

kinetix

Kinetix Systems Holdings Limited

捷冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606



2020 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. Law Cheung Moon
Mr. Leung Patrick Cheong Yu

Independent Non-executive Directors

Mr. Yeung Wai Keung
Mr. Lam Yau Hin
Ms. Lam Shun Ka
(formerly known as Lam Yuk Shan)

COMPANY SECRETARY

Ms. Lam Wai Yan

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

Room 2702
Rykadan Capital Tower
135 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

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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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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STOCK CODE

Stock code on the Stock Exchange: 8606

WEBSITE

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FINANCIAL HIGHLIGHTS

- The total revenue of the Company and its subsidiaries (collectively the “Group”) amounted to approximately HK\$222.7 million for the nine months ended 30 September 2020, increased by approximately 80.0% as compared to that of the same period in 2019.
- The gross profit amounted to approximately HK\$36.9 million for the nine months ended 30 September 2020, increased by approximately 39.8% as compared to that of the same period in 2019.
- The Group recorded a net profit of approximately HK\$4.9 million for the nine months ended 30 September 2020, increased by approximately 88.5% as compared to that of the same period in 2019.
- The board of Directors (the “Board”) does not recommend the payment of quarterly dividend for the nine months ended 30 September 2020.

FINANCIAL RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2020

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the nine months ended 30 September 2020, together with the unaudited comparative figures for the corresponding period in 2019 as follows:

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

For the three months and nine months ended 30 September 2020

	Notes	Three months ended 30 September		Nine months ended 30 September	
		2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Revenue	5(a)	63,485	33,779	222,695	123,676
Cost of sales		(50,524)	(29,501)	(185,788)	(97,288)
Gross profit		12,961	4,278	36,907	26,388
Other income	5(b)	3,090	28	3,932	80
Selling expenses		(1,501)	(1,306)	(5,679)	(4,430)
Administrative and general expenses		(9,770)	(6,763)	(26,832)	(19,214)
(Allowance for)/reversal of expected credit losses		(250)	–	(1,352)	445
Finance costs		(198)	(50)	(310)	(168)
Profit/(loss) before tax	6	4,332	(3,813)	6,666	3,101
Income tax	8	(864)	741	(1,767)	(470)
Profit/(loss) for the period		3,468	(3,072)	4,899	2,631
Other comprehensive income		–	–	–	–
Total comprehensive income/(loss) for the period		3,468	(3,072)	4,899	2,631
Attribute to:					
Owners of the Company		3,966	(3,003)	6,375	2,719
Non-controlling interests		(498)	(69)	(1,476)	(88)
Total comprehensive income/(loss) for the period		3,468	(3,072)	4,899	2,631
		HK cents	HK cents	HK cents	HK cents
Earnings/(loss) per share – Basic and diluted	10	0.50	(0.38)	0.80	0.34

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2020

	Attributable to owner of the Company				Total	Non-controlling interests	Total equity
	Share capital	Share premium	Other reserve	Retained profits			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000			
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	-	-	-	(120)	(120)	-	(120)
At 1 January 2019 (restated)	8,000	43,199	10	35,414	86,623	32	86,655
Profit/(loss) for the period	-	-	-	2,719	2,719	(88)	2,631
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income/(loss) 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
At 1 January 2020 (audited)	8,000	43,199	10	37,593	88,802	(539)	88,263
Profit/(loss) for the period	-	-	-	6,375	6,375	(1,476)	4,899
Other comprehensive income for the period	-	-	-	-	-	-	-
Total comprehensive income/(loss) for the period	-	-	-	6,375	6,375	(1,476)	4,899
At 30 September 2020 (unaudited)	8,000	43,199	10	43,968	95,177	(2,015)	93,162



NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2020

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, IT maintenance and support services and trading of entertainment products.

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited quarterly condensed consolidated financial statements for the nine months ended 30 September 2020 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Listing Rules"). The principal accounting policies used in preparing the unaudited 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 2019.

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”)

The accounting policies adopted in the preparation of the unaudited quarterly condensed consolidated financial statements are the same as those applied in the preparation of the Group’s annual financial statements for the year ended 31 December 2019, 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.

4. SEGMENT INFORMATION

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

Geographical information

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

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited) HK\$’000	2019 (Unaudited) HK\$’000	2020 (Unaudited) HK\$’000	2019 (Unaudited) HK\$’000
Hong Kong	62,481	29,133	218,370	110,750
Macau	1,004	4,206	4,325	11,905
Singapore	–	440	–	1,021
	63,485	33,779	222,695	123,676

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	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Customer A	7,368	–	27,042	–
Customer B	*	–	38,416	*
Customer C	–	3,990	*	*
Customer D	9,736	–	*	–
Customer E	8,875	–	*	–

* 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	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (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	25,740	15,452	129,718	66,727
IT development solutions services	19,815	11,810	46,703	36,495
IT maintenance and support services	3,957	6,517	10,463	20,454
Trading of entertainment products	13,973	–	35,811	–
Total income	63,485	33,779	222,695	123,676

(a) Information about segment revenue

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

	For the three months ended 30 September 2020				
	IT solutions services				Total (Unaudited) HK\$'000
	IT	IT	IT	Trading of	
	infrastructure	development	maintenance	entertainment	
	solutions	solutions	and support	products	
services	services	services	products		
(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	16,871	-	-	13,973	30,844
Over time	8,869	19,815	3,957	-	32,641
Revenue from external customers	25,740	19,815	3,957	13,973	63,485

	For the three months ended 30 September 2019			
	IT solutions services			Total (Unaudited) HK\$'000
	IT	IT	IT	
	infrastructure	development	maintenance	
	solutions	solutions	and support	
services	services	services		
(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	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 nine months ended 30 September 2020					
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	Trading of entertainment products (Unaudited) HK\$'000	Total (Unaudited) HK\$'000
Disaggregated by timing of revenue recognition					
At a point in time	120,596	-	-	35,811	156,407
Over time	9,122	46,703	10,463	-	66,288
Revenue from external customers	129,718	46,703	10,463	35,811	222,695

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				
At 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

(b) Other income

The balance mainly represents bank interest income and government subsidies for the nine months ended 30 September 2020. The government subsidies are granted from the Employment Support Scheme of the Hong Kong Government and Anti-epidemic Fund of the Government of Macau, which aim to retain employment and combat COVID-19. As a condition of receiving the subsidies from the Employment Support Scheme, the Group undertakes not to make redundancies during the subsidy period. For the conditions of receiving the subsidies from Anti-epidemic Fund, the Group undertakes not to close down the Macau's subsidiary and make unreasonable redundancies six months from the effective date of the relevant regulation.

6. PROFIT/(LOSS) BEFORE TAX

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

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Auditor's remuneration – non-audit services				
– Current period provision	60	66	180	191
– Prior period underprovision	–	5	–	–
Cost of hardware and software recognised as expenses	23,137	16,499	118,823	54,862
Cost of IT solutions services*	13,583	8,017	29,060	27,649
Cost of IT maintenance and support services*	1,056	4,903	3,735	14,449
Depreciation of property, plant and equipment	184	259	542	628
Cost of inventories recognised as an expense	12,640	–	33,731	–
Depreciation of right-of-use assets	523	547	1,654	1,633
Loss on disposal of property, plant and equipment	–	–	2	–
Foreign exchange differences, net	(254)	23	(142)	35
Provision for onerous contracts [#]	108	82	439	328
Allowance for (reversal of) expected credit losses	250	–	1,352	(445)
Retirement fund scheme contributions (included in staff costs below)	464	330	1,379	972
Employee benefit expense (excluding compensation of key management personnel (Note 7))	12,968	7,938	35,999	24,188

* Included in the above costs are subcontracting costs amounting to HK\$7,483,000 (three months ended 30 September 2019: HK\$9,171,000) and HK\$17,140,000 (nine months ended 30 September 2019: HK\$31,043,000) for the three months and nine months ended 30 September 2020, respectively.

[#] Included in cost of sales.

7. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Directors' fee	45	45	135	145
Short-term employee benefits	1,050	797	2,938	2,670
Post-employment benefits	35	23	81	68
Total compensation paid to key management personnel	1,130	865	3,154	2,883

8. INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Current tax	864	–	1,767	427
Prior period (over)/underprovision	–	(741)	–	43
	864	(741)	1,767	470

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 jurisdiction of the Cayman Islands during the relevant periods.

9. DIVIDEND

The Directors of the Company do not recommend the payment of a quarterly dividend for the nine months ended 30 September 2020 (30 September 2019: Nil).

10. EARNINGS/(LOSS) PER SHARE

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Profit/(loss) and total comprehensive income/(loss) for the period attributable to the owners of the Company	3,966	(3,003)	6,375	2,719
Weighted average number of ordinary shares for the purpose of calculating basic earnings/(loss) per share (in thousands)	800,000	800,000	800,000	800,000

No adjustment has been made to the basic earnings/(loss) per share amounts presented for the three months and nine months ended 30 September 2020 and 30 September 2019 as the Group had no potentially dilutive ordinary shares in issue for the relevant periods ended. The basic earnings/(loss) per share equals to the diluted earnings/(loss) 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 30 September 2020 and 31 December 2019	10,000,000,000	100,000
		Share capital HK\$'000
800,000,000 ordinary shares at 30 September 2020 and 31 December 2019		8,000

12. CAPITAL COMMITMENTS

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

	As at 30 September 2020 (Unaudited) HK\$'000	As at 31 December 2019 (Audited) HK\$'000
Contracted for, but not provided for: Equipment	1,600	1,600

13. RELATED PARTY TRANSACTIONS

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

	Three months ended 30 September		Nine months ended 30 September	
	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000	2019 (Unaudited) HK\$'000
Employee benefit expense and retirement fund scheme contributions to the spouse of the Chairman	113	–	113	–

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

14. BANK BORROWINGS

As at 30 September 2020, the Group had term loan of HK\$4,859,000 (31 December 2019: nil). The banking facilities are secured by the deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company.



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 21 years of experience in the IT consulting services industry in Hong Kong. Our principal businesses include IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and trading of entertainment products.

BUSINESS REVIEW AND OUTLOOK

For the nine months ended 30 September 2020 (“Quarterly 2020”), the Group recorded a profit attributable to owners of the Company of approximately HK\$6.4 million as compared to the profit attributable to owners of the Company of approximately HK\$2.7 million for the nine months ended 30 September 2019 (“Quarterly 2019”). The increase in profit was primarily due to the increase in gross profit by approximately HK\$10.5 million; increase in other income by approximately HK\$3.8 million mainly due to the increase in government subsidies; partially offset by the increase in administrative expenses by approximately HK\$7.6 million mainly due to the increase in staff cost; and increase in allowance for expected credit losses by approximately HK\$1.8 million primarily due to the increase in uncertainties of the macroeconomics environment.

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 2020 accounted to approximately HK\$129.7 million, representing approximately 58.2% of the total revenue for Quarterly 2020. The revenue from this segment increased by approximately 94.5% from approximately HK\$66.7 million for Quarterly 2019 to approximately HK\$129.7 million for Quarterly 2020. The increase was primarily due to the increase in average contract value of projects awarded and the increase in amount of revenue recognised per project in Quarterly 2020.

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 2020 amounted to approximately HK\$46.7 million, representing approximately 21.0% of the total revenue for Quarterly 2020. The revenue derived from this segment increased by approximately 27.9% from approximately HK\$36.5 million for Quarterly 2019 to approximately HK\$46.7 million for Quarterly 2020, the increase was primarily due to increase in total number of IT development solutions services projects undertaken in Quarterly 2020.

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\$10.5 million, representing approximately 4.7% of the total revenue for Quarterly 2020. The revenue derived from this segment decreased by approximately 48.8% from approximately HK\$20.5 million for Quarterly 2019 to approximately HK\$10.5 million for Quarterly 2020, the significant decrease in revenue from this segment was primarily due to the decrease in number of IT maintenance and support services project during Quarterly 2020.

Trading of entertainment products

This segment plans to develop an e-commerce business which includes trading of entertainment products. The revenue generated for this segment amounted to approximately HK\$35.8 million, representing approximately 16.1% of the total revenue for Quarterly 2020. The revenue derived from this segment increased from approximately HK\$nil for Quarterly 2019 to approximately HK\$35.8 million for Quarterly 2020. There was a significant increase in revenue because this is a new revenue segment generated by the subsidiaries of the Group, and one of the subsidiaries was established in the fourth quarter of 2019.



PROSPECTS AND OUTLOOK

Looking forward, the Group considers the global business environment will become more challenging, which may affect the usual business of all industries. The Group will continue to face various risks and uncertainties including the global outbreak of coronavirus disease (the "COVID-19"). The Group expects that the Hong Kong economy outlook continues to be uncertain and overshadowed by the impact of the COVID-19. It may bring uncertainties and adversely affect the Group's overall short-term business performance as certain prevention and restriction policies may continue to be imposed by the government to curb the spread of COVID-19. It may disrupt the Group's marketing activities, result in reduced orders and may put pressure on our pricing terms and profitability in the short run even though the Group has actively managed its operations to avoid such interruptions. With the aim to create value to Shareholders, the Group will continue to consider to provide customers with specific IT solution services through its newly established subsidiaries, thereby expanding and diversifying its revenue sources which are synergetic to our existing business. The Group will stay alert to the development and situation of the COVID-19 pandemic, continue to assess its impacts on the financial position and operating results of the Group and take necessary actions to maintain the stability of the businesses. The Group will keep proactive to seek business opportunities that will contribute and sustain the Group's future development and further diversify the Group's overall business to confront the volatile economic condition and environment.

FINANCIAL REVIEW

Revenue

The Group's revenue for Quarterly 2020 amounted to approximately HK\$222.7 million, representing an increase of approximately HK\$99.0 million or 80.0% compared to Quarterly 2019 of approximately HK\$123.7 million. The increase was attributable to increase in revenue generated from provision of (i) IT infrastructure solutions services projects by approximately HK\$63.0 million; (ii) IT development solutions services projects approximately HK\$10.2 million; and (iii) trading of entertainment products by approximately HK\$35.8 million but partially offset by the decrease in provision of IT maintenance and support services projects by approximately HK\$10.0 million.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 39.8% from approximately HK\$26.4 million for Quarterly 2019 to approximately HK\$36.9 million for Quarterly 2020 as the increase was mainly attributable to increase in gross profit of IT development solutions services due to increase in total numbers of development solutions services projects undertaken in Quarterly 2020. The gross profit margin of the Group decreased from approximately 21.3% for Quarterly 2019 to approximately 16.6% for Quarterly 2020. The decrease was mainly attributable to the decrease in gross profit margin of IT infrastructure solutions services projects which was mainly due to the increase in systems software and subcontracting costs in certain projects; and comparatively lower gross profit margin in trading of entertainment products during Quarterly 2020.

Selling expenses

For Quarterly 2020, the Group's selling expenses amounted to approximately HK\$5.7 million, representing the increase of approximately HK\$1.3 million or 29.5% as compared to Quarterly 2019 of approximately HK\$4.4 million. Such increase was mainly attributed by the increase in sales commission expenses of approximately HK\$0.5 million which was in line with the increase in revenue for Quarterly 2020.

Administrative and general expenses

The Group's administrative expenses for Quarterly 2020 amounted to approximately HK\$26.8 million, representing increase of approximately HK\$7.6 million or 39.6% as compared to Quarterly 2019 of approximately HK\$19.2 million. Such increase was mainly attributed by the increase in staff cost in administrative expenses by approximately HK\$8.3 million due to increase in number of staffs for Quarterly 2020; and was partially offset by the decrease in travelling expenses by approximately HK\$0.3 million.



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

The Group recorded profit by approximately HK\$4.9 million for Quarterly 2020, as compared to profit of approximately HK\$2.6 million for Quarterly 2019. The increase in profit was mainly attributable to net effect of (i) increase in gross profit of different segment by approximately HK\$10.5 million; (ii) increase in other income primarily due to the government subsidies of approximately HK\$3.5 million; the increase in sales commission expenses of approximately HK\$0.5 million; and the increase in staff cost in administrative expenses of approximately HK\$8.3 million during the Quarterly 2020.

Liquidity and financial resources

We financed our operations primarily through cash generated from our operating activities. As at 30 September 2020, we had cash and cash equivalents of approximately HK\$30.9 million (31 December 2019: approximately HK\$60.0 million), which were cash at banks and in hand. Up to the date of condensed consolidated financial statements, the Group has drawn down term loan of approximately HK\$4.9 million (31 December 2019: nil) which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31,000,000 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 9.3% as at 30 September 2020 (31 December 2019: 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 dated 30 June 2018 (the "Prospectus").

Capital structure

As at 30 September 2020, 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 2020, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents and trade payables which are denominated in US\$ and EUR. During Quarterly 2020 and Quarterly 2019, 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 2020 and Quarterly 2019.


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

During Quarterly 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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 the Quarterly 2020, save for the deviations 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 circumstances.



Under the CG Code provision A.1.8, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Currently, the Company does not have insurance covering 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.

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 2020.

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 2020 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 2020 and up to date of this report.

USE OF PROCEEDS

The net proceeds of the Group raised from the initial public offering was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 30 September 2020, the Group has utilised proceeds from the listing of approximately HK\$10.07 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 September 2020 HK\$ million	Amount actually used up to 30 September 2020 HK\$ million
Develop IT solutions services tailored for finance and insurance sectors	7.10	2.67	2.67
Expand the application of ERP system in our IT development solutions services	1.17	0.43	0.43
Maintain fund for performance bond and contract deposit	2.34	2.12	1.55
Provision of cloud computing and IoT products	9.15	4.30	1.30
Develop technical support centre to enhance our service quality	2.92	2.33	1.60
Strengthen our marketing efforts	2.34	2.05	0.10
Enhance the expertise of our professional team	1.75	1.55	0.32
Enhance our Group's management information system	5.19	3.26	0.72
Working capital and other general corporate purposes	2.14	1.38	1.38
Total	34.10	20.09	10.07



Up to 30 September 2020, the actual application of the net proceeds from the initial public offering were used according to the intentions previously disclosed in the Prospectus. However, save for the use of proceeds for expanding the application of ERP system in our IT development solutions services, develop IT solutions services tailored for finance and insurance sectors and as general working capital which was in line with the timeline as disclosed in the Prospectus, there was a general delay in the timeline in the use of proceeds due to the following reasons:

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

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 30 September 2020, 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 2020, 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

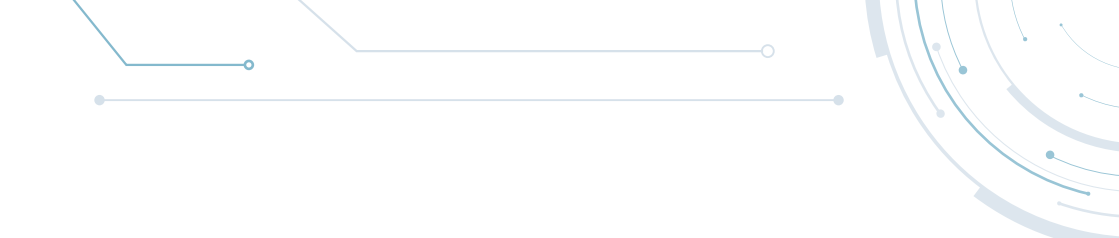
As at 30 September 2020, so far as the Directors are aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange 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 2020, 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 2020, 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 Quarterly 2020, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2020, the Group had a total of 133 employees (30 September 2019: 89). Total staff costs (including directors' emoluments) were approximately HK\$40.5 million for the Quarterly 2020, 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 2020.

CHARGES ON GROUP ASSETS

As at 30 September 2020, except for the banking facilities which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company, there were no other charges on the Group's assets (31 December 2019: nil).



INTERESTS IN COMPETING BUSINESS

During Quarterly 2020, 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 2020, 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 a quarterly dividend for the nine months ended 30 September 2020.

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 2020.

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

Hong Kong, 12 November 2020