

kinetix

Kinetix Systems Holdings Limited

捷冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

2019
Third Quarterly Report





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This report for which the directors (the “Directors”) of Kinetix Systems Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (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 Pak Lun Larry

(Chairman and Chief Executive Officer)

Mr. Wong Tsun Ho Ian

(resigned on 1 October 2019)

Mr. Law Cheung Moon

Mr. Leung Patrick Cheong Yu

Independent Non-executive Directors

Mr. Yeung Wai Keung

Mr. Lam Yau Hin

Mr. Cheung Wah Kit Jason

(retired on 8 May 2019)

Ms. Lam Shun Ka

(formerly known as Lam Yuk Shan)

(appointed on 7 March 2019)

COMPANY SECRETARY

Ms. Lam Wai Yan, *HKICPA*

REGISTERED OFFICE

Estera Trust (Cayman) Limited

P.O. Box 1350

Clifton House

75 Fort Street

Grand Cayman

KY1-1108

Cayman Islands

HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS

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AUDITOR

Moore Stephens CPA Limited

801–806 Silvercord, Tower 1

30 Canton Road

Tsimshatsui, Kowloon

Hong Kong

PRINCIPAL SHARE TRANSFER AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Estera Trust (Cayman) Limited

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Clifton House

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

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183 Queen's Road East

Hong Kong

STOCK CODE

Stock code on the Stock Exchange: 8606

WEBSITE

www.kinetix.com.hk



FINANCIAL HIGHLIGHTS

- The total revenue of the Company and its subsidiaries (collectively referred to as the “Group”) amounted to approximately HK\$123.7 million for the nine months ended 30 September 2019, increased by approximately 13.4% as compared to that of the same period in 2018.
- The gross profit amounted to approximately HK\$26.4 million for the nine months ended 30 September 2019, increased by approximately 6.5% as compared to that of the same period in 2018.
- The Group recorded a net profit of approximately HK\$2.6 million for the nine months ended 30 September 2019.
- The board of Directors (the “Board”) does not recommend the payment of quarterly dividend for the nine months ended 30 September 2019.

FINANCIAL RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

The Board is pleased to announce the unaudited condensed consolidated results of the Group for the nine months ended 30 September 2019, together with the unaudited comparative figures for the corresponding period in 2018 as follows:-

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

For the three months and nine months ended 30 September 2019

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Revenue	5	33,779	20,233	123,676	109,082
Cost of sales		(29,501)	(16,715)	(97,288)	(84,274)
Gross profit		4,278	3,518	26,388	24,808
Other income	5	28	227	80	230
Selling expenses		(1,306)	(1,516)	(4,430)	(3,889)
Administrative and general expenses		(6,763)	(7,217)	(19,214)	(20,130)
(Allowance for)/reversal of expected credit losses		-	(5,113)	445	(5,443)
Listing expenses		-	(1,432)	-	(9,831)
Finance costs		(50)	(2)	(168)	(2)
(Loss)/profit before tax	6	(3,813)	(11,535)	3,101	(14,257)
Income tax	8	741	746	(470)	(247)
(Loss)/profit for the period		(3,072)	(10,789)	2,631	(14,504)
Other comprehensive income		-	-	-	-
Total comprehensive (loss)/income for the period		(3,072)	(10,789)	2,631	(14,504)
Attribute to:-					
Owners of the Company		(3,003)	(10,789)	2,719	(14,504)
Non-controlling interests		(69)	-	(88)	-
Total comprehensive (loss)/income for the period		(3,072)	(10,789)	2,631	(14,504)
		HK cents	HK cents	HK cents	HK cents
(Loss)/earnings per share – Basic and diluted	10	(0.38)	(1.41)	0.34	(2.21)

* Less than HK\$1,000.

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2019

	Attributable to owners of the Company				Non-		Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000	controlling interests HK\$'000	
At 1 January 2018 (audited)	-*	-	10	44,542	44,552	-	44,552
Capitalisation issue of shares	6,000	(6,000)	-	-	-	-	-
Issue of shares upon share offer	2,000	58,000	-	-	60,000	-	60,000
Listing expenses incurred in connection with issue of new shares	-	(8,801)	-	-	(8,801)	-	(8,801)
Loss and total comprehensive loss for the period	-	-	-	(14,504)	(14,504)	-	(14,504)
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	(14,504)	(14,504)	-	(14,504)
At 30 September 2018 (unaudited)	8,000	43,199	10	30,038	81,247	-	81,247
At 1 January 2019 (audited and as previously reported)	8,000	43,199	10	35,534	86,743	32	86,775
Impact on initial application of HKFRS16 (Note 3)	-	-	-	(120)	(120)	-	(120)
At 1 January 2019 (unaudited and restated)	8,000	43,199	10	35,414	86,623	32	86,655
Profit for the period	-	-	-	2,719	2,719	(88)	2,631
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income for the period	-	-	-	2,719	2,719	(88)	2,631
At 30 September 2019 (unaudited)	8,000	43,199	10	38,133	89,342	(56)	89,286

* Less than HK\$1,000.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2019

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

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

2. BASIS OF PREPARATION AND PRESENTATION

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

The unaudited quarterly 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 quarterly condensed consolidated financial statements have not been audited by the Company's auditor, but have been reviewed by the Company's audit committee.



3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) New and Amendments to HKFRSs that are mandatorily effective for the current period

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

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

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

HKFRS 16 Leases

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

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

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

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

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

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

Consolidated Statement of Financial Position

Increase in right-of-use assets
 Decrease in trade and other payables and accruals
 Increase in lease liabilities
 Decrease in retained profits

As at 1 January 2019 HK\$'000
5,479
(563)
6,162
(120)

4. SEGMENT INFORMATION

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

Geographical information

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

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Hong Kong	29,133	20,188	110,750	108,254
Macau	4,206	45	11,905	828
Singapore	440	–	1,021	–
	33,779	20,233	123,676	109,082

Information about major customers

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

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Customer A	3,990	*	*	*

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

5. REVENUE AND OTHER INCOME

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

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) 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	15,452	12,904	66,727	64,119
IT development solutions services	11,810	4,159	36,495	27,518
IT maintenance and support services	6,517	3,170	20,454	17,445
	33,779	20,233	123,676	109,082

(a) Information about segment revenue

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

For the three months ended 30 September 2019				
IT solutions services				
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	14,093	–	–	14,093
Over time	1,359	11,810	6,517	19,686
Revenue from external customers	15,452	11,810	6,517	33,779

For the three months ended 30 September 2018				
IT solutions services				
	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	9,872	–	–	9,872
Over time	3,032	4,159	3,170	10,361
Revenue from external customers	12,904	4,159	3,170	20,233

For the nine months ended 30 September 2019
IT solutions services

	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	62,493	-	-	62,493
Over time	4,234	36,495	20,454	61,183
Revenue from external customers	66,727	36,495	20,454	123,676

For the nine months ended 30 September 2018
IT solutions services

	IT infrastructure solutions services (Unaudited) HK\$'000	IT development solutions services (Unaudited) HK\$'000	IT maintenance and support services (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition				
A point in time	58,320	-	-	58,320
Over time	5,799	27,518	17,445	50,762
Revenue from external customers	64,119	27,518	17,445	109,082

Other income

The balance mainly represents sponsorship income, bank interest income and sundry income for the three months and the nine months ended 30 September 2019 and 30 September 2018.

6. (LOSS)/PROFIT BEFORE TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Auditor's remuneration:–				
– Non-audit services				
current period provision	66	–	191	58
prior period underprovision	5	–	–	15
Cost of hardware and software recognised as expenses	16,499	9,995	54,862	49,963
Cost of IT solutions services*	8,017	5,566	27,649	23,524
Cost of IT maintenance and support services*	4,903	1,227	14,449	10,860
Depreciation of property, plant and equipment	259	188	628	308
Depreciation of right-of-use assets	547	–	1,633	–
Loss on write-off of property, plant and equipment	–	–	–	52
Foreign exchange differences, net	23	15	35	16
Minimum lease payments under operating leases				
– Office premises	44	453	50	1,558
– Director's quarter	–	135	–	405
Provision for/(reversal of) onerous contracts#	82	(73)	328	(73)
Allowance/(reversal of) for expected credit losses	–	5,113	(445)	5,443
Retirement fund scheme contributions (included in staff costs below)	330	303	972	930
Employee benefit expense (excluding compensation of key management personnel) (Note 7)				
– Wages and salaries (including retirement fund contributions)	7,938	7,124	24,188	22,628

* Included in the above costs are subcontracting costs amounting to HK\$9,171,000, HK\$4,200,000, HK\$31,043,000 and HK\$25,462,000 for the three months ended and nine months ended 30 September 2019 and 30 September 2018, respectively.

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 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Directors' fee	45	–	145	–
Short-term employee benefits	797	1,419	2,670	4,359
Post-employment benefits	23	31	68	94
Total compensation paid to key management personnel	865	1,450	2,883	4,453

8. INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
Current tax	–	–	427	113
Prior period (over)/ underprovision	(741)	(880)	43	–
Deferred tax	–	134	–	134
	(741)	(746)	470	247

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 a quarterly dividend for the nine months ended 30 September 2019 (30 September 2018: Nil).

10. (LOSS)/EARNINGS PER SHARE

	Three months ended 30 September		Nine months ended 30 September	
	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2018 (Unaudited) HK\$'000
(Loss)/profit and total comprehensive (loss)/income for the period attributable to the owners of the Company	(3,003)	(10,789)	2,719	(14,504)
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share (in thousands)	800,000	767,391	800,000	656,410

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

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

11. SHARE CAPITAL

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

* Less than HK\$1,000.

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

12. OPERATING LEASE ARRANGEMENT

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

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

13. RELATED PARTY TRANSACTIONS

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

MANAGEMENT DISCUSSION AND ANALYSIS

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

BUSINESS REVIEW AND OUTLOOK

For the nine months ended 30 September 2019 (“Quarterly 2019”), the Group recorded a profit attributable to owners of the Company of approximately HK\$2.7 million as compared to the loss attributable to owners of the Company of approximately HK\$14.5 million for the nine months ended 30 September 2018 (“Quarterly 2018”). The increase in profit was primarily due to decrease in listing expense by approximately HK\$9.8 million; decrease in the allowance for expected credit loss of customers by approximately HK\$5.9 million; decrease in staff cost in administrative expenses by HK\$2.9 million; and was partially offset by increase in professional fee for listing compliance by approximately HK\$1.5 million.

Provision of IT infrastructure solutions services

This segment provides IT infrastructure solutions services to our clients by advising them the hardware and/or software that their IT systems would require and procuring the relevant hardware and/or software. The revenue generated from this segment in Quarterly 2019 accounted to approximately HK\$66.7 million, representing approximately 53.9% of the total revenue for Quarterly 2019. The revenue from this segment increased by approximately 4.1% from approximately HK\$64.1 million for Quarterly 2018 to approximately HK\$66.7 million for Quarterly 2019. The increase was primarily due to increase in total number of IT Infrastructure solutions services undertaken in Quarterly 2019.

Provision of IT development solutions services

This segment provides IT development solutions services that generally include system analysis and design, software development and technology consultancy. The revenue generated from this segment in Quarterly 2019 amounted to approximately HK\$36.5 million, representing approximately 29.5% of the total revenue for Quarterly 2019. The revenue derived from this segment increased by approximately 32.7% from approximately HK\$27.5 million for Quarterly 2018 to approximately HK\$36.5 million for Quarterly 2019, the increase was primarily due to increase in total number of IT development solutions services projects undertaken and increase in average amount of revenue recognised per project in Quarterly 2019.



Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment amounted to approximately HK\$20.5 million, representing approximately 16.6% of the total revenue for Quarterly 2019. The revenue derived from this segment increased by approximately 17.8% from approximately HK\$17.4 million for Quarterly 2018 to approximately HK\$20.5 million for Quarterly 2019, the significant increase in revenue from this segment was primarily due to the increase in average amount of revenue recognised per project during Quarterly 2019.

PROSPECTS AND OUTLOOK

For Quarterly 2019, the Group recorded relatively stable income and profits. However, the global business environment will still be full of challenges. The performance of the Group may be affected by the negative business sentiment of recent Hong Kong protests and the global economic uncertainty caused by US-China trade dispute. These uncertainties may adversely affect our business and overall short-term performance. This may result in the Group reducing orders and putting pressure on our pricing terms and our profitability in the short term. The Group will carefully manage its business risks; be prepared to respond to changes in this business environment and aim to strategically develop the Group's business to mitigate these impacts.

FINANCIAL REVIEW

Revenue

The Group's revenue for Quarterly 2019 amounted to approximately HK\$123.7 million, representing an increase of approximately HK\$14.6 million or 13.4% compared to Quarterly 2019 (2018: approximately HK\$109.1 million). The increase was attributable to increase in revenue generated from provision of (i) IT infrastructure solutions services projects by approximately HK\$2.6 million; (ii) IT development solutions services projects approximately HK\$9.0 million; and (iii) IT maintenance and support services projects by approximately HK\$3.0 million.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 6.5% from approximately HK\$24.8 million for Quarterly 2018 to approximately HK\$26.4 million for Quarterly 2019 as the increase was mainly attributable to increase in gross profit of IT infrastructure solutions services due to increase in total numbers of infrastructure solutions services projects undertaken in Quarterly 2019. The gross profit margin of the Group decreased from approximately 22.7% for Quarterly 2018 to approximately 21.3% for Quarterly 2019 as the decrease was mainly attributable to the decrease in gross profit margin of IT development solutions services projects which was caused by the increase in subcontracting costs in certain projects; and increase in one maintenance and support services project associated with comparatively lower gross profit margin during Quarterly 2019.

Selling expenses

For Quarterly 2019, the Group's selling expenses amounted to approximately HK\$4.4 million, representing the increase of approximately HK\$0.5 million or 12.8% as compared to Quarterly 2018 of approximately HK\$3.9 million. Such increase was mainly attributed by the increase in average staff headcount in sales department and the increase in average staff salaries due to more senior staff for sales department recruited for Quarterly 2019.

Administrative and general expenses

The Group's administrative expenses for Quarterly 2019 amounted to approximately HK\$19.2 million, representing decrease of approximately HK\$0.9 million or 4.5% as compared to Quarterly 2018 (2018: approximately HK\$20.1 million). Such decrease was mainly attributed by decrease in staff cost in administrative expenses by HK\$2.9 million due to decrease in number of senior staff in administrative and finance department for Quarterly 2019; and was offset by increase in professional fee for listing compliance by HK\$1.5 million.

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

The Group recorded profit by approximately HK\$2.6 million for Quarterly 2019, as compared to loss of approximately HK\$14.5 million for Quarterly 2018. The increase in profit was mainly attributable to net effect of (i) decrease in listing expense by approximately HK\$9.8 million; (ii) decrease in the allowance for expected credit loss of customers by HK\$5.9 million; decrease in staff cost in administrative expense by HK\$2.9 million; and increase in professional fee for listing compliance by HK\$1.5 million.



Liquidity and financial resources

We financed our operations primarily through cash generated from our operating activities. During Quarterly 2019, we did not have any bank borrowings. As at 30 September 2019, we had cash and cash equivalents of approximately HK\$68.6 million (31 December 2018: approximately HK\$63.4 million), which were cash at banks and in hand. The Group did not have any credit facilities from banks as at 31 December 2018 and 30 September 2019, respectively. The Group's gearing ratio, which is calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was nil as at 30 September 2019 (31 December 2018: nil). We expect that our liquidity position would further be strengthened by using the cash generated from our operating activities and fund raising as a result of the ordinary shares (the "Shares") listed on the Stock Exchange on 16 July 2018 (the "Listing Date"). Going forward, we intend to use our capital for our operations and the expansion plans as stated in our Prospectus.

Capital structure

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

EXPOSURE TO EXCHANGE RATE FLUCTUATION

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

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

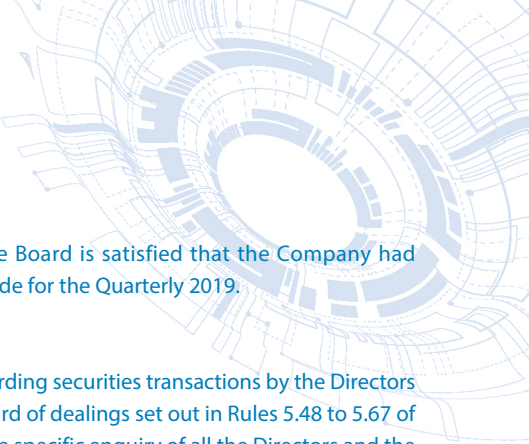
During Quarterly 2019, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is critical to effective management, successful business growth and a healthy corporate culture that will benefit the Company's stakeholders as a whole. The Directors will continue to review their corporate governance practices to enhance their corporate governance standard, comply with increasingly tightened regulatory requirements from time to time, and meet the growing expectations of the shareholders and other stakeholders of the Company. The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for the Quarterly 2019, save for the deviation from such code disclosed below.

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

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



Save for the deviations as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code for the Quarterly 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with, the required standard of dealings and its code of conduct regarding securities transactions by the Directors for the Quarterly 2019.

AUDIT COMMITTEE

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

SHARE OPTION SCHEME

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

USE OF PROCEEDS

The net proceeds of the Group raised from the initial public offering on the Listing Date was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 30 September 2019, the Group has utilised proceeds from the listing of approximately HK\$2.25 million and a summary of use of proceeds are set out in the table below:–

	As set out in the Prospectus	Amount expected to be used up to 30 September 2019	Amount actually used up to 30 September 2019
	HK\$'million	HK\$'million	HK\$'million
Develop IT solutions services tailored for finance and insurance sectors	7.10	–	–
Expand the application of ERP system in our IT development solutions services	1.17	–	–
Maintain fund for performance bond and contract deposit	2.34	1.03	0.55
Provision of cloud computing and IoT products	9.15	–	–
Develop technical support centre to enhance our service quality	2.92	1.75	1.60
Strengthen our marketing efforts	2.34	0.88	–
Enhance the expertise of our professional team	1.75	0.73	0.10
Enhance our Group's management information system	5.19	1.62	–
Working capital and other general corporate purposes	2.14	0.76	–
Total	34.10	6.77	2.25

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

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

The Company

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

Notes:

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

Associated Corporation – Vigorous King Limited

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

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

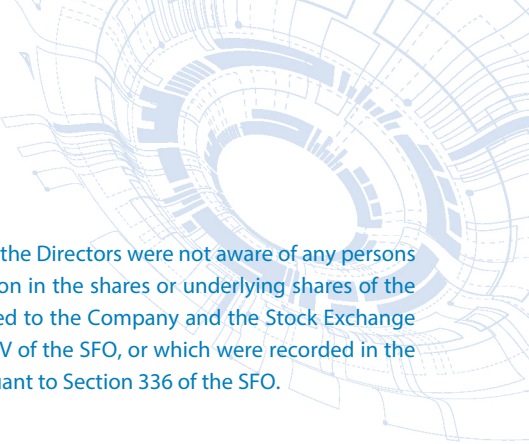
As at 30 September 2019, so far as the Directors are aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:-

The Company

Shareholders	Capacity/Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Vigorous King Limited ⁽²⁾	Beneficial owner	600,000,000 Shares (L)	75%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of Spouse	600,000,000 Shares (L)	75%

Notes:

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



Save as disclosed above, as at 30 September 2019, the Directors were not aware of any persons who/entities which had an interest or short position in the shares or underlying shares of the Company, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

SIGNIFICANT INVESTMENTS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

During Quarterly 2019, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2019, the Group had a total of 89 employees (30 September 2018: 85). Total staff costs (including directors' emoluments) were approximately HK\$27.1 million for the Quarterly 2019, as compared to approximately HK\$27.1 million for the same period last year.

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

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

CHARGES ON GROUP ASSETS

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

INTERESTS IN COMPETING BUSINESS

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

INTERESTS OF COMPLIANCE ADVISER

In accordance with Rule 6A.19 of the GEM Listing Rules, the Company has appointed Cinda International Capital Limited (“Cinda”) to be its compliance adviser. As at 30 September 2019, as notified by Cinda, save for the compliance adviser agreement entered into between the Company and Cinda dated 21 February 2018, neither Cinda nor any of its directors, employees or close associates had any interest in the securities of the Company.

DIVIDENDS

The Board has resolved not to declare an quarterly dividend for the nine months ended 30 September 2019.

DISCLOSURE OF INFORMATION

The quarterly report of the Company 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 Quarterly 2019.

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

Hong Kong, 12 November 2019