



kinetix

Kinetix Systems Holdings Limited

捷冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

First Quarterly Report 2021





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

Non-executive Directors

Mr. Cheng Kwan Ngai
Ms. Chen Jie
(appointed on 9 February 2021)

Independent Non-executive Directors

Mr. Yeung Wai Keung
(resigned on 1 March 2021)
Mr. Lam Yau Hin
Ms. Lam Shun Ka
(formerly known as Lam Yuk Shan)
Dr. He Dazhi (appointed on 1 April 2021)

COMPANY SECRETARY

Ms. Lam Wai Yan

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

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
Tsim Sha Tsui, Kowloon
Hong Kong

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
Level 54, Hopewell Centre
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 Group amounted to approximately HK\$59.1 million for the three months ended 31 March 2021, decreased by approximately 29.4% as compared to that of the same period in 2020.
- The gross profit amounted to approximately HK\$13.5 million for the three months ended 31 March 2021, increased by approximately 27.4% as compared to that of the same period in 2020.
- The Group recorded a net loss of approximately HK\$0.8 million for the three months ended 31 March 2021.
- The board of Directors (the “Board”) does not recommend the payment of interim dividend for the three months ended 31 March 2021.

FINANCIAL RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2021

The Board is pleased to announce the unaudited condensed consolidated financial results of the Group for the three months ended 31 March 2021, together with the unaudited comparative figures for the corresponding period in 2020 as follows:

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

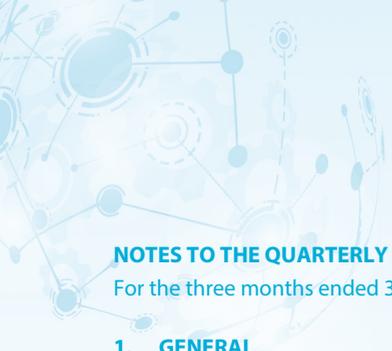
For the three months ended 31 March 2021

		Three months ended 31 March	
Notes		2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue	5(a)	59,111	83,676
Cost of sales		(45,622)	(73,031)
Gross profit		13,489	10,645
Other income, other gains or losses	5(b)	188	103
Selling expenses		(2,891)	(1,527)
Administrative and general expenses		(11,431)	(8,924)
Reversal of/(allowance for) expected credit losses		245	(943)
Finance costs		(184)	(43)
Loss before tax	6	(584)	(689)
Income tax	7	(197)	(335)
Loss for the period		(781)	(1,024)
Other comprehensive income		-	-
Total comprehensive loss for the period		(781)	(1,024)
Attributable to:			
Owners of the Company		(410)	117
Non-controlling interests		(371)	(1,141)
Total comprehensive loss for the period		(781)	(1,024)
		HK cents	HK cents
(Loss)/earnings per share			
- Basic	9	(0.05)	0.01
- Diluted	9	(0.05)	-

QUARTERLY CONDENSED CONSOLIDATED STATEMENT OF CHANGE IN EQUITY

For the three months ended 31 March 2021

	Attributable to owner of the Company							Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserve HK\$'000	Convertible	Retained profits HK\$'000	Total HK\$'000	Non-controlling interest HK\$'000	
				equity reserve HK\$'000				
1 January 2020 (audited)	8,000	43,199	10	-	37,593	88,802	(539)	88,263
Profit/(loss) for the period	-	-	-	-	117	117	(1,141)	(1,024)
Other comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive profit/(loss) for the period	-	-	-	-	117	117	(1,141)	(1,024)
31 March 2020 (unaudited)	8,000	43,199	10	-	37,710	88,919	(1,680)	87,239
1 January 2021 (audited)	8,000	43,199	10	-	47,909	99,118	(1,216)	97,902
Loss for the period	-	-	-	-	(410)	(410)	(371)	(781)
Other comprehensive income for the period	-	-	-	-	-	-	-	-
Total comprehensive loss for the period	-	-	-	-	(410)	(410)	(371)	(781)
Recognition of equity component of convertible bonds	-	-	-	10,149	-	10,149	-	10,149
31 March 2021 (unaudited)	8,000	43,199	10	10,149	47,499	108,857	(1,587)	107,270



NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the three months ended 31 March 2021

1. GENERAL

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

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

2. BASIS OF PREPARATION AND PRESENTATION

The unaudited quarterly condensed consolidated financial statements for the three months ended 31 March 2021 has been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of The Stock Exchange of Hong Kong Limited (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 2020.

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

Convertible bonds

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

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

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

Intangible assets

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

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

4. SEGMENT INFORMATION

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

Geographical information

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

	Three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Hong Kong	58,273	81,462
Macau	838	2,214
	59,111	83,676

5. REVENUE, OTHER INCOME, OTHER GAINS OR LOSSES

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

	Three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15, types of goods or services		
IT solution services		
IT infrastructure solutions services	17,427	58,880
IT development solutions services	30,504	12,443
IT maintenance and support services	7,739	3,456
Trading of entertainment products	3,441	8,897
	59,111	83,676
Total income		
	59,111	83,676

(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 for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	For the three months ended 31 March 2021				
	IT solutions services				Total (Unaudited) HK\$'000
	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	
Disaggregated by timing of revenue recognition					
At a point in time	17,254	-	-	3,441	20,695
Over time	173	30,504	7,739	-	38,416
Revenue from external customers	17,427	30,504	7,739	3,441	59,111

	For the three months ended 31 March 2020				
	IT solutions services				Total (Unaudited) HK\$'000
	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	
Disaggregated by timing of revenue recognition					
At a point in time	58,743	-	-	8,897	67,640
Over time	137	12,443	3,456	-	16,036
Revenue from external customers	58,880	12,443	3,456	8,897	83,676

(b) Other income, other gains or losses

The balance mainly represents finance lease interest income for the three months ended 31 March 2021.

For the three months ended 31 March 2020, the balance mainly represents bank interest income.

6. LOSS BEFORE TAX

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

	Three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Auditor's remuneration		
– Non-audit services**	60	60
Amortisation of intangible assets	533	–
Cost of hardware and software recognised as expenses	20,372	52,605
Cost of IT solutions services*	17,039	9,701
Cost of IT maintenance and support services*	4,816	1,407
Cost of inventories recognised as an expense*	3,248	8,673
Depreciation of property, plant and equipment	438	175
Depreciation of right-of-use assets	723	569
Foreign exchange differences, net	(10)	–
Provision for onerous contracts#	147	645
Lease payments under short-term leases		
– Office premises	159	–
Retirement fund scheme contributions	500	413
Directors' fee, salaries, allowances and other benefits in kind		
– Directors of the Company	852	667
– Other staff	13,859	10,974

* Included in the above costs are subcontracting costs amounting to HK\$17,530,000 for the three months ended 31 March 2021 (three months ended 31 March 2020: HK\$7,921,000).

** Non-audit services represent the AUP services provided relating to first quarterly results for the three months ended 31 March 2021 (2020: first quarterly results for the three months ended 31 March 2020).

Included in cost of sales.

7. INCOME TAX

	Three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
Current tax	156	335
Deferred tax	41	–
	197	335

The Hong Kong profits tax of the qualifying group entity is calculated at 8.25% on the first HK\$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK\$2 million. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

8. DIVIDEND

The Directors do not recommend the payment of a dividend for the three months ended 31 March 2021 (31 March 2020: nil).

9. (LOSS)/EARNINGS PER SHARE

	Three months ended 31 March	
	2021 (Unaudited) HK\$'000	2020 (Unaudited) HK\$'000
(Loss)/profit for the period attributable to the owners of the Company	(410)	117
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share (in thousands)	800,000	800,000
Effect of dilutive potential ordinary shares arising from convertible bonds outstanding (in thousands)	104,889	–
Weighted average number of ordinary shares for the purpose of calculating diluted (loss)/earnings per share (in thousands)	904,889	800,000

10. BANK BORROWINGS

As at 31 March 2021, the Group had term loan of HK\$4,326,000 (31 December 2020: HK\$6,778,000). The banking facilities are secured by the deed of assignment of the insurance policy of the Chairman of the Company and the corporate guarantee of HK\$31,000,000 plus interest and other charges provided by the Company.

11. EVENTS AFTER THE REPORTING PERIOD

(a) Disclosable transaction in respect of the Tenancy Agreement

On 4 May 2021, Shanghai Kinetix Systems Company Limited, an indirectly wholly-owned subsidiary of the Company, as the tenant, entered into a tenancy agreement (the "Tenancy Agreement") with Shanghai Xinyefang Shangying Enterprise Development Company Limited, an independent third party, as landlord, in respect of the leasing of the Premises for a term of five years. For details, please refer to the announcement of the Company dated 4 May 2021.

(b) Transfer of Convertible Bonds and conversion of Convertible Bonds

On 10 May 2021, the Company received a transfer notice from Dalian Luminary Technology Inc. (“the Vendor”) in respect of the transfer of Convertible Bonds in the total principal amount of (i) HK\$18,000,000 to Lam Sze Chun Jackson (“Mr. Lam”); (ii) HK\$15,000,000 to Goldlink Hong Kong Investment Limited (“Goldlink”) a company incorporated in Hong Kong with limited liability; and (iii) HK\$15,000,000 to Rich Trend Hong Kong Investment Limited (“Rich Trend”) a company incorporated in Hong Kong with limited liability. Mr. Lam, Goldlink and Rich Trend and their ultimate beneficial owner are independent third parties.

At the same date, the Company received conversion notices from Mr. Lam, Goldlink, Rich Trend in relation to the exercise of the conversion rights attached to the Convertible Bonds with the aggregate principal amount of HK\$48,000,000 at the Conversion Price of HK\$0.30 per Conversion Share. For details, please refer to the announcement of the Company dated 10 May 2021.

The effect of diluted potential ordinary shares arising from convertible bonds is set-off when the conversion of Convertible Bonds is completed on 10 May 2021 and 160,000,000 ordinary shares are issued.



MANAGEMENT DISCUSSION AND ANALYSIS

Established in 1998, we are currently a well-established IT services provider with business portfolio including provision of IT infrastructure solutions services, IT development solutions services, and IT maintenance and support services, with approximately 22 years of experience in the IT consulting services industry in Hong Kong. Our principal businesses include IT infrastructure solutions services, IT development solutions services, IT maintenance and support services and trading of entertainment products.

BUSINESS REVIEW AND OUTLOOK

For the three months ended 31 March 2021 (“Quarterly 2021”), the Group recorded a loss of approximately HK\$0.8 million as compared to the loss of approximately HK\$1.0 million for the three months ended 31 March 2020 (“Quarterly 2020”). The decrease in loss were mainly attributed to (i) the increase in gross profit by approximately HK\$2.9 million; (ii) the increase in reversal for expected credit losses by approximately HK\$1.2 million; and partially offset by (iii) the increase in staff cost in administrative and selling expenses by approximately HK\$1.9 million due to increase in number of staff and commission expenses; (iv) increase in rental payment by HK\$0.2 million due to additional offices used by subsidiaries; and (v) the increase in depreciation and amortisation by approximately HK\$1.0 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 and integrating them with our client’s IT systems. The revenue generated from this segment in Quarterly 2021 amounted to approximately HK\$17.4 million, representing approximately 29.5% of the total revenue for Quarterly 2021. The revenue derived from this segment decreased by approximately 70.5% from approximately HK\$58.9 million for Quarterly 2020 to approximately HK\$17.4 million for Quarterly 2021. The decrease was primarily due to decrease in the total number and average contract value of IT infrastructure solutions services projects undertaken in Quarterly 2021.

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 51.6% of the total revenue for Quarterly 2021. The revenue from this segment increased by approximately 146.0% from approximately HK\$12.4 million for Quarterly 2020 to approximately HK\$30.5 million for Quarterly 2021. The substantial increase was primarily due to the significant increase in the average amount of revenue recognised per project in Quarterly 2021.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment amounted to approximately HK\$7.7 million, representing approximately 13.1% of the total revenue for Quarterly 2021. The revenue derived from this segment increased by approximately 120.0% from approximately HK\$3.5 million for Quarterly 2020 to approximately HK\$7.7 million for Quarterly 2021. The significant increase in revenue from this segment was primarily due to (i) the increase in the average amount of revenue recognised per project; and (ii) the increase in the average contract value of IT maintenance and support services projects awarded.

Trading of entertainment products

This segment operates an e-commerce business which includes trading of entertainment products. The revenue generated from this segment amounted to approximately HK\$3.4 million, representing approximately 5.8% of the total revenue for Quarterly 2021. The revenue derived from this segment decreased by approximately 61.8% from approximately HK\$8.9 million for Quarterly 2020 to approximately HK\$3.4 million for Quarterly 2021. The decrease in revenue because both the number of orders and the average order value reduced.

PROSPECTS AND OUTLOOK

By entering the Quarterly 2021, the Group recorded a decrease in income when comparing to the same period in 2020. The shock of coronavirus disease (the "COVID-19") is still adversely affect the Group's business and its overall short-term performance. Our orders declined and the pricing strategy was suppressed which obstruct our profitability growth in short run. Our Group will consider these challenges as a motivation to develop future business. Facing the COVID-19 epidemic, the Group is trying to recover together with Hong Kong economy. The reduction in countries on the forced lockdowns are conducive to mitigate the impacts and respond to current business environment. With the establishment of the People's Republic of China's (the "PRC") headquarter in Shanghai in this quarter, we are well prepared to integrate our specific IT solution services, and the application of Internet of Things ("IoT") and cloud computing techniques to participate the smart city project in PRC and overseas, by providing the best possible results to our shareholders of the Company (the "Shareholders").



FINANCIAL REVIEW

Revenue

The Group's revenue for Quarterly 2021 amounted to approximately HK\$59.1 million, representing a decrease of approximately HK\$24.6 million or 29.4% compared to Quarterly 2020 (2020: approximately HK\$83.7 million). The decrease was attributable to: (i) the decrease in the revenue generated from provision of IT infrastructure solutions services by approximately HK\$41.5 million; and (ii) the decrease in the revenue generated from trading of entertainment products by approximately HK\$5.5 million but was partially offset by: (i) the increase in provision of IT development solutions services by approximately HK\$18.1 million; and (ii) the increase in provision of IT maintenance and support services by approximately HK\$4.3 million.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 27.4% from approximately HK\$10.6 million for Quarterly 2020 to approximately HK\$13.5 million for Quarterly 2021 as the increase was mainly attributable to the increase in gross profit of IT infrastructure solutions services and IT maintenance and support services. The gross profit margin of the Group increased from approximately 12.7% for Quarterly 2020 to approximately 22.8% for Quarterly 2021. The increase was mainly attributable to the increase in gross profit margin of IT infrastructure solutions services projects associated with comparatively higher gross profit margin projects during Quarterly 2021.

Selling expenses

For Quarterly 2021, the Group's selling expenses amounted to approximately HK\$2.9 million, representing the increase of approximately HK\$1.4 million or 93.3% as compared to Quarterly 2020 of approximately HK\$1.5 million. Such increase was mainly attributed by the increase in staff cost and sales commission scheme changed in Quarterly 2021.

Administrative and general expenses

The Group's administrative expenses for Quarterly 2021 amounted to approximately HK\$11.4 million, representing increase of approximately HK\$2.5 million or 28.1% as compared to Quarterly 2020 (2020: approximately HK\$8.9 million). Such increase was mainly attributed by the increase in depreciation and amortisation by approximately HK\$1.0 million; and increase in rent by approximately HK\$0.2 million due to some subsidiaries set up offices in Hong Kong and Macau.

Loss for the period

The Group recorded loss of approximately HK\$0.8 million for Quarterly 2021, as compared to loss of approximately HK\$1.0 million for Quarterly 2020. The decrease in loss was mainly attributed to the net effect of: (i) the increase in gross profit by approximately HK\$2.9 million; (ii) the increase in reversal for expected credit losses by approximately HK\$1.2 million; partially offset by (iii) the increase in staff cost in administrative and selling expenses by approximately HK\$1.9 million due to increase in number of staff and commission expenses; (iv) increase in rental payment by HK\$0.2 million due to additional offices used by subsidiaries; and (v) the increase in depreciation and amortisation by approximately HK\$1.0 million.

Liquidity and financial resources

The Group financed its operations primarily through cash generated from its operating activities. As at 31 March 2021, the Group had cash and cash equivalents of approximately HK\$56.8 million (31 December 2020: approximately HK\$35.8 million), which were cash at banks and in hand. Up to the date of condensed consolidated financial statements, the Group has bank borrowings of approximately HK\$4.3 million (31 December 2020: HK\$6.8 million). The Group have a credit facility from the Bank of East Asia of HK\$25.0 million as at 31 March 2021 (31 December 2020: HK\$25.0 million) which are secured by a deed of assignment of the insurance policy of the Chairman of the Company and a corporate guarantee of HK\$31.0 million plus interest and other charges provided by the Company. The Group's gearing ratio, which was calculated by total debt (defined as bank and other debts incurred not in the ordinary course of business) divided by total equity, was 65.6% as at 31 March 2021 (31 December 2020: 19.3%). The Group expects its liquidity position would further be strengthened by using the cash generated from its operating activities and fund raising as a result of that the shares of the Company (the "Shares") were listed on the Stock Exchange on 16 July 2018. Going forward, the Group intends to use its capital for its operations and the expansion plans as stated in the prospectus dated 30 June 2018 (the "Prospectus").

Capital structure

As at 31 March 2021, the capital structure of the Company comprised issued share capital and reserves.

SIGNIFICANT INVESTMENTS

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

EMPLOYEES AND REMUNERATION POLICIES

As at 31 March 2021, the Group had a total of 128 employees (31 March 2020: 114). Total staff costs (including directors' emoluments) were approximately HK\$13.5 million for Quarterly 2021, as compared to approximately HK\$12.1 million for Quarterly 2020.

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

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") is a share incentive scheme prepared in accordance with Chapter 23 of the GEM Listing Rules. The Share Option Scheme was adopted on 22 June 2018. No options have been granted, exercised or cancelled, or agreed to be granted, under the Share Option Scheme from the date of its adoption to 31 March 2021 and up to the date of this report.

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 31 March 2021.

CHARGES ON GROUP ASSETS

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

EXPOSURE TO EXCHANGE RATE FLUCTUATION

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group mainly operates in Hong Kong with most of the transactions denominated and settled in HK\$. During Quarterly 2021, 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 2021 and Quarterly 2020, the Group did not adopt any hedging strategy but the management continuously monitored the foreign exchange risk exposure on a case-by-case basis. The Group did not use any hedging contracts to engage in speculative activities during Quarterly 2021 and Quarterly 2020.

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

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

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 March 2021, the interests or short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong (the "SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, are as follows:

The Company

Director	Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Mr. Yu Pak Lun Larry	Interest in controlled corporations ⁽²⁾	415,000,000 Shares (L)	51.88%

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 51.88% 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 ordinary share	100%

Save as disclosed above, as at 31 March 2021, none of the Directors nor the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO); or which will be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or which will be required to notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

INTERESTS OF SUBSTANTIAL SHAREHOLDERS

As at 31 March 2021, so far as the Directors were aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

The Company

Shareholders	Capacity/ Nature of interest	Number and class of securities ⁽¹⁾	Approximate percentage of interest in the Company
Vigorous King Limited ⁽²⁾	Beneficial owner	415,000,000 Shares (L)	51.88%
Ms. Tong Po Ki Vicky ⁽³⁾	Interest of spouse	415,000,000 Shares (L)	51.88%
Ms. Leung Ruby Huey Boon	Beneficial owner	80,000,000 Shares (L)	10.00%
Mr. Leung Clement Kam Hon ⁽⁴⁾	Interest of spouse	80,000,000 Shares (L)	10.00%
Ms. Yiu Wai Ki	Beneficial owner	80,000,000 Shares (L)	10.00%
Mr. Leung Wan Hung ⁽⁵⁾	Interest of spouse	80,000,000 Shares (L)	10.00%
Dalian Luminary Technology Inc. ⁽⁶⁾	Beneficial owner	160,000,000 Shares (L)	20.00%
Mr. Ou Yang Woei Shong ⁽⁶⁾	Interest in controlled corporation	160,000,000 Shares (L)	20.00%

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.
- (4) Mr. Leung Clement Kam Hon is the spouse of Ms. Leung Ruby Huey Boon. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Leung Ruby Huey Boon is interested in by virtue of the SFO.

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- (5) Mr. Leung Wan Hung is the spouse of Ms. Yiu Wai Ki. Therefore, Mr. Leung is deemed to be interested in the Shares which Ms. Yiu Wai Ki is interested in by virtue of the SFO.
 - (6) Dalian Luminary Technology Inc. is held as to 97% by Mr. Ou Yang Woei Shong. Therefore, Mr. Ou Yang Woei Shong is deemed to be interested in the Shares which Dalian Luminary Technology Inc. is interested in by virtue of the SFO. The 160,000,000 underlying Shares held by Dalian Luminary Technology Inc. represents the maximum of 160,000,000 conversion Shares to be issued upon the full conversion of the convertible bonds issued by the Company to Dalian Luminary Technology Inc. at the initial conversion price of HK\$0.3 (subject to adjustment). On 10 May 2021, the Company received a transfer notice from the Vendor in respect of the transfer of Convertible Bonds in the total principal amount of (i) HK\$18,000,000 to Lam Sze Chun Jackson (“Mr. Lam”); (ii) HK\$15,000,000 to Goldlink Hong Kong Investment Limited (“Goldlink”) a company incorporated in Hong Kong with limited liability; and (iii) HK\$15,000,000 to Rich Trend Hong Kong Investment Limited (“Rich Trend”) a company incorporated in Hong Kong with limited liability. Mr. Lam, Goldlink and Rich Trend and their ultimate beneficial owner are independent third parties.

At the same date, the Company received conversion notices from Mr. Lam, Goldlink, Rich Trend in relation to the exercise of the conversion rights attached to the Convertible Bonds with the aggregate principal amount of HK\$48,000,000 at the Conversion Price of HK\$0.30 per Conversion Share. As at the report date, these convertible bonds are converted 6,000,000 shares, 5,000,000 shares, and 5,000,000 shares by Mr. Lam, Goldlink and Rich Trend respectively.

Save as disclosed above, as at 31 March 2021, the Directors were not aware of any persons who/entities which had an interest or short position in the Shares or underlying Shares, which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

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 Quarterly 2021, save for the deviation from such code disclosed below.

The CG Code in Appendix 15 to the GEM Listing Rules provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Yu 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 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 Quarterly 2021, the Directors were not aware of any business or interest of the Directors, the controlling shareholders of the Company and their respective close associates that had competed or might compete with the business of the Group and any other conflicts of interests which any such person had or might have with the Group.

USE OF PROCEEDS

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

The net proceeds was approximately HK\$34.1 million, after deducting the underwriting fees, commissions and other listing expenses. Up to 31 March 2021, the Group has utilised proceeds from the listing of approximately HK\$19.3 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 31 March 2021 HK\$'million	Amount actually used up to 31 March 2021 HK\$'million	Balance as at 31 March 2021 HK\$'million	Expected timeline to fully utilise the remaining net proceeds
Develop IT solutions services tailored for finance and insurance sectors	7.10	4.45	4.45	2.65	31 December 2021
Expand the application of ERP system in our IT development solutions services	1.17	0.72	0.72	0.45	31 December 2021
Maintain fund for performance bond and contract deposit	2.34	2.34	2.34	–	Fully utilised
Provision of cloud computing and IoT products	9.15	6.47	6.27	2.88	31 December 2021
Develop technical support centre to enhance our service quality	2.92	2.62	2.62	0.30	31 December 2021
Strengthen our marketing efforts	2.34	2.33	0.12	2.22	31 December 2021
Enhance the expertise of our professional team	1.75	1.75	0.39	1.36	31 December 2021
Enhance our Group's management information system	5.19	4.03	0.66	4.53	31 December 2021
Working capital and other general corporate purposes	2.14	1.69	1.69	0.45	31 December 2021
Total	34.10	26.40	19.26	14.84	

Up to 31 March 2021, the actual application of the net proceeds from the initial public offering were used according to the intentions previously disclosed in the Prospectus. However, save for the use of proceeds for expanding the application of ERP system in our IT development solutions services, develop IT solutions services tailored for finance and insurance sectors, maintain fund for performance bond and contract deposit, development technical support centre to enhance our service quality and as general working capital which was in line with the timeline as disclosed in the Prospectus, there was a general delay in the timeline in the use of proceeds due to the following reasons:

- (i) given the macroeconomic situation during 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 the uncertain business environment, the continuous shock of COVID-19 and certain social distancing measures imposed by the government, it has considerable impact on the marketing efforts of the Group and enhancement of management information system. It is financially prudent to prolong the timeline for the Group's business plans (including marketing events and participating in IT industry exhibitions), which would heighten the Group's cash position and liquidity to respond future challenging economic environment.

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

(b) Other fund raising activities during the three-month period

Issue of HK\$48,000,000 convertible bonds under general mandate

On 21 December 2020, the Company entered into the conditional sale and purchase agreement (the "Agreement") with the Dalian Luminary Technology Inc. (the "Vendor"), pursuant to which the Company has conditionally agreed to acquire, and the Vendor has conditionally agreed to sell, the Exclusive LED Products Agency Selling Rights, at the Consideration of HK\$48,000,000. The Convertible Bonds carry the right to convert into Conversion Shares at the Conversion Price of HK\$0.30 (subject to adjustment) per Conversion Share. On 1 February 2021, the Company has issued convertible bonds in the aggregate principal amount of HK\$48,000,000 to the Vendor.



AUDIT COMMITTEE

The audit committee of the Company has reviewed with the management accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of the unaudited financial statements of the Group for the three months ended 31 March 2021 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 three months ended 31 March 2021.

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

The details have been disclosed in Note 11 to this unaudited quarterly condensed consolidated financial statements.

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

Hong Kong, 14 May 2021