million or 2.0% as compared to Interim 2022 (2022: approximately HK\$30.1 million). Such decrease was mainly attributed by (i) the decrease in amortisation of intangible asset by approximately HK\$1.6 million; (ii) the decrease in rental expenses by approximately HK\$1.1 million; but partially offset by (iii) the increase in salaries expenses by approximately HK\$0.4 million due to salary increment; (iv) the increase in depreciation by approximately HK\$0.4 million; and (v) the increase in other operating expenses by approximately HK\$1.3 million.

Loss for the period

The Group recorded a loss of approximately HK\$5.9 million for Interim 2023, as compared to a loss of approximately HK\$14.8 million for Interim 2022. The decrease in loss for the Interim 2023 was mainly attributed to the net effect of: (i) the increase in gross profit by approximately HK\$5.8 million mainly represented by the increase in gross profit in the provision of IT development solutions services; (ii) the decrease in selling and administrative and general expenses by approximately HK\$2.0 million mainly represented by the decrease in selling and pre-sales cost, amortisation of intangible asset and rental expenses, but partially offset by the increase in salaries expenses due to salary increment; and (iii) the increase in other income and gains by approximately HK\$0.4 million mainly represented by the increase in foreign exchange gain.

Liquidity and financial resources

The Group financed its operations primarily through cash generated from its operating activities. As at 30 June 2023, the Group had cash and cash equivalents of approximately HK\$33.2 million (31 December 2022: approximately HK\$25.2 million), which were cash at banks and in hand. As at 30 June 2023, the Group has bank borrowings of approximately HK\$1.9 million (31 December 2022: approximately HK\$2.5 million). The Group has a credit facility from the Bank of East Asia of HK\$10.0 million as at 30 June 2023 (31 December 2022: HK\$10.0 million), which are secured by a deed of assignment over life insurance policy purchased for the Company's director 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 25.1% as at 30 June 2023 (31 December 2022: 43.6%). 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 of Hong Kong Limited 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 2023, the capital structure of the Company comprised issued share capital and reserves and bank borrowings.

SIGNIFICANT INVESTMENTS

During Interim 2023, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

During Interim 2023, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2023, the Group had a total of 158 employees (30 June 2022: 172). Total staff costs (including directors' emoluments) were approximately HK\$39.7 million for Interim 2023, as compared to approximately HK\$39.6 million for Interim 2022.

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.

Details of the movement in the share options granted under the Scheme for the six months ended 30 June 2023 are as follows:

Name or category of participants	Date of grant and vesting date of share options	Exercise period of share options granted	Exercise price of share options (HK\$ per share)	Number of share options						
				At 1 January 2023	Adjustment		Exercised during Interim 2023	Lapsed during the Interim 2023	Cancelled during Interim 2023	Outstanding as at 30 June 2023
					Granted during the Interim 2023	for rights issue during Interim 2023				
Executive Directors										
Mr. Yu Larry	16 August 2021	16 August 2021 – 15 August 2031	0.152	960,000	-	27,826	-	-	-	987,826
Mr. Law Cheung Moon	20 August 2021	20 August 2021 – 19 August 2031	0.154	715,000	-	20,725	-	-	-	735,725
Mr. Leung Patrick Cheong Yu	20 August 2021	20 August 2021 – 19 August 2031	0.154	715,000	-	20,725	-	-	-	735,725
Chief Executive										
Mr. Lam Tai Wai David	16 August 2021	16 August 2021 – 15 August 2031	0.152	9,600,000	-	278,261	-	-	-	9,878,261
Other Employees										
Other Employees	16 August 2021	16 August 2021 – 15 August 2031	0.152	23,940,000	-	693,913	-	-	-	24,633,913
Other Employees	20 August 2021	20 August 2021 – 19 August 2031	0.154	30,570,000	-	886,086	-	-	-	31,456,086
				66,500,000	-	1,927,536	-	-	-	68,427,536

Note: Consideration of HK\$1 was paid by each of the grantees on their acceptance of the share options granted.

The maximum number of shares of the Company available for issuance upon exercise of all share options under the Share Option Scheme is 68,427,536, representing approximately 4.73% of the issued shares of the Company as at the date of this report. As at the date of this report, the available share options under the mandate limit of the Share Option Scheme is Nil.

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 2023.

CHARGES ON GROUP ASSETS

As at 30 June 2023, except for the banking facilities which are secured by a deed of assignment over life insurance policy purchased for the Company's director 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 2022: 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 and PRC with most of the transactions denominated and settled in HK\$ and RMB. During Interim 2023, 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 2023 and Interim 2022, 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 2023 and Interim 2022.

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

During Interim 2023, 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 2023, 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

Directors/ Chief Executive	Nature of interest	Number and class of securities⁽¹⁾	Approximate percentage of interest in the Company
Mr. Yu Larry	Interest in controlled corporations ⁽²⁾	459,810,000 ordinary shares (L)	31.80%
	Beneficial owner	987,826 ordinary shares (L) ⁽³⁾	0.07%
Mr. Law Cheung Moon	Beneficial owner	735,725 ordinary shares (L) ⁽³⁾	0.05%
Mr. Leung Patrick Cheong Yu	Beneficial owner	735,725 ordinary shares (L) ⁽³⁾	0.05%
Mr. Lam Tai Wai David	Beneficial owner	9,878,261 ordinary shares (L) ⁽³⁾	0.68%

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 31.80% by Vigorous King Limited, which in turn is held as to 100% by Mr. Yu Larry.
- (3) These shares are derived from the interests in share options granted by the Company pursuant to the Share Option Scheme adopted by the Company on 22 June 2018.

The interests of the directors and chief executive in the share options of the Company are separately disclosed under the heading “Share Option Scheme” above.

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 2023, 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 2023 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	459,810,000 ordinary shares (L)	31.80%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of spouse	460,797,826 ordinary shares (L)	31.87%
Ms. Yiu Wai Ki	Beneficial owner	73,400,000 ordinary shares (L)	5.08%
Mr. Leung Wan Hung ⁽⁴⁾	Interest of spouse	73,400,000 ordinary shares (L)	5.08%
Mr. Lam Sze Chun Jackson	Beneficial owner	134,350,000 ordinary shares (L)	9.29%
Goldlink Hong Kong Investment Limited ⁽⁵⁾	Beneficial owner	50,000,000 ordinary shares (L)	3.46%
Rich Trend Hong Kong Investment Limited ⁽⁶⁾	Beneficial owner	50,000,000 ordinary shares (L)	3.46%

Notes:

- (1) The letter “L” denotes a person’s long position (as defined under Part XV of the SFO) in the ordinary 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 ordinary 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 ordinary shares which Mr. Yu Larry is interested in by virtue of the SFO.
- (4) Mr. Leung Wan Hung is the spouse of Ms. Yiu Wai Ki. Therefore, Mr. Leung is deemed to be interested in the ordinary shares which Ms. Yiu Wai Ki is interested in by virtue of the SFO.
- (5) 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 ordinary shares which Goldlink Hong Kong Investment Limited is interested in by virtue of the SFO.
- (6) 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 ordinary shares which Rich Trend Hong Kong Investment Limited is interested in by virtue of the SFO.

Save as disclosed above, as at 30 June 2023, the Directors were not aware of any persons who/entities which had an interest or short position in the ordinary shares or underlying ordinary 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.

REQUIRED STANDARD 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 of dealings concerning securities transaction by the Directors as set out in Rules 5.48 to 5.67 of the GEM Listing Rules (the “Code of Conduct”) as its own code governing securities transactions of the Directors, and after having made specific enquiry to all of the Directors, the Directors are satisfied that the required standard set out in the Code of Conduct and its code of conduct regarding the Directors’ securities transactions have been fully complied with, throughout the accounting period covered by this report.

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 2023, save for the deviation from such code disclosed below.

The CG Code in Appendix 15 to the GEM Listing Rules provision C.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 C.2.1 is appropriate in such circumstances.

Under the CG Code provision C.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.

Save for the deviations as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code since the Listing Date up to the date of this report.

INTERESTS IN COMPETING BUSINESS

During the Interim 2023, 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

The net proceeds of the Group raised from the Rights Issue was approximately HK\$29.9 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 30 June 2023, the Group has utilised proceeds from the Rights Issue of approximately HK\$11.6 million and a summary of use of proceeds are set out in the table below:

	As set out in the Prospectus HK\$ million	Amount expected to be used up to 30 June 2023 HK\$ million	Amount actually used up to 30 June 2023 HK\$ million	Balance as at 30 June 2023 HK\$ million	Expected timeline to fully utilise the remaining net proceeds
Develop and cultivate the new energy vehicle industry	11.9	-	-	11.9	31 December 2023
Expand the technical and development solution services in the PRC	8.0	1.6	1.6	6.4	31 December 2023
Working Capital and other general corporate purposes	10.0	10.0	10.0	-	Fully utilised
Total	29.9	11.6	11.6	18.3	

AUDIT COMMITTEE

The Group has established an audit committee (the "Audit Committee") on 22 June 2018 in compliance with Rule 5.28 of the GEM Listing Rules. Written terms of reference in compliance with code provision D.3.3 of the Code has been adopted. Among other things, the primary duties of the Audit Committee are to make recommendations to the Board on appointment, reappointment and removal of external auditor, to review financial statements of the Company and make judgments in respect of financial reporting; and to oversee the effectiveness of the internal control procedures of the Group.

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 2023 and this report, 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 2023.

DISCLOSURE OF INFORMATION

This report 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 report, there is no important event after Interim 2023.

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

Hong Kong, 14 August 2023