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KINETIX SYSTEMS HOLDINGS LIMITED

健冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

THIRD QUARTERLY RESULTS ANNOUNCEMENT FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

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

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

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

FINANCIAL RESULTS

The board of directors (the “Board”) of Kinetix Systems Holdings Limited (the “Company”) announces the unaudited condensed consolidated results of the Company and its subsidiaries (collectively the “Group”) for the nine months ended 30 September 2018, together with the unaudited comparative figures for the corresponding period in 2017 as follows:

QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the three months and nine months ended 30 September 2018

		Three months ended 30 September		Nine months ended 30 September	
		2018	2017	2018	2017
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Notes	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	5	20,233	25,319	109,082	96,389
Cost of sales		<u>(16,715)</u>	<u>(17,721)</u>	<u>(84,274)</u>	<u>(73,265)</u>
Gross profit		3,518	7,598	24,808	23,124
Other income	5	227	1	230	3
Selling expenses		(1,516)	(1,365)	(3,889)	(3,127)
Administrative and general expenses		(12,330)	(4,978)	(25,573)	(15,041)
Listing expenses		(1,432)	(1,338)	(9,831)	(4,307)
Finance costs		<u>(2)</u>	<u>–</u>	<u>(2)</u>	<u>–*</u>
(Loss)/profit before tax	6	(11,535)	(82)	(14,257)	652
Income tax	8	<u>746</u>	<u>(53)</u>	<u>(247)</u>	<u>(745)</u>
Loss for the period		(10,789)	(135)	(14,504)	(93)
Other comprehensive income		<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total comprehensive loss for the period attributable to the owners to the Company		<u>(10,789)</u>	<u>(135)</u>	<u>(14,504)</u>	<u>(93)</u>
		<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>	<i>HK cents</i>
Loss per share	10				
– Basic and diluted		<u>(1.41)</u>	<u>(0.02)</u>	<u>(2.21)</u>	<u>(0.02)</u>

* Less than HK\$1,000.

QUARTERLY CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

	Attributable to equity owners of the Company				
	Share capital	Other reserve	Share premium	Retained profits	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
1 January 2018 (audited)	–*	10	–	44,542	44,552
Capitalisation issue of shares	6,000	–	(6,000)	–	–
Issuance of new shares	2,000	–	58,000	–	60,000
Shares issue expenses	–	–	(8,801)	–	(8,801)
Loss and total comprehensive loss for the period	–	–	–	(14,504)	(14,504)
30 September 2018 (unaudited)	8,000	10	43,199	30,038	81,247
1 January 2017 (audited)	–*	10	–	44,557	44,567
Loss and total comprehensive loss for the period	–	–	–	(93)	(93)
Interim dividend declared	–	–	–	(6,000)	(6,000)
30 September 2017 (unaudited)	–*	10	–	38,464	38,474

* Less than HK\$1,000.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018

1. GENERAL

The Company was incorporated in 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. 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.

Pursuant to a group reorganisation (the "Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the GEM of the Stock Exchange, the Company became the holding company of the Group on 31 October 2016. Details of the Reorganisation are set out in the section headed "History, Development and Reorganisation" in the Prospectus of the Company dated 30 June 2018 (the "Prospectus"). The Company's immediate and ultimate holding company is Vigorous King Limited, a company incorporated in the British Virgin Islands and the ultimate controlling party is Mr. Yu Pak Lun Larry as of the date of this announcement.

2. BASIS OF PREPARATION AND PRESENTATION

The quarterly condensed consolidated financial statements for the nine months ended 30 September 2018 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 2017.

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 HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that become effective for the first time for the current accounting period. Of these, the followings are relevant to the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to HKFRS 9 "Prepayment features with negative compensation" which have been adopted at the same time as HKFRS 9.

Further details of these changes are set out in sub-sections (a) and (b) of this note.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(a) HKFRS 9 “Financial instruments”, including the amendments to HKFRS 9 “Prepayment features with negative compensation”

HKFRS 9 replaced HKAS 39 “Financial instruments: recognition and measurement”. HKFRS 9 sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

For impairment of financial assets, HKFRS 9 has adopted an expected credit loss (“ECL”) model whereas HKAS 39 adopted an incurred loss model. The ECL requires an ongoing assessment and measurement of credit risk associated with a financial asset and therefore expected credit losses are expected to be recognised earlier as compared to the incurred loss model under HKAS 39. The directors of the Company concluded that the area that the Group’s financial position and financial results may be impacted by HKFRS 9 is about recognition and measurement of expected credit losses.

Specifically, loss allowances for trade and other receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors and information available to the Group at the reporting date about current conditions and forecast of future economic conditions.

In assessing the credit risk of a financial asset, the Group considers both quantitative and qualitative information that is reasonable and supportable that is available without undue cost or effort, including risk of default, historical and forward-looking information e.g. the general market, economic or legal environment that may have an adverse effect on the recoverability of trade debts.

Based on the specified transitional provisions set out in HKFRS 9, the directors of the Company have decided not to restate the comparative figures. Any cumulative adjustments are recognised against the opening retained profits as of 1 January 2018. The directors of the Company concluded that the loss allowance as at 1 January 2018 was insignificant.

(b) HKFRS 15 “Revenue from contracts with customers”

HKFRS 15 establishes a comprehensive framework for recognising and measuring revenue and some costs from contracts with customers. HKFRS 15 replaced HKAS 18 “Revenue”, which covered revenue arising from sale of goods and rendering of services, and HKAS 11 “Construction contracts” which specified the accounting for revenue and costs from construction contracts.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

(b) HKFRS 15 “Revenue from contracts with customers” (Continued)

Based on the specified transitional provision set out in HKFRS 15, the directors of Company had decided to apply the modified retrospective approach. The directors of the Company have assessed and concluded that there was no adjustment required to be made on the Group’s retained profits at 1 January 2018. Further details of the nature and effect of the changes on application of HKFRS 15 are set out below:

(i) *Timing of revenue recognition*

Previously, revenue arising from contracts for IT solutions services was recognised using the percentage of completion, measured by reference to the proportion that contract costs incurred for work performed to date compared to the estimated total budgeted contracts costs, adjusted for the effects of costs incurred that do not reflect the work performed by the Group. However, where the contracts for IT solutions do not require the Group to carry out installation, testing and integration works, revenue is recognised upon transfer of the significant risks and rewards of ownership of the IT solutions to the customers. Revenue from IT maintenance and support services was recognised over time when the services were rendered.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over a period of time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- A. When the customer simultaneously receives and consumes the benefits provided by the entity’s performance, as the entity performs;
- B. When the entity’s performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced; and
- C. When the entity’s performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity’s activities do not fall into any of these 3 situations, then, under HKFRS 15, the entity recognises revenue at a single point in time, being when control of that good or service has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from IT solutions and IT maintenance and support services. Based on the management’s assessment, revenue arising from contracts for IT infrastructure solutions and IT development solutions which involved just sales of hardwares/software are recognised at a point in time. Revenue arising from IT infrastructure solutions and IT development solutions which also involved provision of installation, testing and integration works which the management assessed and concluded that there are significant integration activities, are recognised over time. Revenue arising from IT maintenance and support services is recognised over time. Also, in respect of transactions where the related consideration is concluded to be recognised as revenue over time, the Group has determined that an input method is an appropriate method to measure the Group’s progress towards complete satisfaction of a performance obligation satisfied over time, which is based on costs incurred compared to total budgeted costs when applying HKFRS 15.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

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 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	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong	20,188	25,162	108,254	94,373
Macau	45	157	828	2,016
	<u>20,233</u>	<u>25,319</u>	<u>109,082</u>	<u>96,389</u>

For both periods, no single customer accounted for 10% or more of the Group's total revenue.

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	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue				
IT solutions services				
– IT infrastructure solutions services income	12,904	17,034	64,119	63,882
– IT development solutions services income	4,159	4,329	27,518	22,180
IT maintenance and support services				
– IT maintenance and support services income	3,170	3,956	17,445	10,327
Total income	<u>20,233</u>	<u>25,319</u>	<u>109,082</u>	<u>96,389</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition is disclosed in Note 5(a).

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

5. REVENUE AND OTHER INCOME (CONTINUED)

(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 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				
Point in time	9,872	176	–	10,048
Over time	3,032	3,983	3,170	10,185
Revenue from external customers	12,904	4,159	3,170	20,233
For the three months ended 30 September 2017				
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				
Point in time	13,629	21	–	13,650
Over time	3,405	4,308	3,956	11,669
Revenue from external customers	17,034	4,329	3,956	25,319

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

5. REVENUE AND OTHER INCOME (CONTINUED)

(a) Information about segment revenue (Continued)

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				
Point in time	58,320	1,994	–	60,314
Over time	5,799	25,524	17,445	48,768
Revenue from external customers	<u>64,119</u>	<u>27,518</u>	<u>17,445</u>	<u>109,082</u>

For the nine months ended 30 September 2017				
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				
Point in time	55,007	2,819	–	57,826
Over time	8,875	19,361	10,327	38,563
Revenue from external customers	<u>63,882</u>	<u>22,180</u>	<u>10,327</u>	<u>96,389</u>

Other income

The balance mainly represents sponsorship income, sundry income and bank interest income for the three months and nine months ended 30 September 2017 and 30 September 2018.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 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	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Auditor's remuneration:				
Current period provision	–	1	58	1
Prior year underprovision	–	–	15	–
Cost of hardware and software recognised as expenses	9,995	11,869	49,963	50,670
Cost of IT solutions services*	5,566	6,022	23,524	19,512
Cost of IT maintenance and support services*	1,227	1,723	10,860	4,976
Depreciation of property, plant and equipment	188	51	308	160
Loss on write-off of property, plant and equipment	–	–	52	–
Foreign exchange differences, net	15	10	16	10
Minimum lease payments under operating leases				
– Office premises	453	351	1,558	1,051
– Director's quarter	135	85	405	235
Reversal of provision for foreseeable losses on contract [#]	(73)	(1,893)	(73)	(1,893)
Allowance for expected credit loss	5,113	–	5,443	–
Retirement fund scheme contributions (included in staff costs below)	303	319	930	912
Employee benefit expense (excluding compensation of key management personnel (Note 7))				
– Wages and salaries (including retirement fund contributions)	7,124	7,237	22,628	20,301

* Included in the above costs are subcontracting costs amounting to HK\$4,326,000, HK\$4,200,000, HK\$14,255,000 and HK\$25,462,000 for the three months and the nine months ended 30 September 2017 and 30 September 2018, respectively.

[#] Included in cost of sales.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

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	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Short-term employee benefits	1,419	1,495	4,359	4,301
Post-employment benefits	31	32	94	95
Total compensation paid to key management personnel	<u>1,450</u>	<u>1,527</u>	<u>4,453</u>	<u>4,396</u>

8. INCOME TAX

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Current tax – Hong Kong profit tax	–	53	113	745
Prior period overprovision	(880)	–	–	–
Deferred tax	134	–	134	–
	<u>(746)</u>	<u>53</u>	<u>247</u>	<u>745</u>

Hong Kong profits tax is calculated at 16.5% of the estimated assessable profits for the three months and nine months ended 30 September 2017. Pursuant to the enactment of two-tiered profit tax rates issued by the Inland Revenue Department of Hong Kong from the year of assessment 2018/19 onwards, the Group's first HK\$2 million of assessable profits under Hong Kong profits tax for the three months and nine months ended 30 September 2018 is subject to a tax rate of 8.25%, while the remaining assessable profits are subject to a tax rate of 16.5%. Overseas taxation is calculated at tax rates applicable to jurisdictions in which the Group operates. Pursuant to the rules and regulations of Cayman Islands, the Company was not subject to any taxation under the jurisdictions of Cayman Islands during the relevant periods.

9. DIVIDEND

The directors do not recommend the payment of an interim dividend for the nine months ended 30 September 2018. During the nine months ended 30 September 2017, Kinetix Systems Limited, a wholly-owned subsidiary of the Company, declared and paid dividends of HK\$6,000,000 to its members.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

10. LOSS PER SHARE

	Three months ended 30 September		Nine months ended 30 September	
	2018	2017	2018	2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Loss and total comprehensive loss for the period attributable to the owners of the Company	<u>(10,789)</u>	<u>(135)</u>	<u>(14,504)</u>	<u>(93)</u>
Weighted average number of ordinary shares for the purpose of calculating basic loss per share (in thousand)	<u>767,391</u>	<u>600,000</u>	<u>656,410</u>	<u>600,000</u>

The number of ordinary shares for the purpose of calculating basic loss per share has been determined on the assumption that the Capitalisation issue disclosed in the Prospectus had been effective on 1 January 2017.

No adjustment has been made to the basic loss per share amounts presented for the three months ended 30 September 2017 and 2018 and for the nine months ended 30 September 2017 and 2018, respectively as the Group had no potentially dilutive ordinary shares in issue for the relevant periods ended. The basic loss per share equals to the diluted 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 1 January 2017, 31 December 2017 and 1 January 2018	38,000,000	380
Increase on 22 June 2018	<u>9,962,000,000</u>	<u>99,620</u>
At 30 September 2018	<u>10,000,000,000</u>	<u>100,000</u>
		Share capital HK\$'000
Issued and fully paid:		
100 ordinary shares as at 1 January 2017 and 31 December 2017		—*
Capitalisation issue of 599,999,900 shares on 16 July 2018		6,000
Issuance of 200,000,000 new shares on 16 July 2018		<u>2,000</u>
800,000,000 ordinary shares as at 30 September 2018		<u>8,000</u>

* Less than HK\$1,000.

NOTES TO THE QUARTERLY CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the nine months ended 30 September 2018

11. SHARE CAPITAL (CONTINUED)

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.

On 16 July 2018, pursuant to the written resolutions of the shareholders of the Company, the directors were authorised to capitalise an amount of HK\$5,999,999 from the amount standing to the credit of the share premium amount of the Company to pay up in full at par 599,999,900 shares for allotment and issue to the persons whose name appear on the register of members of the Company on the date of the written resolutions (or as they may direct) on a pro rata basis.

On 16 July 2018, the shares of the Company were listed on GEM of the Stock Exchange and 200,000,000 shares were issued by the Company at the offer price of HK\$0.3 per share. The actual net proceeds from the above issue amounted to approximately HK\$34.1 million.

12. OPERATING LEASE ARRANGEMENTS

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 2018 (Unaudited) HK\$'000	As at 31 December 2017 (Audited) HK\$'000
Within one year	2,353	2,549
In the second and fifth years, inclusive	4,079	5,799
	<u>6,432</u>	<u>8,348</u>

13. RELATED PARTY TRANSACTIONS

- (a) No transactions with related parties were made for the three months and nine months ended 30 September 2017 and 30 September 2018, respectively.
- (b) Details of compensation of key management personnel of the Group are included in Note 7 to the unaudited quarterly condensed consolidated financial statements.

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 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.

The Shares of the Company (the “Shares”) were listed on the Stock Exchange on 16 July 2018 (the “Listing Date”).

BUSINESS REVIEW AND OUTLOOK

For the nine months ended 30 September 2018 (“Quarterly 2018”), the Group recorded a loss attributable to equity shareholders of the Company of approximately HK\$14.5 million as compared to the loss attributable to equity shareholders of the Company of approximately HK\$93,000 for the nine months ended 30 September 2017 (“Quarterly 2017”). The increase in loss was mainly attributable to (i) increase in the allowance for expected credit loss of a customer of the Group by HK\$5.3 million, (ii) the one-off incurrence of listing expenses by HK\$5.5 million, and (iii) the increase in staff cost by HK\$3.8 million during Quarterly 2018.

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 accounted for approximately 59% of the total revenue for Quarterly 2018. The revenue from this segment increased by approximately 0.3% from approximately HK\$63.9 million for Quarterly 2017 to approximately HK\$64.1 million for Quarterly 2018. No significant fluctuation was noted.

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 2018 amounted to approximately HK\$27.5 million, representing approximately 25% of the total revenue for Quarterly 2018. The revenue derived from this segment increased by approximately 23.9% from approximately HK\$22.2 million for Quarterly 2017 to approximately HK\$27.5 million for Quarterly 2018. The increase was primarily due to the increase in total numbers of IT development solutions projects undertaken in Quarterly 2018.

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\$17.4 million, representing approximately 16% of the total revenue for Quarterly 2018. The revenue derived from this segment increased by approximately 68.9% from approximately HK\$10.3 million for Quarterly 2017 to approximately HK\$17.4 million for Quarterly 2018, the significant increase in revenue from this segment was primarily due to the increase in average amount of revenue recognised per project during Quarterly 2018.

PROSPECTS AND OUTLOOK

For the year ending 31 December 2018 (“FY2018”), while we maintain our target to record relatively stable revenue, a number of factors could come into play that may affect our performance. Certain macro issues may further dominate in second half of FY2018 and affect our short term overall performance, such as unstable fluctuation in the Hong Kong stock and property market, that have led to lower orders and fulfillments by the Company during FY2018.

Further, we believe that the ongoing trade dispute between the US and China may further escalate geopolitical tensions, potentially resulting in negative economic impact worldwide. While in the short term, there is no easy way out for global businesses in China (including our major clients in Hong Kong that we are serving with), we are working actively towards mitigating any potential effects in the long term, such as strengthening our marketing efforts.

We will closely monitor the impact of the macro issues and trade dispute on our performance, and will plan and set our strategies cautiously to manage these factors with the aim to deliver the best possible results to our shareholders.

FINANCIAL REVIEW

Revenue

The Group’s revenue for Quarterly 2018 amounted to approximately HK\$109.1 million, representing an increase of approximately HK\$12.7 million or 13.2% compared to Quarterly 2017 (2017: approximately HK\$96.4 million). The increase was attributable to the increase in revenue generated from provision of (i) IT infrastructure solutions services by approximately HK\$237,000; (ii) IT development solutions services by approximately HK\$5.3 million; and (iii) IT maintenance and support services by approximately HK\$7.1 million.

Gross profit and gross profit margin

The gross profit of the Group increased by approximately 7.4% from approximately HK\$23.1 million for Quarterly 2017 to approximately HK\$24.8 million for Quarterly 2018 as the increase in the gross profit was in line with the increase in the revenue. The gross profit margin of the Group slightly decreased from approximately 24.0% for Quarterly 2017 to approximately 22.7% for Quarterly 2018 as the decrease was mainly attributable to the decrease in gross profit margin of IT maintenance and support projects which was caused by the increase in subcontracting costs in certain projects.

Selling expenses

For Quarterly 2018, the Group's selling expenses amounted to approximately HK\$3.9 million, representing the increase of approximately HK\$0.8 million or 25.8% as compared to Quarterly 2017 of approximately HK\$3.1 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 was recruited for Quarterly 2018.

Administrative and general expenses

The Group's administrative expenses for Quarterly 2018 amounted to approximately HK\$25.6 million, representing an increase of approximately HK\$10.6 million or 70.7% as compared to approximately HK\$15.0 million in Quarterly 2017. Such increase was mainly due to (i) the increase in the allowance for expected credit loss of a customer of the Group by HK\$5.3 million; and (ii) the increase in staff cost by HK\$3.8 million as a result of the increase in average staff salaries due to more senior staff was recruited and discretionary bonus of approximately HK\$1.4 million distributed for business performance enhancement in the first five months of 2018 and increase in staff cost by approximately HK\$1 million incurred for presales activities.

Loss and total comprehensive loss for the period

The Group increased loss by approximately HK\$14.4 million for Quarterly 2018, as compared to loss of approximately HK\$93,000 for Quarterly 2017. The increase was mainly attributable to net effect of (i) the increase in administrative and general expenses by approximately HK\$10.6 million; (ii) the increase in listing expenses by approximately HK\$5.5 million.

Liquidity and financial resources

We financed our operations primarily through cash generated from our operating activities. During Quarterly 2018, we did not have any bank borrowings. As at 30 September 2018, we had cash and cash equivalents of approximately HK\$69.5 million (31 December 2017: approximately HK\$34.7 million), which were cash at banks and in hand. The Group did not have any credit facilities from banks as at 31 December 2017 and 30 September 2018, 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 2018 (31 December 2017: nil). Going forward, we intend to use our capital for our operations and the expansion plans as stated in the Prospectus.

Capital structure

As at 30 September 2018, the capital structure of the Company comprised issued share capital and reserves.

Commitments

Our contract commitments involve leases of our office premises and director's quarter. As at 30 September 2018, the Group's operating lease commitments were approximately HK\$6.4 million (31 December 2017: approximately HK\$8.3 million).

SIGNIFICANT INVESTMENTS

During Quarterly 2018, the Group did not hold any significant investment in equity interest in any other company.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

Save as disclosed in the Prospectus, during Quarterly 2018, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 September 2018, the Group had a total of 85 employees (30 September 2017: 87). Total staff costs (including key management personnel and directors' emoluments) were approximately HK\$27.1 million for Quarterly 2018, as compared to approximately HK\$24.7 million for Quarterly 2017.

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 of the Company). The remuneration policy and remuneration packages of the executive directors and members of the senior management of the Group are reviewed by the Remuneration Committee.

SHARE OPTION SCHEME

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

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

Save as disclosed in the Prospectus, there was no other plan for material investments or capital assets as at 30 September 2018.

CHARGES ON GROUP ASSETS

As at 30 September 2018, there is no charge on assets of the Group (31 December 2017: nil).

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 2018, 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 2018 and Quarterly 2017, 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 2018 and Quarterly 2017.

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

Throughout the period from the Listing Date and up to the date of this announcement, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

AUDIT COMMITTEE

The Company established its audit committee on 22 June 2018 which comprises three independent non-executive Directors, namely Mr. Lam Yau Hin, Mr. Yeung Wai Keung and Mr. Cheung Wah Kit Jason. Mr. Lam Yau Hin is the chairman of the audit committee. The audit committee has also adopted written terms of reference which clearly set out its duties and obligations for ensuring compliance with the relevant regulatory requirements.

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 financial statements of the Group for Quarterly 2018 and this announcement, and is of the view that such statements have been prepared in compliance with the applicable accounting standards, the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

The Shares were listed on the Stock Exchange on 16 July 2018. As at the date of this announcement, 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⁾	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 the date of this announcement, 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 the date of this announcement, so far as the directors are aware, the following person/entity (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 the date of this announcement, 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.

CORPORATE GOVERNANCE PRACTICES

Corporate Governance Code in Appendix 15 to the GEM Listing Rules (the “CG Code”) 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 of the Company consider that the deviation from the Corporate Governance Code provision A.2.1 is appropriate in such circumstance.

Save for the deviation from code provision A.2.1 as mentioned above, the Board is satisfied that the Company had complied with all the code provisions of the CG Code since the Listing Date up to the date of this announcement.

INTERESTS IN COMPETING BUSINESS

During Quarterly 2018, the directors of the Company were not aware of any business or interest of the directors of the Company, 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 2018, 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.

USE OF PROCEEDS

The actual 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. None of the net proceeds has been utilised as at the date of this announcement and they are placed in licensed banks in Hong Kong. Net proceeds will be used according to the manner as set out in the section headed “Statement of Business Objectives and Use of Proceeds” in the Prospectus.

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings (the “Required Standard of Dealings”) as contained in Rules 5.48 to 5.67 of the GEM Listing Rules as its required standard for directors’ dealing in the securities of the Company. Following a specific enquiry made by the Company on each of the directors, each director of the Company has confirmed that he/she had complied with the Required Standard of Dealings throughout the period from the Listing Date and up to the date of this announcement.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’s financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties. All the risks relating to the Group’s business have been set out in the section headed “Risk Factors” in the Prospectus.

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

Hong Kong, 14 November 2018

As at the date of this announcement, the board of directors of the Company comprises Mr. Yu Pak Lun Larry, Mr. Leung Patrick Cheong Yu, Mr. Wong Tsun Ho Ian and Mr. Law Cheung Moon as executive Directors; Mr. Lam Yau Hin, Mr. Yeung Wai Keung and Mr. Cheung Wah Kit Jason as independent non-executive Directors.

This announcement, for which the directors of 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 for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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