kinetix

Kinetix Systems Holdings Limited

倢冠控股有限公司

(incorporated in the Cayman Islands with limited liability)

Stock Code : 8606

2018

ANNUAL REPORT

CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

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This report for which the Directors 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.

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BOARD OF DIRECTORS

Executive Directors

Mr. Yu Pak Lun Larry
(Chairman and Chief Executive Officer)
Mr. Wong Tsun Ho Ian
Mr. Law Cheung Moon
Mr. Leung Patrick Cheong Yu
Mr. Wong Chun Pan Dennis
(resigned on 1 October 2018)

Independent Non-executive Directors

Mr. Yeung Wai Keung
Mr. Lam Yau Hin
Mr. Cheung Wah Kit Jason
Ms. Lam Shun Ka (formerly known as
Lam Yuk Shan) (appointed on 7 March 2019)

BOARD COMMITTEES

Audit Committee

Mr. Lam Yau Hin *(Chairman)*
Mr. Yeung Wai Keung
Mr. Cheung Wah Kit Jason
Ms. Lam Shun Ka

Remuneration Committee

Mr. Yeung Wai Keung *(Chairman)*
Mr. Yu Pak Lun Larry
Mr. Lam Yau Hin
Mr. Cheung Wah Kit Jason
Ms. Lam Shun Ka

Nomination Committee

Mr. Cheung Wah Kit Jason *(Chairman)*
Mr. Yu Pak Lun Larry
Mr. Yeung Wai Keung
Mr. Lam Yau Hin
Ms. Lam Shun Ka

COMPANY SECRETARY

Ms. Lam Wai Yan, *HKICPA*

REGISTERED OFFICE

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P.O. Box 1350
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Grand Cayman
KY1-1108
Cayman Islands

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135 Hoi Bun Road
Kwun Tong
Kowloon
Hong Kong

AUDITOR

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30 Canton Road
Tsimshatsui, Kowloon
Hong Kong

PRINCIPAL SHARE TRANSFER AND TRANSFER OFFICE IN THE CAYMAN ISLANDS

Estera Trust (Cayman) Limited
P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman
KY1-1108
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

Mr. Yu Pak Lun Larry
Ms. Lam Wai Yan, *HKICPA*

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Cinda International Capital Limited
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183 Queen's Road Central
Hong Kong

COMPLIANCE OFFICER

Mr. Leung Patrick Cheong Yu

LEGAL ADVISOR

CHUNGS LAWYERS
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PRINCIPAL BANKER

The Bank of East Asia, Limited
10 Des Voeux Road Central
Hong Kong

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

STOCK CODE

Stock code on The Stock Exchange of Hong Kong Limited: 8606

WEBSITE

www.kinetix.com.hk

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Kinetix Systems Holdings Limited (the "Company"), I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 ("FY2018") to the shareholders of the Company (the "Shareholders").

In FY2018, the Group marked an important milestone. The Group's shares (the "Shares") were successfully listed (the "Listing") on GEM of the Stock Exchange on 16 July 2018. Listing will enhance the reputation of the Group, thereby boosting the confidence of our customers and suppliers, and enabling the Group to further prosper.

Faced with negative impacts from global and local economic factors, including ongoing trade disputes between the US and China and unfavorable volatility in Hong Kong stock market, we continue to demonstrate a consistent and solid track record in achieving stable sales growth by implementing clear strategies to balance short-term results and long-term goals. The Group has achieved steady business growth in sales performance in this year. During FY2018, the Group recorded (i) revenue of approximately HK$193.5 million, an increase of approximately 6.9%; and (ii) gross profit of approximately HK$42.9 million, an increase of approximately 14.4%, as compared with the previous year. As a result of increase in listing expenses by approximately HK$5.5 million and increase in allowance for expected credit losses by approximately HK$8.4 million, the Group recorded a consolidated net loss attributable to shareholders of the Company of approximately HK$9.0 million for FY2018. In fact, excluding the said exceptional impact from listing expenses of approximately HK$9.8 million and allowance for expected credit losses of approximately HK$8.4 million, the Group consistently maintained strong sustainability to record profit before tax of approximately HK$11.0 million (2017: approximately HK$12.4 million) for FY2018.

I would like to highlight our major undertaking in FY2018 that the Group continues to establish and maintain strong and close relationship with different global computer solution providers in the world. In view of the Group's enhancement in sales performance, the Group successfully maintained its Platinum Business Partner relationship and upgraded to a Gold Business Partner relationship with its different global computer solution providers respectively in this year.

The Group believes that the global and local economic factors and an increasingly competitive business environment may potentially create uncertainties in our business and financial performance for the foreseeable future.

The Group is actively working to mitigate any potential impacts over the long term. We will closely monitor the impact of the macro issues and trade disputes on our performance, and will cautiously plan and set our strategies to manage these factors with the aim to provide the best possible results to our Shareholders. Looking ahead, we will continue to focus on the traditional information technology ("IT") business and the implementation of our expansion plan as disclosed in the prospectus of the Company dated 30 June 2018 (the "Prospectus").

Finally, on behalf of the Board, I would like to take this opportunity to express my gratitude to all Shareholders, investors, business partners, suppliers, and customers for their trust and faithfulness to the Group. I would also like to express our sincere thanks to the management and staff for their commitment and contribution throughout the years.

Kinetix Systems Holdings Limited
Yu Pak Lun Larry
Chairman, Chief Executive Officer and Executive Director
Hong Kong, 22 March 2019

EXECUTIVE DIRECTORS

Mr. Yu Pak Lun Larry (余柏麟), aged 47, is the Chairman, Chief Executive Officer and an executive Director. Mr. Yu is also a member of the Nomination Committee and the Remuneration Committee. He joined the Group in 1998. He has been involved in the day-to-day management of the Group. Mr. Yu is primarily responsible for formulating and implementing our corporate strategies, overseeing our overall business development and implementing operation plans and participating in the day-to-day management of our business operations.

Mr. Yu has over 20 years of experience in the IT industry and business management. He worked in Willas-Array Management & Consultants Limited as a technical programmer from August 1995 to June 1997, and in CoRe Solutions Limited as a consultant from June 1997 to November 1998. Mr. Yu is also serving as a director of Kinetix Limited, Kinetix Systems Limited, Rise Talent Limited, Kinetix Information Systems (Macao) Limited and D&C Consulting Company Ltd., subsidiaries of our Group.

Mr. Yu graduated from the University College London in the United Kingdom with a bachelor's degree in computer science with electronic engineering in August 1993. He obtained his master degree in computer science from the Hong Kong University of Science and Technology in November 1995 and master degree in law from Renmin University of China (中國人民大學) in the People's Republic of China in June 2011.

Mr. Yu was a shareholder and director of ATBinary Limited, a company incorporated in Hong Kong in April 2006 conducting the business of IT products agency, which was dissolved by deregistration in October 2009 pursuant to Section 291AA of the predecessor Companies Ordinance (Chapter 32 of the Laws of Hong Kong) as in force before 3 March 2014 which provides that a defunct solvent company may be dissolved by way of deregistration. The deregistration of this company was voluntary by way of submitting an application to the Companies Registry of Hong Kong because it has ceased to carry on business operation for more than three months immediately before the application.

Mr. Wong Tsun Ho Ian (黃俊豪), aged 38, is an executive Director. He joined the Group as the consultant trainee in March 2004. Mr. Wong was promoted to the associate consultant in February 2005, the consultant in January 2006, the senior consultant in February 2008, the project manager in July 2011 and the head of enterprise services in November 2015 in which he is primarily responsible for supervising and management of the delivery of all projects of our Group. Mr. Wong has over 15 years of experience in the IT industry.

Mr. Wong graduated from the Queen's University in Canada with a bachelor's degree in computer engineering in May 2002.

Mr. Law Cheung Moon (羅章滿), aged 39, is an executive Director. He joined the Group as the associate consultant in May 2001. Mr. Law was promoted to the project manager in February 2008, the senior project manager in April 2010 and the head of professional resources in November 2015 in which he is primarily responsible for allocation, utilisation management and skill development of our professional resource. Mr. Law has over 17 years of experience in the IT industry.

Mr. Law graduated from the Chinese University of Hong Kong with a bachelor's degree in engineering in November 2001.

Mr. Leung Patrick Cheong Yu (梁昌豫), aged 49, is an executive Director and the compliance officer. He joined the Group as senior consultant in February 2004. Mr. Leung was promoted to the SOA-QPS programme manager in February 2011, senior manager in March 2014 and sales director in November 2015 where he is primarily responsible for management of SOA-QPS programme and sales coverage of products.

Mr. Leung has over 23 years of experience in the IT industry. He worked in Claremont Technology Group, Inc. as a consultant from June 1995 to May 2000, and in Vignette Hong Kong Limited as a senior consultant from June 2000 to July 2002. He is also a proprietor of PCL Consulting Company since August 2002.

Mr. Leung graduated from the Purdue University in the United States of America with a bachelor's degree in mechanical engineering in December 1992. He obtained his master degree in mechanical engineering from the Massachusetts Institute of Technology in the United States of America in September 1994.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Yeung Wai Keung (楊偉強), aged 47, is an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgement to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Yeung is also the chairman of the Remuneration Committee, and a member of the Nomination Committee and the Audit Committee.

Mr. Yeung has over 24 years of experience in the IT industry. He has extensive experience in management and business development of IT and held various IT related positions in large financial and insurance corporations such as the Hongkong and Shanghai Banking Corporation, MetLife Limited and IBM China/Hong Kong Limited. Mr. Yeung is also employed by Moneysq Limited, a licensed moneylender, as Chief FinTech Officer in its FinTech Department.

Mr. Yeung graduated from the Hong Kong Polytechnic University with a bachelor's degree in arts in November 1994, majoring in computing studies, and graduated from the University of Hong Kong with master of science in electronic commerce and internet computing in December 2003. Mr. Yeung also graduated from RMIT University in Australia with a bachelor's degree in business in November 2004, majoring in economics and finance. He graduated from the Manchester Metropolitan University in England with a postgraduate diploma in English and Hong Kong Law (Common Professional Examination) in July 2005. He also obtained a master degree in business administration from the University of Chicago in the United States of America in March 2016.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Lam Yau Hin (林佑顯), aged 36, is an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgement to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Lam is also the chairman of the Audit Committee, and a member of the Nomination Committee and the Remuneration Committee.

Mr. Lam has over 12 years of experience in accounting, auditing and corporate governance. He handled auditing assignments and occupied positions of audit clerk, audit senior and audit manager in various accounting firms since June 2006.

Mr. Lam graduated from the City University of Hong Kong with an Associate of Business Administration in Accountancy in November 2006. Mr. Lam was admitted as a certified public accountant of the Hong Kong Institute of Certified Public Accountants in May 2011.

Mr. Cheung Wah Kit Jason (張華傑), aged 71, is an independent non-executive Director. He is primarily responsible for participating in meetings of the Board to bring an independent judgement to bear on issues of strategy, performance, accountability, resources, key appointments and standards of conduct and transactions which are material to our Group as and when required. Mr. Cheung is also the chairman of the Nomination Committee, and a member of the Audit Committee and the Remuneration Committee. Mr. Cheung was the International Vice President, Consumer Asia Pacific of Johnson & Johnson (Hong Kong) Limited, whose principal business was sale of health care products, pharmaceutical and medical equipment, from January 1986 to April 2007. He was responsible for developing business strategies and alternative business models. He has over 31 years of experience in administration and management.

Mr. Cheung graduated from the University of Hong Kong with a bachelor's degree in social sciences in July 1970.

Ms. Lam Shun Ka (林汛珈) (formerly known as Lam Yuk Shan (林玉珊)), aged 47, was appointed as our independent non-executive Director on 7 March 2019.

Ms. Lam has more than 10 years of experience in sales channel development. Ms. Lam was an administrative specialist at IBM China/Hong Kong Limited from January 2005 to November 2005, a sales operation at the same company from April 2006 to March 2007 and a business operations professional in IBM Software Sales Department of IBM China/Hong Kong Limited from March 2007 to February 2016. Ms. Lam is currently (i) a contract agent and a licensed representative (Type 1) of Glory Sky Global Markets Limited, a licensed entity in Hong Kong regulated by the Securities and Futures Commission of Hong Kong; and (ii) an independent non-executive director of Omnibridge Holdings Limited (stock code: 8462).

Ms. Lam obtained a bachelor of social science degree, majoring in government and public administration from The Chinese University of Hong Kong in December 1995. She obtained a bachelor of laws degree from the Manchester Metropolitan University (United Kingdom) through distance learning in September 2004.

SENIOR MANAGEMENT

Mr. Lam Tai Wai, David (林大為), aged 45, joined our Group as the managing consultant in February 2000 and was promoted as the chief operating officer in November 2015 in which he is primarily responsible for participating in the day-to-day management and supervision of business operations, mainly sales, projects delivery and administration and human resources of the Group. Mr. Lam has over 19 years of experience in the IT industry.

Mr. Lam graduated from the Hong Kong University of Science and Technology with a bachelor's degree in computer science in November 1995. He obtained his master's degree in computer science from the Hong Kong University of Science and Technology in November 1996.

COMPANY SECRETARY

Ms. Lam Wai Yan (林惠茵), aged 42, was appointed as the company secretary of the Company in February 2018. Ms. Lam has over 20 years of experience in auditing and assurance. She was employed by Deloitte Touche Tohmatsu from September 1998 to December 2017, with her last position as senior manager. She was involved in providing professional auditing and assurance services. Ms. Lam is currently a director of Fan, Chan & Co. Limited which is a Certified Public Accountants' firm in Hong Kong.

Ms. Lam graduated from the Hong Kong Polytechnic University with a Bachelor of Arts in Accountancy in November 1998. She has been an associate member of the Hong Kong Institute of Certified Public Accountants (formerly known as the Hong Kong Society of Accountants) since April 2002 and a fellow member of the Association of Chartered Certified Accountants since November 2006. She has been a certified public accountant (practising) since March 2018.

Save as disclosed, each Director, each member of senior management and the company secretary has not been a director of any other publicly listed company during the three years preceding the date of this report.

Save as disclosed herein, to the best of the knowledge, information and belief of the Directors having made all reasonable enquiries, there was no other matter with respect to the appointment of the Directors that needs to be brought to the attention of the Shareholders and there was no information relating to the Directors that is required to be disclosed pursuant to Rules 17.50(2)(h) to (v) of the GEM Listing Rules as at the date of this report.

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.

BUSINESS REVIEW

For FY2018, the Group recorded a loss attributable to equity shareholders of the Company of approximately HK$9.0 million as compared to the profit attributable to equity shareholders of the Company of approximately HK$6.0 million for the year ended 31 December 2017 ("FY2017"). The increase in loss was mainly attributable to (i) increase in the allowance for expected credit loss of a customer of the Group by approximately HK$7.8 million, (ii) increase in the one-off incurrence of listing expenses by approximately HK$5.5 million, and (iii) increase in staff cost by approximately HK$3.4 million during FY2018.

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 FY2018 amounted to approximately HK$46.7 million, representing approximately 24.1% of the total revenue for FY2018. The revenue derived from this segment increased by approximately 29.0% from approximately HK$36.2 million for FY2017 to approximately HK$46.7 million for FY2018. The increase was primarily due to the increase in total numbers of IT development solutions projects undertaken and the increase in average amount of revenue recognised per project in FY2018.

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 from a number of authorised distributors or third party suppliers and integrating them with our clients' IT systems. The revenue generated from this segment in FY2018 amounted to approximately HK$125.3 million, representing approximately 64.8% of the total revenue for FY2018. The revenue derived from this segment increased by approximately 2.8% from approximately HK$121.9 million for FY2017 to approximately HK$125.3 million for FY2018. The slightly increase was mainly attributable to the increase in total numbers of IT infrastructure solutions services projects undertaken in FY2018.

Provision of IT maintenance and support services

This segment provides IT maintenance and support services. The revenue generated from this segment in FY2018 amounted to approximately HK$21.5 million, representing approximately 11.1% of the total revenue for FY2018. The revenue derived from this segment decreased by approximately 5.7% from approximately HK$22.8 million for FY2017 to approximately HK$21.5 million for FY2018. The decrease was primarily due to the decrease in total number of IT maintenance and support services projects undertaken in FY2018.

BUSINESS OBJECTIVES AND USE OF PROCEEDS

By leveraging on the Group's current sales network, its services, technology, and customers recognition, the Group intends to continue with our business strategies and the implementation plan as set out in the Prospectus. The plan includes:–

(1) developing IT solutions services tailored for finance and insurance sectors

(2) expanding the application of ERP system in our IT development solutions services

(3) maintaining fund for performance bond and contract deposit

(4) provision of cloud computing and IoT products

(5) developing technical support centre to enhance our service quality

(6) strengthening our marketing efforts

(7) enhancing the expertise of our professional team

(8) enhancing the Group's management information system

The Shares were listed on GEM of the Stock Exchange on 16 July 2018 (the "Listing Date"). An analysis comparing the business objectives as set out in the Prospectus with the Group's actual business progress for the period from the Listing Date to 31 December 2018 are set out below:–

MANAGEMENT DISCUSSION AND ANALYSIS

The bases and assumptions (including commercial assumptions) in support of our assessment. 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. Up to 31 December 2018, the Group has utilised proceeds from the listing of approximately HK$60,000 and a summary of use of proceeds are set out in the table below:–

	As set out in the Prospectus HK$'million	Amount expected to be used up to 31 December 2018 HK$'million	Amount actually used up to 31 December 2018 HK$'million
Develop IT solutions services tailored for finance and insurance sectors	7.10	–	–
Expand the application of ERP system in our IT development solutions services	1.17	–	–
Maintain fund for performance bond and contract deposit	2.34	–	–
Provision of cloud computing and IoT products	9.15	–	–
Develop technical support centre to enhance our service quality	2.92	–	–
Strengthen our marketing efforts	2.34	–	–
Enhance the expertise of our professional team	1.75	0.12	0.06
Enhance our Group's management information system	5.19	–	–
Working capital and other general corporate purposes	2.14	0.31	–
Total	34.10	0.43	0.06

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

During the period from the Listing Date to 31 December 2018, a small portion of the net proceeds from the Listing were utilised in accordance with the proposed applications set out in the Prospectus under the section headed "Implementation Plans". As at the date of this report, the Directors do not anticipate any change to the plan as to the use of proceeds and the balance of the fund would be utilised accordingly.

MAJOR RISKS AND UNCERTAINTIES

The Group believes that the risk management practices are important and use its best effort to ensure it is sufficient to mitigate the risks present in our operations and financial position as efficiently and effectively as possible. The followings are the major risks and uncertainties of our business:–

(1) We rely on a supplier's hardware and software for our provision of IT infrastructure and development solutions services, and any shortage or delay in the supply of hardware and software from its authorised distributors or any deterioration of business relationship with that supplier and/or its authorised distributor(s) may materially and adversely affect our results of operations.

(2) Our operations may be affected by concentrating on a few key suppliers. Should there be any loss of key suppliers or disruption in their supply, our business and results of operations could be materially and adversely affected.

(3) Our Group is exposed to credit risk of our clients.

(4) We may encounter cost overruns or delays in our IT infrastructure and development solutions projects and our business, financial position and results of operation may be materially and adversely affected.

(5) We are unable to control the quality of the hardware and/or software provided by our suppliers. Should the products provided by our suppliers be defective or fail to meet the required standards, our business and reputation may be adversely affected.

(6) Part of our works are subcontracted to subcontractors. Our operations and financial results may be adversely affected by any delay or defects in their work.

(7) It may be difficult for us to maintain our high business partnership rankings with the IT products vendors and distributors.

(8) Our current standing offer agreement with the Hong Kong Government will expire in July 2021. There is no assurance that we will continue to provide quality professional services as an approved contractor of the Hong Kong Government and its statutory bodies.

(9) It may be difficult for us to recruit, train and retain capable and experienced sales staff and highly skilled technical staff. If there is any shortfall in our workforce or increase in labour cost, our business operations may be materially impeded and our financial results may be adversely affected.

(10) Our business may be adversely affected if we fail to retain certain key executives and senior management or find suitable replacements since our performance relies heavily on them.

(11) We are exposed to potential liabilities for damages as a result of our negligent acts or omissions in our services.

(12) We may be vicariously liable for the acts or omissions of our staff and face claims or legal actions brought by our clients for damages as a result of the negligent conduct or fault of our staff.

(13) During the implementation of IT infrastructure and development solutions projects, we may record net cash outflows. If we take up too many significant projects in the future, we may not have sufficient working capital, which may affect our financial position.

(14) The project basis of our IT projects create uncertainty as to our future revenue streams.

(15) Our business and our financial performance may be adversely affected by any infringement of our intellectual property rights or any infringement by us of the intellectual property rights of others, in particular our clients.

(16) There may be adverse impact on our reputation and business operations in the event of leakage or misappropriation of confidential information handled by us.

(17) Our success hinges on our ability to keep pace with the rapid changes in IT technology and to provide innovative solutions, services and products in response to rapidly evolving market demand. Our business, financial conditions and result of operations may be adversely impacted if we fail to do so.

(18) We are subject to various risks relating to the development of cloud computing and IoT solutions.

(19) We may not be able to successfully implement our strategies, or achieve our business objectives.

(20) We may not be adequately insured against losses and liabilities arising from our operations.

(21) We have not registered the tenancy agreement in respect of the lease of the premises in Kwun Tong.

For other risks and uncertainties facing the Group, please refer to the section headed “Risk Factors” in the Prospectus. An analysis of the Group’s financial risk management (included foreign currency risk, credit risk and impairment assessment, liquidity risk and interest rate risk) objectives and policies are provided in Note 30 to the consolidated financial statements.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensuring that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

The Company will continue to engage external independent professionals to review the Group’s system of internal controls and risk management annually and further enhance the Group’s internal control and risk management systems as appropriate.

There is currently no internal audit function within the Group. The Board has reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the Board will continue to review at least annually the need for an internal audit function.

OUTLOOK AND PROSPECTS

Looking forward, the Group considers the global business environment will become more challenging. The Group will continue to face various risks and uncertainties that may adversely affect its business and overall short-term performance. The volatility of Hong Kong interest rates and the risk of US-China trade war may exacerbate geopolitical tensions, that could lead to negative global economic impacts. This will cause the Group to reduce orders and fulfilment. It will put pressure on our pricing terms to put pressure on our profit margins and profitability in the short term. The Group will be actively working to reduce any potential impacts in the long run, such as strengthening our marketing efforts. We will closely monitor the impact of the macro issues and trade dispute on our performance, and will carefully plan and develop strategies to manage these factors to provide the best possible results to shareholders in the medium to longer term.

FINANCIAL REVIEW

Revenue

The Group's revenue for FY2018 amounted to approximately HK$193.5 million, representing an increase of approximately HK$12.5 million or 6.9% compared to FY2017 (2017: approximately HK$181.0 million). The increase was mainly attributable to the increase in revenue generated from provision of IT development solutions services by approximately HK$10.5 million.

Gross profit and gross profit margin

The Group's gross profit for FY2018 amounted to approximately HK$42.9 million, representing an increase of approximately HK$5.4 million or 14.4% compared to FY2017 (2017: approximately HK$37.5 million), and the increase in the gross profit was in line with the increase in the revenue and the reduced allocation of direct labour cost due to the increasing experience and efficiency of our technical staff in IT development solutions services. The Group's gross profit margin slightly increased from approximately 20.7% for FY2017 to approximately 22.2% for FY2018, and the slight increase was mainly attributable to the gross profit margin for IT infrastructure solutions services segment increase from approximately 15.8% for FY2017 to approximately 17.7% for FY2018, mainly attributable to the increase in number of projects from technology, media, telecommunications sector associated with comparatively higher margins.

Selling expenses

The Group's selling expenses for FY2018 amounted to approximately HK$5.4 million, representing an increase of approximately HK$1.2 million or 28.6% compared to FY2017 (2017: approximately HK$4.2 million). Such increase was mainly attributed by the increase in average staff headcount in sales department and increase in average staff salaries due to more senior staff recruited for FY2018.

Administrative and general expenses

The Group's administrative expenses for FY2018 amounted to approximately HK$26.4 million, representing an increase of approximately HK$5.5 million or 26.3% compared to FY2017 (2017: approximately HK$20.9 million). Such increase was mainly due to the increase in staff cost by approximately HK$3.4 million as a result of the increase in average staff salaries due to more senior staff recruited, 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$1.8 million incurred for presales activities.

(Loss)/profit and total comprehensive (loss)/income for the year

The Group increased loss for FY2018 by approximately HK$15.0 million compared to profit of approximately HK$6.0 million for FY2017. The loss was mainly attributable to (i) increase in the allowance for expected credit loss of a customer of the Group by approximately HK$7.8 million, (ii) increase in the one-off incurrence of listing expenses by approximately HK$5.5 million, and (iii) increase in staff cost by approximately HK$3.4 million during FY2018.

FINANCIAL POSITION

Liquidity and financial resources

We maintained a healthy liquidity position, with working capital financed primarily through cash generated from our operating activities during FY2018, and our use of cash primarily relates to operating activities and purchase of property, plant and equipment. During FY2018, we did not have any bank borrowings. As at 31 December 2018, we had cash and cash equivalents of approximately HK$63.4 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 31 December 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 31 December 2018. Our liquidity position has further been strengthened by using the cash generated from our operating activities and fund raising as a result of that the Shares were listed on the Stock Exchange on 16 July 2018. Going forward, we intend to use our capital for our operations and the expansion plans as stated in the Prospectus.

Treasury policies

The Group has adopted a prudent financial management approach towards its treasury policies and thus maintained a healthy liquidity position throughout FY2018. The Group strives to reduce exposure to credit risk by performing ongoing credit assessments and evaluations of the financial status of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and other commitments can meet its funding requirements from time to time.

Commitments

Our contract commitments involve leases of our office premises and director's quarter. As at 31 December 2018, the Group's operating lease commitments were approximately HK$5.8 million (31 December 2017: approximately HK$8.3 million).

Capital structure

As at 31 December 2018, the capital structure of the Company comprised issued share capital and reserves.

Capital Expenditure

Our capital expenditure for FY2017 and FY2018 was approximately HK$0.2 million and approximately HK$2.3 million respectively. The increase in our capital expenditure for FY2018 was primarily related to relocation to a new office in Kwun Tong. We have financed our capital expenditure primarily through cash flow generated from operating activities.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group. The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders of the Company. In proposing any dividend payout, the Board shall also take into account, inter alia, the Group's operations, earnings, financial condition, cash requirements and availability, capital expenditure and future development requirements and other factors it may deem relevant at such time. Any payment of the dividend by the Company is also subject to any restrictions under the Companies Law of the Cayman Islands, the articles of association of the Company and the Shareholders.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of 85 employees (31 December 2017: 88). Total staff costs (including key management personnel and directors' emoluments) were approximately HK$35.3 million for FY2018, as compared to approximately HK$32.1 million for FY2017.

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.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.

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 December 2018 and up to the date of this report.

FOREIGN EXCHANGE EXPOSURE

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$. During FY2018, the Group's exposure to foreign currency risk primarily arose from certain financial instruments including trade receivables, cash and cash equivalents and trade payables which are denominated in US$. During FY2018 and FY2017, 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 FY2018 and FY2017.

DONATION

During FY2018, the Group made donations for charitable purpose totaling approximately HK$13,000.

SIGNIFICANT INVESTMENTS

During FY2018, the Group did not hold any significant investment in equity interest in any other company.

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 December 2018.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Save as disclosed in the Prospectus, during FY2018, the Group did not have any material acquisitions and disposals of subsidiaries, associates and joint ventures.

CHARGES ON GROUP ASSETS

As at 31 December 2018, there is no charge on assets of the Group.

CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no other contingent liabilities except for Note 25 to the consolidated financial statements.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this report, there is no significant event subsequent to 31 December 2018.

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establishing and maintaining good corporate governance practices and procedures. The Directors believe that good corporate governance provides a framework that is critical to effective management, successful business growth and a healthy corporate culture that will benefit the Company's stakeholders as a whole. The Directors will continue to review their corporate governance practices to enhance their corporate governance standard, comply with increasingly tightened regulatory requirements from time to time, and meet the growing expectations of the Shareholders and other stakeholders of the Company.

The Company has adopted the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 15 to the GEM Listing Rules and, in the opinion of the Board, the Company has complied with the CG Code for FY2018, 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 of the Company consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

Under the CG Code provision A.1.8, the Company should arrange appropriate insurance cover in respect of legal action against its Directors. Currently, the Company does not have insurance cover for legal action against its Directors. Every Director is, subject to the provisions of the applicable laws, indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto pursuant to the Articles of Association of the Company. However, as the risk management and internal control systems of our Group is effective and constantly under review, and as all the executive Directors and management are familiar with the operation of the Group and the 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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during FY2018.

ANNUAL GENERAL MEETING

Notice of the annual general meeting of the Company will be published and dispatched to the Company's shareholders in the manner required by the Listing Rules in due course.

AUDIT COMMITTEE

The Audit Committee has reviewed with management of the Group the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the annual consolidated financial statements for FY2018, 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. There was no disagreement from the auditor of the Company or the Audit Committee in respect of the accounting policies adopted by the Company.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of good corporate governance in management and internal control procedures so as to achieve accountability. Therefore, the Company is committed to establishing and maintaining good corporate governance practices and procedures. The Company has adopted the code provisions of 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 FY2018, save for the deviation from such code disclosed below.

The Directors believe that good corporate governance provides a framework that is critical to effective management, successful business growth and a healthy corporate culture that will benefit the Company's stakeholders as a whole. The Directors will continue to review their corporate governance practices to enhance their corporate governance standard, comply with increasingly tightened regulatory requirements from time to time, and meet the growing expectations of the Shareholders and other stakeholders of the Company.

BOARD OF DIRECTORS

The Board is responsible for the overall management of the Group's business and the long-term success of the Company to ensure that it is managed in the best interests of the Company and delivery of sustainable value to the Shareholders. The Board focuses on formulating the overall business strategy, reviewing and monitoring the business performance, internal controls and risk management of the Group, approving the consolidated financial statements and directing and supervising the management of the Company. Implementation of the strategies set by the Board is delegated to the management which is led by the chief executive officer of the Group. The management is responsible for the daily management and operation of the Group. The Board is provided with a management update report to regularly assess the performance of the Group, and recent development and prospects of the Group.

Regarding the Company's corporate governance, the Board as a whole is responsible for performing the following corporate governance duties including:–

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices in compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employee and Directors; and

(v) to review the Company's compliance with the CG Code and disclosure in its corporate governance report.

The Board delegates to the Audit Committee the responsibilities for the corporate governance functions including professional development of the Directors and the senior management, and reviewing the Company's compliance with the CG Code and disclosure in this Corporate Governance Report. The delegated functions and work tasks are periodically reviewed by the Board.

Composition of the Board

The composition of the Board as at the date of this annual report is set out as follows:–

Executive Directors:–

Mr. Yu Pak Lun Larry
Mr. Wong Tsun Ho Ian
Mr. Law Cheung Moon
Mr. Leung Patrick Cheong Yu
Mr. Wong Chun Pan Dennis (resigned on 1 October 2018)

Independent non-executive Directors:–

Mr. Yeung Wai Keung
Mr. Lam Yau Hin
Mr. Cheung Wah Kit Jason
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan) (appointed on 7 March 2019)

Biographical details of the Directors are set out in "Biographical Details of the Directors and Senior Management" on pages 6 to 9 of this annual report.

In compliance with Rules 5.05A, 5.05(1) and (2) of the GEM Listing Rules, the Company has appointed four independent non-executive Directors representing not less than one-third of the Board and at least one of whom has appropriate professional qualifications, or accounting or related financial management expertise. The Company has received from each independent non-executive Director an annual confirmation of his/her independence, and the Company considers such Directors to be independent in accordance with Rule 5.09 of the GEM Listing Rules.

All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective delivery of the Board functions. Independent non-executive Directors are invited to serve on the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

To the best knowledge of the Board members, there are no other relationship (including financial, business, family, and other material/relevant relationships) among the members of the Board.

TERMS OF APPOINTMENT AND RE-ELECTION OF DIRECTORS

Each of the executive Directors has entered into a service agreement with the Company for a term of three years commencing on the Listing Date and shall continue thereafter until terminated by not less than three months' notice in writing served by either party on the other. The emolument of executive Directors was determined by the Remuneration Committee and approved by the Board by reference to the Company's operating results, his performance, seniority, experience, duties and responsibilities within the Group and comparable market statistics and shall be reviewed annually by the Remuneration Committee. Executive Directors may also receive a discretionary bonus in respect of each completed calendar year of service. The amount of such bonus will be determined by the Remuneration Committee and the Board.

Each of Mr. Yeung Wai Keung, Mr. Lam Yau Hin and Mr. Cheung Wah Kit Jason has entered into a letter of appointment with the Company for an initial term of three years commencing on the Listing Date until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of his appointment or any time thereafter.

Ms. Lam Shun Ka has entered into a letter of appointment with the Company for an initial term of three years commencing on 7 March 2019 until terminated by either party giving not less than three months' written notice to the other expiring at the end of the initial term of her appointment or any time thereafter.

Save for directors' fees, none of the independent non-executive Directors is expected to receive any other remuneration for holding his/her office as an independent non-executive Director. The emolument of independent non-executive Directors was determined by the Remuneration Committee and approved by the Board by reference to the Company's operating results, his/her performance, seniority, experience, duties and responsibilities within the Group and comparable market statistics and shall be reviewed annually by the Remuneration Committee. The service contracts may be renewed in accordance with our articles of association and the applicable GEM Listing Rules.

According to our articles of association, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation at every annual general meeting of the Company, provided that every Director shall be subject to re-election at annual general meeting at least once every three years. Any Director who is appointed by the Board to fill casual vacancy shall hold office until the first general meeting after his/her appointment, and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code provision A.2.1 provides that the role of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual to avoid power being concentrated in any one individual. In view of Mr. Yu Pak Lun Larry is one of the co-founders of our Group and has been operating and managing our Group since 1998, our Board believes that it is in the best interest of our Group to have Mr. Yu taking up both roles for effective management and business development. Therefore, our Directors consider that the deviation from the CG Code provision A.2.1 is appropriate in such circumstance.

PERMITTED INDEMNITY OF DIRECTORS

At no time during the year and up to the date of this report was any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

According to Code Provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors acknowledge the need to continue to develop and refresh their knowledge and skills for making contributions to the Company. Every newly appointed Director has received comprehensive induction on the first occasion of his/her appointment to ensure appropriate understanding of the business and operations of the Company and full awareness of Director's responsibilities and obligations under the Listing Rules and relevant statutory requirements.

All Directors understand the importance of continuous professional development and are committed to participating in any suitable training to develop and refresh their knowledge and skills. They have provided the Company with their respective training records pursuant to the CG Code.

BOARD COMMITTEE

The Board has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees have been established with defined written terms of reference, which are posted on the GEM's website www.hkgem.com and the Company's website at http://www.kinetix.com.hk. All the Board committees should report to the Board on their decisions or recommendations made.

The practices, procedures and arrangements in conducting meetings of Board committees follow in line with, so far as practicable, those of the Board meetings.

All Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstance, at the Company's expense.

Audit Committee

The chairman of the Audit Committee is Mr. Lam Yau Hin, an independent non-executive Director, and other members include Mr. Yeung Wai Keung, Mr. Cheung Wah Kit Jason and Ms. Lam Shun Ka, each being an independent non-executive Director. The written terms of reference of the Audit Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

The main objective of the Audit Committee is to assist the Board in fulfilling its fiduciary responsibilities to the Company and each of its subsidiaries to act in the interest of the Shareholders as a whole.

Its primary duties include: (a) to consider and make recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal; (b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards; (c) to discuss with the external auditor the nature and scope of the audit and reporting obligations before the audit commences; (d) to develop and implement policy on engaging an external auditor to supply non-audit services; (e) to make recommendations to the Board as it deems appropriate on any area within its remit where action or improvement is needed; and (f) to monitor integrity of the Company's financial statements and the annual report and accounts, half-year report and quarterly reports, and to review significant financial reporting judgements contained in them.

The Company has complied with Rule 5.28 of the GEM Listing Rules in that the Audit Committee must comprise a minimum of three members and must be chaired by an independent non-executive Director who possesses appropriate professional qualifications or accounting or related financial management expertise as required in Rule 5.05(2) of the GEM Listing Rules.

In addition to the two meetings held as set forth in the section headed "Number of Meetings and Directors' Attendance", the Audit Committee met the external auditor two times from the Listing Date to the date of this annual report (the "Period").

The Group's consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee. The Audit Committee is of the opinion that the consolidated financial statements of the Group for the year ended 31 December 2018 comply with the applicable accounting standards and the GEM Listing Rules.

During the Period, the Audit Committee also performed the following:–

- reviewed and obtained an explanation from management and the external auditor for financial reporting matters, including the causes of changes from the previous accounting period, the effects on the application of new accounting policies, compliance with the GEM Listing Rules and relevant legislation, and any audit issues, before recommending their adoption by the Board;

- reviewed the Company's policies and practices on corporate governance, compliance with legal and regulatory requirements and the Code of Conduct, and made recommendations to the Board;

- reviewed and monitored the training and continuous professional development of Board members;

- reviewed the Company's compliance with the CG Code and disclosure in annual report on corporate governance and sustainable development;

- considered and proposed to the Board the re-appointment of Moore Stephens CPA Limited as the Company's external auditor and approved its terms of engagement;

- reviewed the procedures and guidelines for employing the external auditor to perform non-audit assignments for the Company, and approved the scopes and fees for non-audit assignments;

- received and reviewed the internal audit reports from the independent internal control consultant;

- held meetings with the external auditor in the absence of management to discuss any material audit issues; and

- carried out reviews of the effectiveness of the Company's risk management and internal control systems including tax strategy, the structure of senior management, the adequacy of resources, staff qualifications and experience, training programs, and the Company's procedures for financial reporting and internal audit.

Remuneration Committee

The chairman of the Remuneration Committee is Mr. Yeung Wai Keung, an independent non-executive Director, and other members include Mr. Lam Yau Hin, Mr. Cheung Wah Kit Jason and Ms. Lam Shun Ka, each being an independent non-executive Director and Mr. Yu Pak Lun Larry, our chairman and executive Director. The written terms of reference of the Remuneration Committee as suggested under the CG Code are posted on the GEM website and the Company's website.

The main functions of the Remuneration Committee include: (a) to make recommendations to the Board on the Company's policy and structure for all of the Directors' and senior management's remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy; (b) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; (c) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management; (d) to make recommendations to the Board on the remuneration of the independent non-executive Directors; (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group; (f) to review and approve compensation payable to the executive Directors and the senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive; and (g) to review and approve compensation arrangements relating to dismissal or removal of the Directors for misconduct to ensure they are consistent with contractual terms and are otherwise reasonable and appropriate.

Regarding Directors' remuneration and the five highest paid employees as required to be disclosed pursuant to the GEM Listing Rules are set out in Notes 11 and 12 to the consolidated financial statements.

The major work performed by the Remuneration Committee for the Period included the following:–

- made recommendations to the Board on the Company's remuneration policy and structure for all Board members and senior management;
- determined the remuneration packages for individual executive Board members and senior management, including benefits in kind, pension rights, and compensation payments; and
- made recommendations to the Board on the remuneration of the independent non-executive Directors.

Nomination Committee

The chairman of the Nomination Committee is Mr. Cheung Wah Kit Jason, an independent non-executive Director, and other members include Mr. Yeung Wai Keung, Mr. Lam Yau Hin and Ms. Lam Shun Ka, each being an independent non-executive Director, and Mr. Yu Pak Lun Larry, chief executive officer and executive Director. The written terms of reference of the Nomination Committee as suggested under the CG Code are posted on the GEM website and on the Company's website.

The main objectives of the Nomination Committee are to implement a formal, transparent and objective procedure for appointing the Board members and to provide clear disclosure of the Company's policies on the nomination and evaluation of the Board members in the Company's annual report. Its primary functions include: (a) to review the structure, size and composition (including the skills, knowledge, experience and diversity of perspectives) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (b) to identify individuals suitably qualified to become the Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships; (c) to assess the independence of the independent non-executive Directors; and (d) to make recommendations to the Board on the appointment or re-appointment of the Directors and succession planning for the Directors, in particular the chairman and the chief executive.

The major work performed by the Nomination Committee for the Period included the following:–

- reviewed the Board Diversity Policy and its implementation;
- reviewed the structure, size and diversity of the Board;
- assessed the independence of the independent non-executive Directors; and
- made recommendations to the Board on the selection of individuals nominated for directorship with reference to qualifications and related expertise, and the re-election of retiring Board members at the annual general meeting.

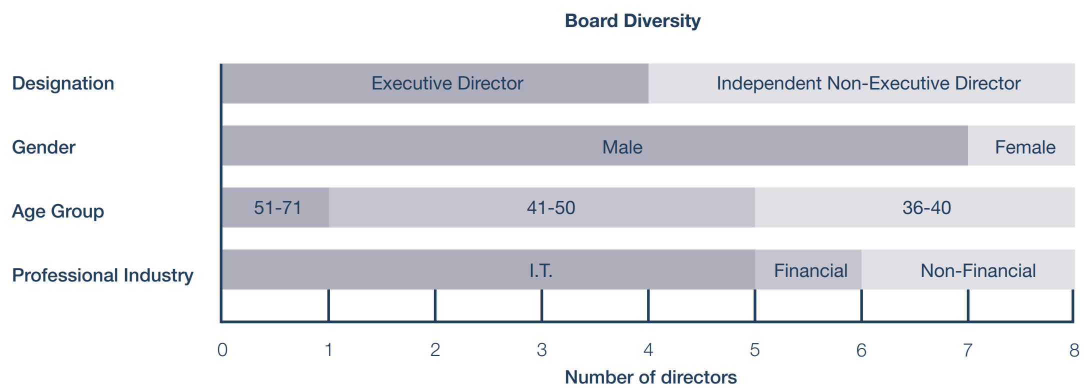
BOARD DIVERSITY POLICY

With a view to achieving a sustainable and balanced development, the Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. All Board appointments will be based on meritocracy, and candidates will be considered against appropriate criteria, having due regard for the benefits of diversity on the Board. The Company commits to selecting the best person for the role. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural background and ethnicity, in addition to educational background, professional experience, skills, knowledge and length of service. If it involves the appointment of an independent non-executive Director of the Board, the Nomination Committee shall also consider the perspectives, skills and experience that the person can bring to the Board, and how the person would contribute to the diversity of the Board. The Company shall take into account its own business model and specific needs, and disclose the rationale for the factors it uses for this purpose. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

NOMINATION PROCEDURE

When identifying suitable candidates for directorship, the Nomination Committee will carry out the selection process by making reference to the skills, experience, education background, professional knowledge, personal integrity and time commitments of the proposed candidates, and also the Company's needs (including the needs for board diversity) and other relevant statutory requirements and regulations required for the positions. All candidates must be able to meet the standards as set forth in Rules 5.01 and 5.02 of the GEM Listing Rules. A candidate who is to be appointed as an independent non-executive Director should also meet the independence criteria set out in Rule 5.09 of the GEM Listing Rules. Qualified candidates will then be recommended to the Board for approval.

As at the date of this report, the Board's composition under major diversified perspectives was summarised as follows:–



NUMBER OF MEETINGS AND DIRECTORS' ATTENDANCE

The Board and Board committees meet regularly for considering, reviewing and/or approving matters relating to, among others, the financial and operating performance, as well as, the overall strategies and policies of the Company. Additional meetings are held when significant events or important issues are required to be discussed and resolved.

The individual attendance record of the Board meetings and Board committee meetings for the year ended 31 December 2018 is set out as follows.

	Number of Board Meetings attended/ eligible to attend	Number of Audit Committee Meetings attended/ eligible to attend	Number of Remuneration Committee Meetings attended/ eligible to attend	Number of Nomination Committee Meetings attended/ eligible to attend
Executive Directors:–				
Mr. Yu Pak Lun Larry	2/2	N/A	N/A	N/A
Mr. Wong Tsun Ho Ian	2/2	N/A	N/A	N/A
Mr. Law Cheung Moon	2/2	N/A	N/A	N/A
Mr. Leung Patrick Cheong Yu	2/2	N/A	N/A	N/A
Mr. Wong Chun Pan Dennis[1]	1/1	N/A	N/A	N/A
Independent non-executive Directors:–				
Mr. Yeung Wai Keung	2/2	2/2	N/A	N/A
Mr. Lam Yau Hin	2/2	2/2	N/A	N/A
Mr. Cheung Wah Kit Jason	2/2	2/2	N/A	N/A
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan)[2]	N/A	N/A	N/A	N/A

1. Mr. Wong Chun Pan Dennis resigned as an executive Director on 1 October 2018.

2. Ms. Lam Shun Ka was appointed as an independent non-executive Director on 7 March 2019.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding securities transactions by the Directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all the Directors and the Company was not aware of any non-compliance with, the required standard of dealings and its code of conduct regarding securities transactions by the Directors for FY2018.

COMPANY SECRETARY

Pursuant to the code provision F.1.1 of the CG Code, the company secretary of the Company should be an employee of the Company and have daily knowledge of the affairs of the Company. Ms. Lam Wai Yan, who is the company secretary of the Group, is not an employee of the Company. The Company has assigned Mr. Yu Pak Lun Larry, Chief Executive Officer of the Group, as the liaison to Ms. Lam Wai Yan. Considering that Ms. Lam Wai Yan has an extensive experience in the corporate secretarial field, and it is more cost effective to engage an external service provider. Therefore, the Directors believe that the appointment of Ms. Lam Wai Yan as the company secretary of the Group is beneficial to the Group.

Ms. Lam Wai Yan who is the company secretary, has taken no less than 15 hours of relevant professional training for FY2018. The biographical details of Ms. Lam Wai Yan are set out under the section headed "Biographical Details of Directors and Senior Management" of this annual report.

INDEPENDENT AUDITOR'S REMUNERATION

The amount of fees charged by Moore Stephens CPA Limited, the external auditors, generally depends on the scope and volume of the external auditors' work performed.

For FY2018, the remuneration paid or payable to the external auditors of the Company in respect of audit services and non-audit services for the Group are as follows:–

	Fees paid/ payable for the services rendered HK$'000
Audit services	268
Non-audit services	304

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the consolidated financial statements which gives a true and fair view of the state of affairs of the Group. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects with timely publication of the consolidated financial statements of the Group. As at 31 December 2018, the Board was not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue as a going concern.

The statement of the external auditor about its reporting responsibilities on the consolidated financial statements is set out in the independent auditor's report on pages 48 to 53 of this annual report.

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

Throughout the Period, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for ensuring that the Group oversees the risk management and internal control structure and maintains a sound and effective internal control system to manage risks and safeguard the Group's shareholder investments and assets. For the year ended 31 December 2018, the Company appointed an independent internal control consultant to review the adequacy and effectiveness of its internal control system annually. The Group has fully implemented all internal control enhancements recommended by the consultant.

The Group has also established a set of risk management policies and measures, that have been incorporated into and adopted by their policies. Such policies and measures are designed to manage and minimize the risks faced by the Group. The system can only provide reasonable but not absolute assurance to prevent material misstatement or loss. The objective of the Group's risk management policies and measures is to manage the risks in its business operations. The Group has adopted risk management procedures to identify, evaluate and manage significant risks associated with its business, industry and market in the ordinary course of business.

The Board and senior management reviewed and prepared a report on the implemented system and procedures, covering financial, operational and compliance controls and risk management functions annually. The report is to enable the Board to assess and evaluate the effectiveness and efficiency of its operations and provide reasonable assurance. The Audit Committee and the Board have also reviewed the report and supervise the implementation of the Group's risk management policies and measures.

The Directors consider that the Group has implemented effective and adequate procedures to protect the Group's assets from unauthorised use or misappropriation, maintain appropriate accounting records and execute them with appropriate authorisation and compliance with relevant laws and regulations.

In relation to the handling and dissemination of inside information in accordance with the GEM Listing Rules and the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong), the Group has adopted measures including raising awareness of confidentiality in the Group, issuing notices regarding "black-out" period and restrictions on dealings to Directors and employees on a regular basis to ensure compliance when handling and disclosing inside information.

SHAREHOLDERS' RIGHT AND INVESTOR RELATIONS

As one of the measures to safeguard Shareholders' interest and rights, separate resolutions are proposed at Shareholders' meetings on each substantial issue, including the election of individual Directors, for Shareholders' consideration and voting. All resolutions put forward at Shareholders' meeting will be voted by poll pursuant to the GEM Listing Rules and the poll voting results will be published on the GEM website and the Company's website after the relevant meeting.

Extraordinary general meeting may be convened by the Board on the written requisition of shareholders holding not less than one-tenth of the paid up capital of the Company or by such shareholders who made the requisition (the "Requisitionists") (as the case may be) pursuant to Article 64 of the articles of association. Such requisition must state the object of business to be transacted at the meeting and must be signed by the Requisitionists and deposited at the registered office of the Company or the Company's principal place of business in Hong Kong. Shareholders should follow the requirements and procedures as set out in such article for convening an extraordinary general meeting. Shareholders may put forward proposals at general meeting of the Company by sending the same to the Company's principal place of business in Hong Kong.

The Company has adopted shareholders' communication policy with the objective of providing the Shareholders of the Company with information about the Company and enabling them to engage actively with the Company and exercise their rights as Shareholders in an informed manner.

The Company has established several channels to communicate with the Shareholders as follows:–

(I) information shall be communicated to Shareholders through the Company's financial reports (quarterly reports, interim reports and annual reports), annual general meetings and other general meetings that may be convened, as well as by making available all the (i) corporate communication documents including, but not limited to, copy of annual reports, interim reports, notices of meeting, circulars, proxy forms; (ii) other documents issued by the Company which are published on the GEM website for the information or action of holders of any of its securities, including announcements, monthly returns on movements in the Company's securities for each month and next day disclosure returns; (iii) constitutional documents of the Company and Board committees; (iv) corporate information including list of Directors of the Company; and (v) other corporate publications including the procedures Shareholders can use to propose a person for election as a Director on the Company's website;

(II) annual and special general meetings provide a forum for the Shareholders to comment and exchange views with the Directors and the senior management; and

(III) the Hong Kong share registrar of the Company serves the Shareholders in respect of share registration, dividend payment and related matters.

Shareholders may at any time make a request for the Company's information to the extent such information is publicly available.

The Company welcomes enquiries and proposals from investors, stakeholders and the public. Enquires to the Board or the Company may be sent by post to the Company's principal place of business in Hong Kong.

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

For the avoidance of doubt, Shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Articles of Association

During FY2018, the Company has amended and restated its memorandum and articles of association on 22 June 2018.

The Company's articles of association are available on the Company's website and the GEM website.

REPORT OF THE DIRECTORS

The Directors present their report and the audited consolidated financial statements of the Company and its subsidiaries for FY2018.

PRINCIPAL ACTIVITIES

The Company is an investment holding company while its subsidiaries' principal businesses are provision of IT infrastructure solutions services, IT development solutions services and IT maintenance and support services. Details of the principal activities of the principal subsidiaries are set out in Note 33 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during FY2018.

BUSINESS REVIEW

The business review of the Group for FY2018 is set out in the section headed "Management Discussion and Analysis" on pages 10 of this report.

A discussion and analysis of the activities of the Company as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's businesses, and the compliance with relevant laws and regulations, as well as the Group's environmental policies and performance which have a significant impact on the Company, can be found in the "Management Discussion and Analysis" on pages 10 to 19 and "Corporate Governance Report" on pages 20 to 31 as set of this report. Such discussion forms part of this Report of the Directors.

RESULTS AND DIVIDENDS

The results of the Group for FY2018 are set out in the consolidated income statement and consolidated statement of comprehensive income of this report. The Board does not recommend the payment of a final dividend in respect of the year.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last four financial years, is set out in the financial summary section on page 118 of this report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment of the Group during FY2018 are set out in Note 16 to the consolidated financial statements. There were no investment properties of the Group during FY2018.

SHARE CAPITAL

Details of movements in the share capital of the Company during FY2018 are set out in Note 21 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Group during FY2018 are set out in the consolidated statement of changes in equity.

As at 31 December 2018, the Company's reserves available for distribution to the Shareholders were approximately HK$41.8 million. Under the Companies Law of the Cayman Islands, the share premium of the Company is available for paying distributions or dividends to Shareholders subject to the provisions of its Articles and provided that immediately following the distribution or dividend payment, the Company is able to pay its debts as they fall due in the ordinary course of business. In accordance with the articles of association of the Company, dividends shall be distributed out of the retained earnings, including the share premium, of the Company.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 27.4% of the total sales for the year and sales to the largest customer included therein amounted to approximately 9.8%. Purchases from the Group's five largest suppliers accounted for approximately 70.2% of the total purchases for the year and purchase from the largest supplier included therein amounted to approximately 36.4%. None of the Directors or any of their associates or any Shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers.

BANK AND OTHER BORROWINGS

No bank and other borrowings of the Group was obtained as at 31 December 2018.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Group was entered into or existed during the year ended 31 December 2018.

RELATED PARTY TRANSACTIONS

Details of related party transactions of the Group during FY2018 are set out in Note 27 to the consolidated financial statements and none of them constituted a connected transaction as defined under the GEM Listing Rules.

DIRECTORS

The Directors of the Company during the year and up to the date of this report were:–

Executive Directors:–

Mr. Yu Pak Lun Larry *(Chairman)*
Mr. Leung Patrick Cheong Yu *(Compliance Officer)*
Mr. Wong Tsun Ho Ian
Mr. Law Cheung Moon
Mr. Wong Chun Pan Dennis (resigned on 1 October 2018)

Independent non-executive Directors:–

Mr. Yeung Wai Keung
Mr. Lam Yau Hin
Mr. Cheung Wah Kit Jason
Ms. Lam Shun Ka (formerly known as Lam Yuk Shan) (appointed on 7 March 2019)

Pursuant to Article 112 of the Articles, the Board shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Directors so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election.

Pursuant to Article 108 of the Articles, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years.

CONFIRMATION OF INDEPENDENCE

The Company has received annual confirmations of independence from independent non-executive Directors and as at the date of this report, they are considered to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 6 to 9 of the annual report.

CHANGE TO THE INFORMATION RELATING TO THE DIRECTOR DURING HIS TENURE

Mr. Wong Chun Pan Dennis, an executive Director of the Company, resigned on 1 October 2018 and Ms. Lam Shun Ka, an independent non-executive Director of the Company, was appointed on 7 March 2019. Save as disclosed above, there is no other significant change to the information of the Directors of the Company during their tenure required to be disclosed under rule 17.50A(1) of the GEM Listing Rules.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Directors' fees are subject to Shareholders' approval at general meetings. Other emoluments are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group as well as the recommendation of the Remuneration Committee.

Details of the remuneration of the Directors and the five highest paid employees as required to be disclosed pursuant to Chapter 18 of the GEM Listing Rules are set out in Notes 11 and 12 to the consolidated financial statements.

No director has waived or agreed to waive any emoluments during FY2018 (2017: Nil).

DIRECTORS' MATERIAL INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACTS

None of the Directors of the Company or an entity connected with such Director is or was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance subsisting during or at the end of FY2018 in which the Company, or any of its subsidiaries or fellow subsidiaries was a party.

SHARE OPTION SCHEME

The share option scheme of the Company (the "Share Option Scheme") has been conditionally adopted pursuant to resolutions in writing passed by our shareholders passed on 22 June 2018 for the purpose of recognising and acknowledging the contributions of eligible participants have had or may have with us. The Share Option Scheme provides the eligible participants an opportunity to have a personal stake in the Company with the view to achieving the following objectives:–

(i) motivating the eligible participants to optimise their performance efficiency for our benefit; and

(ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to our long-term growth.

Details of the principal terms of the Share Option Scheme are set out in paragraph headed "Share Option Scheme" in section headed "Statutory and General Information" in Appendix IV to the Prospectus. The principal terms of the Share Option Scheme are summarised as follows:–

Subject to the terms of the Share Option Scheme, the Board may, at its discretion, offer to grant an option to any person belonging to any of the following classes of participants, to take up options to subscribe for such number of new Shares as the Board may determine:–

(i) any full-time or part-time employees, executives or officers of our Group;

(ii) any Directors (including independent non-executive Directors) of our Group;

(iii) any advisers, consultants, suppliers, customers and agents to our Group; and

(iv) such other persons who, in the sole opinion of the Board, will contribute or have contributed to us, the assessment criteria of which are contribution to our development and performance, quality of work performed for us, initiative and commitment in performing his/her duties, and length of service or contribution to us.

The maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company at any time must not exceed 30% of the total number of Shares in issue from time to time.

The total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the total number of Shares in issue on the date the Company was listed unless the Company seeks the approval of the Shareholders in general meeting for refreshing the 10% limit under the Share Option Scheme provided that options lapsed in accordance with the terms of the Share Option Scheme or any other share option schemes of the Company will not be counted for the purpose of calculating 10% limit.

The Share Option Scheme was adopted for a period of 10 years commencing on 22 June 2018 and remains in force until 21 June 2028. The Company may, by resolution in general meeting or, such date as the Board determined, terminate the Share Option Scheme at any time without prejudice to the exercise of options granted prior to such termination.

The exercise price per share of the Company for each option granted shall be determined by the Board in its absolute discretion but in any event shall be at least the higher of:–

(1) the closing price of the Shares as stated in the daily quotations sheets issued by the Stock Exchange on the date of offer for the grant of option ("Date of Grant") which must be a day on which the Stock Exchange is open for the business of dealing in securities;

(2) the average closing prices of the Shares as stated in the daily quotations sheets issued by the Stock Exchange for the five business days immediately preceding the Date of Grant; and

(3) the nominal value of a Share.

Upon acceptance of the options, the grantee shall pay HK$1.00 to the Company as consideration for the grant. The acceptance of an offer of the grant of the option must be made within the date as specified in the offer letter issued by the Company. The exercise period of any option granted under the Share Option Scheme shall not be longer than 10 years commencing on the Date of Grant and expiring on the last day of such 10-year period subject to the provisions for early termination as contained in the Share Option Scheme.

The total number of new shares of the Company that may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share options schemes of the Company shall not exceed 80,000,000 shares, which represents 10% of the shares in issue of the Company as at the date of this report.

The maximum number of Shares issued and to be issued upon exercise of the options granted and to be granted to each grantee under the Share Option Scheme (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of Shares in issue. Any further grant of options in excess of this 1% limit shall be subject to issuance of a circular by the Company and approved by its Shareholders in accordance with the GEM Listing Rules.

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 December 2018 and up to the date of this report.

Apart from the aforesaid share option schemes, at no time during FY2018 was any of the Company and its holding companies, subsidiaries and fellow subsidiaries a party to any arrangement to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or their spouses or children under the age of 18, had any right to subscribe for the shares in, or debentures of, the Company, or had exercise any such right.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

The Shares were listed on the Stock Exchange on 16 July 2018. As at the date of this report, 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 report, 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 report, so far as the Directors are aware, the following persons/entities (other than the Directors and the chief executive of the Company) had an interest or short position in the Shares or underlying Shares which would be required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:–

The Company

Shareholders	Capacity/Nature of interest	Number and class of securities[1]	Approximate percentage of interest in the Company
Vigorous King Limited[2]	Beneficial owner	600,000,000 Shares (L)	75%
Ms. Tong Po Ki Vicky[3]	Interest of Spouse	600,000,000 Shares (L)	75%
Cocoon Holdings Limited[4]	Beneficial owner	52,090,000 Shares (L)	6.51%

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) Cocoon Holdings Limited is a company listed on the Stock Exchange and is an independent third party.

Save as disclosed above, as at the date of this report, 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.

RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Other than the Share Option Scheme and as disclosed under the section "Interests of Directors and Chief Executive" above, at no time during the year and up to the date of this report, neither the Company or any of its subsidiaries, or any of its fellow subsidiaries, was a party to any arrangement to enable the Directors or chief executives of the Company or their respective associates (as defined in the GEM Listing Rules) to have any right to subscribe for securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) or to acquire benefits by means of acquisitions of shares in, or debentures of, the Company or any other body corporate.

INTEREST IN COMPETING BUSINESSES

The controlling shareholders (as defined under GEM Listing Rules) of the Company have entered into the deed of non-competition dated 22 June 2018 (the "Deed of Non-competition") in favour of the Company, details of which were set out in the Prospectus. Pursuant to the Deed of Non-competition, the controlling shareholders have undertaken to the Company (for itself and as trustee for each of our subsidiaries from time to time) that with effect from the Listing Date, they would not and would procure that none of their close associates (except for any members of the Group) shall, except through their interests in our Company, whether as principal or agent and whether undertaken directly or indirectly, either on their own account or in conjunction with or on behalf of any person, corporate, partnership, joint venture or other contractual arrangement and whether for profit or otherwise, among other things, carry on, participate, acquire or hold any right or interest or otherwise be interested, involved or engaged in or connected with, directly or indirectly, any business which is, directly or indirectly, in any respect in competition with or similar to or is likely to be in competition with the business of the Group in Hong Kong or such other places as the Group may conduct or carry on business from time to time.

During the year and up to the date of this report, none of the Directors, the controlling shareholders of the Company or their respective close associates (as defined under the GEM Listing Rules) had any business or interest in a business which competes or may compete with the business of the Group and any other conflicts of interest with the Group.

The controlling shareholders of the Company have confirmed to the Company that for FY2018 and up to the date of this report, they and their respective close associates (as defined under GEM Listing Rules) have complied with the undertakings contained in the Deed of Non-competition.

Save as disclosed above, during the year, none of the directors or the management shareholders (as defined in the GEM Listing Rules) of the Company were considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

ENVIRONMENTAL, SOCIAL AND CORPORATE RESPONSIBILITY

As a responsible corporation, the Group is committed to maintaining the highest environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including health and safety, workplace conditions, employment and the environment.

The Group understands that a better future depends on everyone's participation and contribution. It has encouraged employees, customers, suppliers and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

The Group maintains strong relationships with its employees, has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

The details of environmental, social and governance policies and performance of the Group will be disclosed in the "Environmental, Social and Governance Report", which are set out on pages 43 to 47 of this report.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management of the Company are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH STAKEHOLDERS

The Group is committed to operate in a sustainable manner while balancing the interests of its various stakeholders including customers, suppliers and employees. Through regular stakeholder engagement via different channels, the stakeholders are encouraged to give their opinions regarding the environmental, social and governance policies of the Group. The Group maintains strong relationships with its employees and offers them with safe working environments. The Group has enhanced cooperation with its suppliers and has provided high quality products and services to its customers so as to ensure sustainable development.

PERMITTED INDEMNITY OF DIRECTORS

At no time during the year and up to the date of this report was any permitted indemnity provision being in force for the benefit of any of the directors of the Company.

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 31 December 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.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the GEM Listing Rules during FY2018 and up to the date of this report.

AUDITOR

Moore Stephens CPA Limited has been appointed as the auditor of the Company who retires and, being eligible, offer themselves for re-appointment. A resolution will be proposed at the forthcoming annual general meeting of the re-appointment of Moore Stephens CPA Limited as the auditor of the Company. There is no change of auditor of the Company in any of the preceding 3 years.

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

Hong Kong, 22 March 2019

The Group's Environmental, Social and Governance ("ESG") report highlights its ESG performance and refers to the ESG reporting principles set out in Appendix 20 of the GEM Listing Rules.

The overall performance of the two subject areas, namely Environmental and Social for the business operations of all entities (including the Group) operating in our office in Hong Kong during FY2018. For corporate governance information, please refer to the "Corporate Governance Report" on pages 20 to 31 of this annual report.

SECTION A. ENVIRONMENTAL

The Group is principally engaged in the provision of IT solutions and services. It does not involve in direct emission of large amounts of polluted air, discharge of pollutants into water and land, and generation of hazardous and nonhazardous waste. Therefore, there are no laws and regulations related to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and nonhazardous waste that have a significant impact on the Group. On the other hand, the Group's operations involve indirect emissions of greenhouse gases, which are mainly due to the use of electricity and paper consumption. In terms of the energy consumption, carbon dioxide is the main greenhouse gas produced by the Group. The Group does not use other forms of energy and natural resources for its operation and it have no direct and significant impact on the environment.

Air and Greenhouse Gas Emissions

For FY2018, the Group's quantitative information on greenhouse gases emissions is as follows:–

Greenhouse Gases Emissions	**2018 tonnes**	2017 tonnes
Indirect Emission (Scope 2)		
Electricity	**37.0**	40.2
Indirect Emission (Scope 3)		
Paper Consumption	**1.2**	1.2
Total emission of greenhouse gases	**38.2**	41.4
Total emission of greenhouse gases per square metre of floor area	**0.064**	0.112

For FY2018, the total electricity consumption of the Group is as follows:–

Energy Consumption	**2018**	2017
Energy consumption – electricity (kwh)	**65,266**	50,923
Energy consumption – electricity per floor area (kwh/m^2)	**0.063**	0.108

Energy Consumption

After the relocation of the Group's office premises from Quarry Bay to Kwun Tong since March 2018, the floor area in Kwun Tong is larger than that of Quarry Bay. It resulted in an increase in electricity consumption in 2018. Despite the increased electricity consumption due to increased floor area, the total emission of greenhouse gases arose from use of electricity decreased as the emission factor for electricity used in Kwun Tong is lower than that of in Quarry Bay.

In the future, in order to further reduce emission of greenhouse gases and electricity consumption, the Group will continue to implement energy saving measures. Staff of the Group are required to turn on power saving mode for computers, printers and monitors to reduce energy consumption when the machines are in idle. Staff are also required to switch off lights, printers, air conditioners and power of computers by the end of the working day. By adopting these policies, the Group wishes to create an environmental friendly working environment.

Water Consumption

Water consumption is used primarily for two purposes, including drinking water and daily cleaning. The water consumption of the Group's office in Kwun Tong is managed by the office's building management office and water usage data is not available in FY2018. In FY2017, there is no running water facility in our Quarry Bay office. The Group only used tap water for daily cleaning purpose when the office was reallocated to Kwun Tong in 2018. Besides, in FY2017 and FY2018, the Group orders distilled water from suppliers for staff's drinking. Although the consumption of water is insignificant, in order to reduce the water consumption of the Group, the office has issued a notice to remind the employee to turn off the taps after use as well as using it wisely. In addition, the office has also issued a notice to remind employees to cherish drinking water.

Paper Consumption

Despite the reduction in greenhouse gas emissions caused by paper consumption, the Group will continue to promote the reduction of paper printing and encourage the use of electronic communications and electronic records. Single-sided paper is reused as scrap paper or used to print internal document. Notices have been posted in the office to remind employees to use paper wisely to reduce the consumption of paper. Besides, the Group does not use any packaging materials for its operations.

Business Air Travel

Business air travel is inevitable in some circumstances as the Group is seeking to expand its business beyond Hong Kong. Nevertheless, the staff of the Group travelled only when necessary and travelled in economy class to reduce carbon footprints. In FY2018 and FY2017, the carbon footprint of employees is immaterial as almost all business is delivered in Hong Kong. In addition, the Group believes that in order to reduce carbon emissions from air travel, the Group encourages employees to use video conference calls and participate in online meetings.

SECTION B. SOCIAL

General

The Group strictly complies with the all applicable rules and regulations such as the Employment Ordinance (Chapter 57 of the Laws of Hong Kong), the Minimum Wage Ordinance (Chapter 608 of the Laws of Hong Kong), the Employees' Compensation Ordinance (Chapter 282 of the Laws of Hong Kong), the Sex Discrimination Ordinance (Chapter 480 of the Laws of Hong Kong), the Race Discrimination Ordinance (Chapter 602 of the Laws of Hong Kong), the Disability Discrimination Ordinance (Chapter 487 of the Laws of Hong Kong), and the Family Status Discrimination Ordinance (Chapter 527 of the Laws of Hong Kong). During FY2018, the Board was not aware of any non-compliance with relevant standards, rules and regulations that have a significant impact on the Group.

B1: Employment

The Group develops employment policies regarding recruitment, compensation, promotion, dismissal, leave entitlements and other benefits and welfare. Employment and benefits provisions are communicated to staff through staff's handbooks. The Group is committed to creating an equal opportunity and a diverse work environment. All staff are assessed on the basis of their performance without discrimination against age, gender, pregnancy, disability, race, marital status or family status. For FY2018, the Group had no material non-compliance with applicable legislation or regulations.

In addition to the above, during FY2018, the Group has engaged a new MPF services provider and liaise with MPF trustees to reduce the management fee to improve their long term benefits.

As at 31 December 2018, the staff gender and age distribution by position is as follows:–

Position	No. of employees	Male	Female	Aged under 30	Aged 30 to 40	Aged 41 to 50	Aged above 50
Manager or above	22	21	1	–	6	13	3
General staff	63	42	21	21	29	12	1

Staff turnover during FY2018 is as follows:–

Category	No. of employees	Male	Female	Aged under 30	Aged 30 to 40	Aged 41 to 50	Aged above 50
New staff	29	20	9	11	8	9	1
Staff turnover	26	21	5	10	4	8	4

B2: Health and Safety

The Group provides a safe and healthy working environment for its employees and sub-contractors and take all reasonable steps to prevent accidents and injuries during their work. There is a first aid kit in office. The Group also provides medical insurance for long-term employees. The health and safety policy of the Group states that one of the prime responsibilities of the management at all levels is to ensure all reasonably practicable actions are taken to comply with the Employment Ordinance (Chapter 57 of the Law of Hong Kong), Occupational Safety and Health Ordinance (Chapter 509 of the Laws of Hong Kong) and the policy itself.

Besides, the Group strives to encourage the staff to exercise and maintain a healthy lifestyle by encouraging staff to join "Cycle for Millions 2018" and Meditation Program, etc. For FY2018, health and safety performances are periodically monitored and reviewed. The Group did not note any material non-compliance with laws and regulations in relation of employee health and safety during FY2018.

B3: Development and Training

Provide regular training to employees to ensure they have the appropriate skills to handle their daily job responsibilities. Employees are encouraged to participate in a variety of self-development training courses tailored to both general and managerial staff. The Group also sponsors employees to participate in external training courses required for their work. Encourage team leaders to work closely with employees to understand their development needs.

B4: Labour Standards

The Group strictly complies with the labour legislation on prevention of child and forced labour. There was no child nor forced labour in the Group's operation during FY2018 and FY2017. During the recruitment process, there is a procedure for collecting and reviewing identity and age verification documents. The Group did not note any material non-compliance with laws and regulations regarding employment and labour standards during FY2018.

B5: Supply Chain Management

The Group maintains a long term and stable relationship with major suppliers. All suppliers are carefully evaluated and regularly monitored. During FY2018, the Group was not aware that any major suppliers' actions or practices that had a significant negative impact on business ethics, environmental protection, human rights and labour practices.

B6: Product Responsibility

Product responsibility is one of the Group's priorities. We are committed to delivering high connectivity, reliability and excellent customer services. During FY2018, the Group did not note any cases of material non-compliance regarding health and safety, advertising and labelling related to products and services provided as required by relevant laws and regulations.

The Group's policy is to respect intellectual property rights and prohibit the use of infringing articles in the business. All employees must strictly follow the relevant laws such as the Copyright Ordinance. During the reporting period, the Group did not find any significant non-compliance with relevant laws and regulations.

The continuous support of our customers has always been one of the key factors for the success of the Group. Therefore, The Group is committed to providing quality service to its customers. Customer complaints (if any) will be reviewed by the appropriate technical team member to resolve. If necessary, the team will also report complaints to management for follow-up action.

Protecting customer data privacy is a priority in our relationship with customers. The Group is committed to preventing customer data leakage or loss by adopting stringent physical security measures and good industry practices. The Group has a comprehensive security policy to safeguard its assets and information. The Group's security and confidentiality guideline requires its staff to comply with regulations in relation to physical security, access control security, data security, application security, network and communication, and password management.

Regarding data privacy, the Group requires its staff to follow the applicable laws such as Personal Data (Privacy) Ordinance (Chapter 486 of the Laws of Hong Kong) when handling both customers' and internal personal data. Staff are required to agree to hold all confidential information in trust and confidence upon contract signing, during and after the staff's period of service. For governmental projects, the Group treats all information received from the Government as confidential and agrees to use the confidential information solely for the purposes of assignment contracts.

B7: Anti-corruption

The Group adheres to high standards of conduct and integrity. Each of our employees has an obligation and encourages them to report concerns about any misconduct and misconduct they have noticed. These include, but are not limited to, violations of legal or regulatory requirements, misconduct, misconduct or fraud that may adversely affect the Group's reputation and image, as well as violations of the Code of Conduct.

We implement policies and procedures to minimise risks of fraud, corruption and bribery. Our whistleblowing policy in place allows our employees to report suspected irregularities at a high level, including direct reporting to the Chairman and Chief Executive Officer, the Board or the Audit Committee. Reporting can be conducted through various channels such as written report or email. For reported cases where an investigation is warranted, the outcomes and recommendations of the investigation will be reported to the Chairman and Chief Executive Officer. Our policies and practices aim at treating all disclosures in a confidential and sensitive manner and protecting our employees from any form of intimidation and retaliation.

Our principle on conduct and integrity is well conveyed to our employees through daily communication, seminars and training. Employees are encouraged to attend business ethics seminars given by Hong Kong Independent Commission Against Corruption, arranged by the human resources department of the Company under the anti-corruption training programme of our parent company. Our requirements on conduct and integrity are also communicated to our contractors and service providers who are expected to comply with the same.

B8: Community Investment

Apart from caring for its employees, the Group cares for its community and discharges its corporate social responsibilities by actively participating in voluntary services. With its care for people and the environment, the Group has long been recognised by the Hong Kong Council of Social Service with the "Caring Company Award" for ten consecutive years.

INDEPENDENT AUDITOR'S REPORT

MOORE STEPHENS

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大華馬施雲會計師事務所有限公司

To the Shareholders of
Kinetix Systems Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Kinetix Systems Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 117, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:-

- Recoverability of trade and unbilled receivables and contract assets
- Revenue from certain IT solutions services which are treated as one performance obligation and recognised over time

Recoverability of trade and unbilled receivables and contract assets

We identified the recoverability of trade and unbilled receivables and contract assets as a key audit matter because the Group has significant amount of trade and unbilled receivables and contract assets with many corporate customers and allowances are made for expected credit losses when the Group will not collect all amounts due. Management judgements are required in assessing the expected credit losses.

The Group has trade receivables, unbilled receivables and contract assets of approximately HK$38.9 million, HK$42.7 million and HK$9.2 million, as disclosed in Notes 17(a), 17(b) and 19, respectively, at 31 December 2018 against which total allowance for expected credit losses of approximately HK$8.4 million are held. The expected credit losses on the trade and unbilled receivables and contract assets are estimated by using a provision matrix based on the Group's historical credit loss experience, average actual date of receipt, customers' background, listing status and size as groupings of various debtors, 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 without undue cost or effect, including risk of default, historical and forward-looking information.

Our procedures in relation to the recoverability of trade and unbilled receivables and contract assets included:-

- Obtaining an understanding on the billing and collection cycle by performing walkthrough test;
- Testing the accuracy of trade receivables aging analysis of the Group;
- Assessing the appropriateness of the methodology regarding the provision matrix of allowance for expected credit losses;
- Challenging the information used to determine the expected credit losses by considering cash collection performance against historical trends and the level of credit loss changes over time;
- Reviewing the accuracy of management's judgements by comparing historical allowances against actual write-offs;
- Reviewing minutes of the board of directors' meetings relating to the recoverability of trade and unbilled receivables and contract assets; and
- Understanding the nature of these assets and reviewing the correspondences with the customers.

KEY AUDIT MATTERS (CONTINUED)

Revenue from certain IT solutions services which are treated as one performance obligation and recognised over time

As explained in Note 4 to consolidated financial statements, certain revenue from IT solutions services are treated as one performance obligation and recognised over time because the Group considered the IT infrastructure solutions services that require the Group to carry out installation, testing, and integration works and IT development solutions services were not distinct and not separately identifiable and the revenue arising from these services should be recognised by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. For the year ended 31 December 2018, revenue from the related IT infrastructure solutions services of approximately HK$7.5 million and IT development solutions services of approximately HK$46.7 million were recognised over time, respectively. The progress was measured by the input method, with reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. 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.

The above mentioned accounting policies in respect of revenue recognition were areas of our focus given the involvement of significant judgements and estimates.

Our procedures included:-

- Reviewing the content of the IT solutions services contracts to understand the nature of the services provided by the Group to their customers and assessing whether the promises to customers were distinct based on the Group's facts and substances and the applicable accounting standard;
- Assessing the reasonableness of the basis for estimated budget costs by checking the related contracts of the IT solutions services to the budgets prepared and performing retrospective review on budgeted costs;
- Assessing the reasonableness of the basis for cost allocation by checking to the scope of IT solutions services contracts;
- Testing the IT solutions services costs incurred by tracing to the supporting documents;
- Checking the mathematical accuracy of the calculation of cost allocation and completion progress of the IT solutions services; and
- Assessing the reasonableness of budgeted costs for the IT solutions services period by checking the supporting documents including contracts or correspondences with customers.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all the information included in the annual report for the year ended 31 December 2018 other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS OF THE COMPANY AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee assists the directors of the Company in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:-

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors of the Company.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Moore Stephens CPA Limited
Certified Public Accountants

Law Yuen Man, Ida
Practising Certificate Number: P05878

Hong Kong, 22 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Revenue	*7*	**193,518**	180,970
Cost of sales		**(150,645)**	(143,431)
Gross profit		**42,873**	37,539
Other income and gains	*8*	**65**	2
Selling expenses		**(5,446)**	(4,242)
Allowance for expected credit losses	*10*	**(8,425)**	–
Administrative and general expenses		**(26,429)**	(20,932)
Listing expenses		**(9,831)**	(4,307)
Finance costs	*9*	**–***	(6)
(Loss)/profit before tax	*10*	**(7,193)**	8,054
Income tax	*13*	**(1,829)**	(2,069)
(Loss)/profit for the year		**(9,022)**	5,985
Attributable to:-			
Owners of the Company		**(9,008)**	5,985
Non-controlling interests		**(14)**	–
(Loss)/profit for the year		**(9,022)**	5,985
		HK cents	HK cents
(Loss)/earnings per share	*15*		
– Basic and diluted		**(1.30)**	1.00

* *Less than HK$1,000.*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
(Loss)/profit for the year	**(9,022)**	5,985
Other comprehensive income for the year	**–**	–
Total comprehensive (loss)/income for the year	**(9,022)**	5,985
Attributable to:-		
Owners of the Company	**(9,008)**	5,985
Non-controlling interests	**(14)**	–
	(9,022)	5,985

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Property, plant and equipment	16	**2,077**	372
Deposits	17	**500**	590
		2,577	962
Current assets			
Due from immediate holding company	18	**–***	–*
Due from non-controlling interests	18	**31**	–
Trade and other receivables and prepayments	17	**87,505**	79,702
Contract assets	19	**9,192**	–
Cash and cash equivalents	20	**63,414**	34,676
		160,142	114,378
Total assets		**162,719**	115,340
Equity and liabilities			
Capital and reserves			
Share capital	21	**8,000**	–*
Reserves	22	**78,743**	44,552
Equity attributable to owners of the Company		**86,743**	44,552
Non-controlling interests		**32**	–
Total equity		**86,775**	44,552
Current liabilities			
Trade and other payables and accruals	23	**69,717**	68,822
Contract liabilities	24	**5,259**	–
Tax payable		**968**	1,966
Total liabilities		**75,944**	70,788
Total equity and liabilities		**162,719**	115,340

* *Less than HK$1,000.*

The consolidated financial statements on pages 54 to 117 were approved and authorised for issue by the Board of Directors on 22 March 2019 and were signed on its behalf by

Yu Pak Lun Larry	**Law Cheung Moon**
Executive Director	*Executive Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital HK$'000 *(Note 21)*	**Share premium** HK$'000 *(Note 22(a))*	**Other reserve** HK$'000 *(Note 22(b))*	**Retained profits** HK$'000	**Total** HK$'000	**Non-controlling interests** HK$'000	**Total equity** HK$'000
1 January 2017	–*	–	10	44,557	44,567	–	44,567
Profit for the year	–	–	–	5,985	5,985	–	5,985
Other comprehensive income for the year	–	–	–	–	–	–	–
Total comprehensive income for the year	–	–	–	5,985	5,985	–	5,985
Interim dividend declared	–	–	–	(6,000)	(6,000)	–	(6,000)
31 December 2017 and 1 January 2018	**–***	**–**	**10**	**44,542**	**44,552**	**–**	**44,552**
Loss for the year	**–**	**–**	**–**	**(9,008)**	**(9,008)**	**(14)**	**(9,022)**
Other comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive loss for the year	**–**	**–**	**–**	**(9,008)**	**(9,008)**	**(14)**	**(9,022)**
Acquisition of a subsidiary	**–**	**–**	**–**	**–**	**–**	**32**	**32**
Non-controlling interests arising on the establishment of a subsidiary	**–**	**–**	**–**	**–**	**–**	**14**	**14**
Transactions with owners of the Company:-							
Issue of shares upon share offer *(Note 21)*	**2,000**	**58,000**	**–**	**–**	**60,000**	**–**	**60,000**
Capitalisation issue of shares *(Note 21)*	**6,000**	**(6,000)**	**–**	**–**	**–**	**–**	**–**
Listing expenses incurred in connection with issue of new shares	**–**	**(8,801)**	**–**	**–**	**(8,801)**	**–**	**(8,801)**
	8,000	**43,199**	**–**	**–**	**51,199**	**–**	**51,199**
31 December 2018	**8,000**	**43,199**	**10**	**35,534**	**86,743**	**32**	**86,775**

* *Less than HK$1,000.*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
(Loss)/profit before tax		**(7,193)**	8,054
Adjustments for:-			
Depreciation of property, plant and equipment	*16*	**489**	341
Loss on write-off property, plant and equipment	*10*	**76**	–
Allowance for expected credit losses	*10*	**8,425**	–
Bank interest income	*8*	**(26)**	(2)
Finance costs	*9*	**–***	6
Provision/(reversal) for onerous contracts	*10*	**416**	(641)
		2,187	7,758
Increase in trade and other receivables and prepayments		**(16,127)**	(22,014)
Increase in contract assets		**(9,203)**	–
Decrease in due from non-controlling interests		**15**	–
Decrease in amount due from a director of the Company		**–**	37
Decrease in amount due from related companies		**–**	534
Increase in trade and other payables and accruals		**479**	31,042
Increase in contract liabilities		**5,259**	–
Cash (used in)/generated from operations		**(17,390)**	17,357
Bank interest received		**26**	2
Hong Kong profits tax paid		**(2,827)**	(3,485)
Net cash (used in)/generated from operating activities		**(20,191)**	13,874
Cash flows from investing activity			
Purchases of property, plant and equipment	*16*	**(2,270)**	(181)
Net cash used in investing activity		**(2,270)**	(181)

* *Less than HK$1,000.*

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Cash flows from financing activities			
Dividend paid		**–**	(6,000)
Finance costs		**–***	(6)
Payment of listing expenses		**(8,801)**	–
Proceeds from issuance of shares upon share offer	*21*	**60,000**	–
Net cash generated from/(used in) financing activities		**51,199**	(6,006)
Increase in cash and cash equivalents		**28,738**	7,687
Cash and cash equivalents at beginning of the year		**34,676**	26,989
Cash and cash equivalents at end of the year	*20*	**63,414**	34,676

* *Less than HK$1,000.*

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. CORPORATE INFORMATION

Kinetix Systems Holdings Limited (the "Company") was incorporated as an exempted company with limited liability in the Cayman Islands on 16 September 2016 and its shares have been listed on GEM of The Stock Exchange of Hong Kong Limited (the "Exchange") (the "Listing") by way of shares offer (the "Share Offer") on 16 July 2018. 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. The principal activities of the Group are provision of information technology ("IT") infrastructure solutions services, IT development solutions services and IT maintenance and support services. In the opinion of the directors of the Company, the ultimate and immediate holding company of the Company is Vigorous King Limited, a company incorporated in the British Virgin Islands ("BVI") which is wholly owned by Mr. Yu Pak Lun Larry ("Mr. Yu"), who is also the Chairman, Chief Executive Officer and Executive Director of the Company.

2. REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION

(a) Reorganisation

The companies comprising the Group underwent a reorganisation (the "Reorganisation") in preparation for the Listing pursuant to which the Company became the holding company of the Group. The details of the Reorganisation are set out in the prospectus issued by the Company dated 30 June 2018 (the "Prospectus"). The Company became the holding company of the companies now comprising the Group upon the completion of the Reorganisation. The Group is regarded as a continuing entity resulting from the Reorganisation since the insertions of the Company and Kinetix Limited at the top of Kinetix Systems Limited which have no commercial substance and do not form a business combination. Accordingly, the consolidated financial statements have been prepared using the principles of merger accounting as if the Reorganisation had occurred as of the beginning of the earliest period presented and the current group structure had always been in existence.

The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows of the Group for the years ended 31 December 2018 and 2017 include the financial performance and cash flows of all companies now comprising the Group as if the current group structure had been in existence throughout the reporting period, or since their respective dates of establishment, incorporation or acquisition, where applicable. The consolidated statement of financial position of the Group as at 31 December 2018 and 2017 have been prepared to present the financial position of all companies now comprising the Group as if the current group structure had been in existence as at the respective dates of establishment, incorporation or acquisition, where applicable.

The assets and liabilities of the companies comprising the Group are consolidated using the existing book values. No amount is recognised as consideration for goodwill or excess of acquirer's interest in the fair value of acquiree's identifiable assets, liabilities and contingent liabilities over cost at the time of Reorganisation. All significant intra-group transactions, balances and unrealised gains on transactions have been eliminated on consolidation. Unrealised losses are also eliminated unless the transactions provide evidence of an impairment of the asset transferred.

2. REORGANISATION AND BASIS OF PREPARATION AND PRESENTATION (CONTINUED)

(b) Basis of preparation and presentation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The consolidated financial statements also comply with applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Exchange ("GEM Listing Rules").

The consolidated financial statements have been prepared on historical cost basis and presented in Hong Kong dollars ("HK$"). All values are rounded to the nearest thousand except when otherwise indicated. It should be noted that accounting estimates and assumptions have been used in preparation of the consolidated financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are set out in Note 4 "Critical accounting judgements and key sources of estimation uncertainty".

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs

In the current year, the Group has applied for the first time the following new and amendments to HKFRSs issued by the HKICPA, which are relevant and mandatorily effective for the Group's consolidated financial statements for the accounting period beginning on 1 January 2018:-

HKFRS 9	Financial Instruments
HKFRS 15 and amendments to HKFRS 15	Revenue from Contract with Customers and the related amendments
HK (IFRIC)-Int 22	Foreign Currency Transactions and Advance consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contract
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle
Amendments to HKAS 40	Transfer of Investment Property

Except as described below, the application of the new and amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(a) Application of HKFRS 9 Financial Instruments

HKFRS 9 has 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 example, contract assets). In accordance with the specific transitional provisions set out in HKFRS 9, the Group has applied the classification and measurement requirements (including requirements relating to impairment under expected credit losses ("ECL") model) to items that existed as of the date of initial application (i.e. 1 January 2018) on a retrospective basis based on the facts and circumstances that existed as at 1 January 2018. However, the Group has decided not to restate the comparative figures. Accordingly, the comparative information continues to be presented based on the requirements of HKAS 39 and hence may not be comparable with the current year information. Any cumulative adjustments are recognised against the opening retained profits as of 1 January 2018.

(i) Classification and measurement of financial assets and contract assets

In general, HKFRS 9 categorises financial assets into the following three classification categories:-

- measured at amortised cost;
- at fair value through other comprehensive income (FVTOCI); and
- at fair value through profit or loss (FVTPL).

These classification categories are different from those set out in HKAS 39 which included held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVTPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Details about the Group's accounting policies for its financial assets and financial liabilities are disclosed in Notes 5(e) and 5(i) to the consolidated financial statements. The Group did not designate or de-designate any financial asset at FVTPL at 1 January 2018.

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 5(e).

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(a) Application of HKFRS 9 Financial Instruments (continued)

(i) Classification and measurement of financial assets and contract assets (continued)

The following table shows a reconciliation from how the Group's financial assets existed as of 1 January 2018 were classified and measured under HKAS 39 to how they are classified and measured under HKFRS 9:-

	Old classification under HKAS 39	New classification under HKFRS 9	Carrying amount under HKAS 39 HK$'000	Carrying amount under HKFRS 9 HK$'000
Trade receivables	Trade receivables	Amortised cost	22,553	22,553
Contract assets	Amount due from customers for contract work	Amortised cost	7,505	7,505

(ii) Impairment under ECL model

HKFRS 9 has introduced the "expected credit loss model" to replace the "incurred loss" model under HKAS 39. The "expected credit loss model" requires an ongoing measurement of credit risk associated with a financial asset. The Group has applied the "expected loss model" to the following types of financial assets:-

- financial assets that are subsequently measured at amortised cost (including cash and cash equivalents, deposits, trade receivables, unbilled receivables and due from immediate holding company and non-controlling interests); and
- contract assets as defined in HKFRS 15.

The directors of the Company concluded that the allowance for expected credit losses as at 1 January 2018 was insignificant.

(iii) Effect on the Group's retained earnings and other reserves as of 1 January 2018

The directors of the Company concluded that no material impact of the application of HKFRS 9 on the Group's retained profits and other reserves as of 1 January 2018.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(b) Application of HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 has replaced HKAS 11 Construction contracts, HKAS 18 Revenue and other revenue-related interpretations. Under HKAS 11 and HKAS 18, revenue arising from construction contracts and provision of services was recognised over time whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. 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 time. HKFRS 15 has introduced additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Please see Notes 5(m) and 5(n) for details of new and old accounting policies.

Based on the specific transitional provisions set out in HKFRS 15, the Group had decided to use the cumulative effect transition method. Accordingly, comparative information has not been restated and continues to be presented under HKAS 11 and HKAS 18.

As mentioned in Note 7, the Group is engaged in the following operations:-

(1) IT infrastructure solutions services

(2) IT development solutions services

(3) IT maintenance and support services

IT solutions services consisted of (1) IT infrastructure solutions services and (2) IT development solutions.

IT infrastructure solutions services can be subdivided into 2 types:–

(1a) contracts for IT infrastructure solutions that require the Group to carry out installation, testing and integration works; and

(1b) contracts for IT infrastructure solutions that involved just sales of hardwares/softwares and do not require the Group to carry out installation, testing and integration works.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(b) Application of HKFRS 15 Revenue from Contracts with Customers (continued)

(i) Revenue recognition

Previously, revenue arising from contracts for IT development solutions and IT infrastructure solutions services that require the Group to carry out installation, testing and integration works were 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. Under the percentage of completion method, revenue is recognised in the accounting periods in which the services are rendered. When it is probable that the total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately. However, where the contracts for IT infrastructure solutions services that 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 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;

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.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(b) Application of HKFRS 15 Revenue from Contracts with Customers (continued)

(i) Revenue recognition (continued)

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 which involved just sales of hardwares/softwares are recognised at a point in time. Revenue arising from other IT infrastructure solutions and IT development solutions which also involved provision of installation, testing and integration works, the management assessed and concluded that there are significant integration activities, are recognised over time. Please refer to Note 4 for the critical judgements made by the directors of the Company. 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.

(ii) Presentation of contract assets and contract liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration to the Group, before the Group satisfies the related performance obligation. For a single contract with the customer, either a contract asset or a contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, certain contract balances that showed contracts in progress at the end of the reporting period that reflected the aggregate amount of costs incurred and recognised profits (less recognised losses) to date less progress billings, the amount of retentions and the amount of advances received were presented in the Group's consolidated statement of financial position as "amounts due from/to customers for contract work" as appropriate and were included in "trade and other receivables and prepayments" and "trade and other payables and accruals" respectively. These balances are presented under HKFRS 15 as "contract assets" and "contract liabilities", respectively.

To reflect these changes in presentation, the Group has made the following adjustments at 1 January 2018, as a result of the adoption of HKFRS 15:-

a. "Amounts due from customers for contract work" amounting to HK$7,505,000, which were previously included in trade and other receivables and prepayments are now included under contract assets; and

b. "Amounts due to customers for contract work" and "receipt in advance" amounting to HK$936,000 and HK$2,640,000 respectively, which were previously included in trade and other payables and accruals are now included under contract liabilities.

3. ADOPTION OF NEW AND AMENDMENTS TO HKFRSs (CONTINUED)

(b) Application of HKFRS 15 Revenue from Contracts with Customers (continued)

(ii) Presentation of contract assets and contract liabilities (continued)

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Notes	Carrying amount previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	**Carrying amount under HKFRS 15 at 1 January 2018 HK$'000**
Current Assets				
Trade and other receivables and prepayments	*17*	79,702	(7,505)	**72,197**
Contract assets	*19*	–	7,505	**7,505**
Current Liabilities				
Trade and other payables and accruals	*23*	68,822	(3,576)	**65,246**
Contract liabilities	*24*	–	3,576	**3,576**

As mentioned above, the Group has adopted the cumulative effect transition method for transition to HKFRS 15. With such a method being adopted, the Group is required to make an additional disclosure that shows how the amount of each financial line item is affected in the current year by the application of HKFRS 15 as compared to those superseded standards including HKAS 11, HKAS 18 and the related interpretations. The tables below only show line items that are affected as at 31 December 2018:-

Impact on the consolidated statement of financial position

At 31 December 2018	*Notes*	**Amounts reported under HKFRS 15 HK$'000**	**Hypothetical amounts under HKAS 18 and HKAS 11 HK$'000**	**Difference HK$'000**
Current Assets				
Trade and other receivables and prepayments	*17*	87,505	96,697	(9,192)
Contract assets	*19*	9,192	—	9,192
Current Liabilities				
Trade and other payables and accruals	*23*	69,717	74,976	(5,259)
Contract liabilities	*24*	5,259	—	5,259

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the consolidated financial statements requires the directors of the Company to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The directors of the Company have considered the development, selection and disclosure of the Group's critical accounting judgements and estimates.

Judgements

In the process of applying the Group's accounting policies, the directors have made the following judgements which have the most significant effect on the amounts recognised in the consolidated financial statements:-

Principal versus agent consideration

The Group engages in provision of IT solutions services and IT maintenance and support services. IT solutions services represented IT infrastructure solutions services and IT development solutions services.

Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concluded that the Group acts as the principal for the transactions as it controls the specified good or service before it is transferred to the customer after taking into consideration indicators such as the Group is primarily responsible for fulfilling the promise to provide the services, the Group has price risk and discretion in establishing the price for the services as well as credit risk.

Revenue recognition from certain provision of IT solutions services which are treated as one performance obligation and over time

Revenue arising from IT infrastructure solutions services which involved configuration, customisation and integration of the hardware and software in accordance with clients' requirements and specifications. Revenue arising from IT development solutions services is involved tailor-made IT development solution services that cater for clients' own requirements. IT development solutions services usually entail system analysis and design, system development and technology consultancy depending on the project requirements which can customise clients' needs.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

The management assessed and concluded that there are significant integration activities for the above mentioned IT solutions services. Also, these solutions provided were customised for the Group's customers and they were highly interdependent with each other. Therefore, the above mentioned services are treated as one performance obligation. Under HKFRS 15, one of the criteria for revenue to be recognised overtime is when control of the asset is transferred over time when the Group's performance creates or enhances an asset (for example, work in progress) that the customer controls as the asset is created or enhanced. Based on the assessment by the directors of the Company, the customer controls the asset as it is created or enhanced. Accordingly, the revenue from the above mentioned IT solutions services is considered to be one performance obligation satisfied over time.

For the revenue from IT solutions services recognised over time, the Group recognised revenue by measuring the progress towards complete satisfaction of the performance obligation at the reporting date. The progress was measured by the percentage of completion, with reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs. When the outcome of a service contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable and no profit is recognised. Management reviewed and revised the estimates of contract revenue and contract costs for each contract as the contract progresses. Management used significant judgements and estimations to determine the progress towards complete satisfaction of the performance obligation at the reporting date.

In respect of transactions where the related consideration are 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.

Significant judgements are required in determining whether the above mentioned IT solutions services should be treated as one performance obligation and the progress towards complete satisfaction of the performance obligation at the reporting date. The recognition is sensitive to changes in total budget costs. For the year ended 31 December 2018, revenue from the related IT infrastructure solutions services of approximately HK$7.5 million and IT development solutions services of approximately HK$46.7 million were recognised over time. The information about the revenue from IT solutions over time is disclosed in Note 7.

Estimation uncertainties

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:-

Useful lives and depreciation of property, plant and equipment

The Group determines the estimated useful lives and related depreciation charges of its property, plant and equipment. These estimates are based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will increase the depreciation charge where useful lives are less than previously estimated lives, and will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold. Actual economic lives may differ from estimated useful lives. Periodic review could result in a change in depreciable lives and therefore depreciation charges in the future periods.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Estimation uncertainties (continued)

Allowance for expected credit losses for trade and unbilled receivables and contract assets

The Group uses a provision matrix to calculate expected credit losses for the trade and unbilled receivables and contract assets. The provision rates are based on internal credit ratings (taking into consideration of historical credit loss experience, average actual date of receipt, customers' background, listing status and size as groupings of various debtors). The provision matrix is based on the Group's historical default rates taking into consideration forward-looking information that is reasonable and supportable available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade and unbilled receivables and contract assets with significant balances and credit impaired are assessed for expected credit losses individually. The allowance for expected credit losses is sensitive to changes in estimates. The information about the expected credit losses and the Group's trade and unbilled receivables and contract assets are disclosed in Notes 17 and 19 respectively.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of the consolidated financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated:-

(a) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:-

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(a) Basis of consolidation (continued)

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interest having a deficit balance. All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

(b) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation at fair value or at the non-controlling interests' proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in the consolidated profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in the consolidated profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of HKAS 39 is measured at fair value with changes in fair value either recognised in consolidated profit or loss or as a change to other comprehensive income. If the contingent consideration is not within the scope of HKAS 39, it is measured in accordance with the appropriate HKFRS. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in the consolidated profit or loss as a bargain purchase gain.

After initial recognition, goodwill is carried at cost less accumulated impairment losses, if any, and is presented separately in the consolidated statement of financial position.

Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Impairment is determined by assessing the recoverable amount of the cash-generating units (group of cash-generating units) to which the goodwill relates. If the recoverable amount of the cash-generating units (group of cash-generating units) is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit (group of cash-generating units) and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is not reversed in subsequent periods.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost, less provisions for depreciation and impairment losses, if any.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the item has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the consolidated profit or loss in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in future economic benefits expected to be obtained from the use of the item, the expenditure is capitalised as an additional cost of the item. When an item of property, plant and equipment is sold, its cost and accumulated depreciation are removed from the financial statements and any gain or loss resulting from the disposal, being the difference between the net disposal proceeds and the carrying amount of the asset, is included in consolidated profit or loss.

Depreciation is provided on the straight-line method, based on the estimated economic useful life of the individual assets, as follows:-

Leasehold improvements	30% per annum or over lease term if shorter
Equipment	30% per annum
Furniture and fixtures	20% per annum
Motor vehicles	30% per annum

(d) Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for a non-financial asset is required (other than financial assets), the recoverable amount of the asset is estimated. An asset's recoverable amount is the higher of the value in use of the asset or cash-generating unit to which it belongs and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the consolidated profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(d) Impairment of non-financial assets (continued)

An assessment is made at the end of each reporting period as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the consolidated profit or loss in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

(e) Investments and other financial assets

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in consolidated profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 3(a)(i))

Financial assets that meet the following conditions are subsequently measured at amortised cost:–

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 3(a)(ii))

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including amount due from immediate holding company/non-controlling interests, deposits, trade receivables, unbilled receivables, contract assets and cash and cash equivalents). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables, unbilled receivables and contract assets without significant financing component. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings of historical credit loss experience, average actual date of receipt, customers' background, listing status, industry and size as groupings of various debtors.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (continued)

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:-

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor; and
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:-

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in consolidated profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss in consolidated profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Initial recognition and measurement (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified, at initial recognition, into financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments and available-for-sale financial investments. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of FVTPL.

All regular way purchases or sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(e) Investments and other financial assets (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:-

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period, subsequent to initial recognition, loans and receivables (including trade and unbilled receivables, deposits and cash and cash equivalents) are carried at amortised cost using the effective interest method, less any identified impairment losses. The loss arising from impairment is recognised in the consolidated profit or loss in finance costs.

(f) Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(f) Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in the consolidated profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(g) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:-

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in consolidated profit or loss.

(h) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax from the proceeds.

(i) Financial liabilities

Initial recognition and measurement

Financial liabilities of the Group include trade and other payables and accruals. All other financial liabilities are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, they are subsequently measured at amortised cost using the effective interest rate method.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(i) Financial liabilities (continued)

Derecognition of financial liabilities

When the contractual terms of financial liability are modified such that the revised terms would result in a substantial modification from the original terms after considering qualitative factors (e.g. modifications of convertible instruments such as extending the tenure, change in exercise price of the underlying options).

When the contractual terms of financial liability are modified such that the revised terms would result in a substantial modification from the original terms, after taking into account all relevant facts and circumstances including qualitative factors, such modification is accounted for as derecognition of the original financial liability and the recognition of new financial liability. The difference between the carrying amount of financial liability derecognised and the fair value of consideration paid or payable, including any liabilities assumed and derivative components recognised, is recognised in consolidated profit or loss.

(j) Dividends

Interim dividends are simultaneously proposed and declared, because the memorandum and articles of association of the Group entities grant the directors of the entities the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared by the directors of the Company.

(k) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if it is determined that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to consolidated profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in consolidated profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals, if any, are charged to consolidated profit or loss in the accounting period in which they are incurred.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(l) Foreign currency translation

These consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions are initially recorded using the functional currency rates ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the consolidated profit or loss.

(m) Revenue recognition (from 1 January 2018)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:-

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for a presented on a net basis.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (from 1 January 2018) (continued)

Details of the Group's revenue and other income recognition policies are as follows:-

i) Revenue from IT infrastructure solutions services

Certain revenue from IT infrastructure solutions services that require the Group to carry out installation, testing and integration works is recognised over time using the input method by reference to the progress towards complete satisfaction of the relevant performance obligation, as the Group's performance creates and enhances an asset that the customer controls as the Group performs the services at its customers' premises. However, revenue arising from contracts for IT infrastructure solutions which involves just sales of hardwares and/or softwares are recognised at a point in time. Under the transfer-of-control approach in HKFRS 15, revenue from these types of services is recognised when the IT solutions are delivered and accepted by the customers, which is a point in time when customers have the ability to direct the use of the IT solutions and obtain substantially all of the remaining benefits of the IT solutions.

ii) Revenue from IT development solutions services

Revenue from IT development solutions services is recognised over time using the input method by reference to the progress towards complete satisfaction of the relevant performance obligation, as the Group's performance creates and enhances an asset that the customer controls as the Group performs the services at its customers' premises.

iii) Revenue from IT maintenance and support services

Revenue from IT maintenance and support services is recognised over time on a straight-line basis as the customers simultaneously receive and consume the benefits provided by the Group when the Group renders the service.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Incremental costs of obtaining a contract

Incremental costs of obtaining a contract are those costs that the Group incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained.

The Group applies the practical expedient of expensing incremental costs to obtain contract if these costs would otherwise have been fully amortised to consolidated profit or loss within one year.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(m) Revenue recognition (from 1 January 2018) (continued)

Principal versus agent

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party.

In this case, the Group control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as a principal, it recognises revenue on a gross basis.

(n) Revenue recognition (prior 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, as follows:-

Revenue from contracts for certain IT solutions is recognised using the percentage of completion, measured by reference to the proportion that contract costs incurred for work performed to date bear to the estimated total contract costs, adjusted for the effects of cost incurred that do not reflect the work performed by the Group. When the outcome of a contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss shall be recognised as an expense immediately. 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, which is the time when the IT solutions are delivered and accepted by the customers.

Revenue from IT maintenance and support services is recognised when the services are rendered.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(o) Borrowing costs

All borrowing costs are charged to the consolidated profit or loss in the period in which they are incurred.

(p) Income tax

Income tax represents the sum of current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside consolidated profit or loss, either in consolidated other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the company operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:-

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:-

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(p) Income tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax is calculated, without discounting, at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(q) Other employee benefits

(i) Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for all of its employees in Hong Kong. Contributions are made based on a percentage of the employees' basic salaries and are charged to the consolidated profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Schemes except for the Group's employer voluntary contributions forfeited when the employees leave employment prior to fully vesting in such contributions, which can be used to reduce the amount of future employer contributions or to offset against future administration expenses or to refund to the Group, in accordance with the rules of the MPF Schemes.

(ii) Employee long service payment

Under the Hong Kong Employment Ordinance, the Group is required to make long service payments to its employees upon the termination of their employment or retirement on ground of old age when the employee fulfils certain conditions and the termination meets the required circumstances. Further, where accrued benefits (excluding any part attributable to the employee's contributions) have been paid to the employee, or is being held in a mandatory provident fund scheme by the employee, which is the case for most of the eligible employees of the Group, the long service payment is offset against the aforementioned amount of benefits to the extent that they relate to the employee's years of service for which the long service payment is payable.

The Group makes its estimates of its obligations to make long service payments to its employees in the event of termination of their employment or retirement. The Group's obligations to make such long service payments are recognised in the consolidated financial statements as long service payment liabilities at the present value (where the effect of discounting is material) of the long service payment obligations, which are estimated after deducting the entitlements accrued under the Group's defined contribution retirement scheme that are attributable to contributions made by the Group. Service cost, net interest on the long service payment liabilities (where discounting to present value is adopted because the effect of discounting is material) and remeasurements of the long service payment liabilities are recognised in consolidated profit or loss.

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

(s) Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in consolidated profit or loss.

(t) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:-

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Group's parent;

or

(b) An entity is related to the Group if any of the following conditions applies:-

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

5. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(t) Related parties (continued)

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purpose of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of services, the nature of production processes, the type or class of customers, the methods used to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

6. SEGMENT INFORMATION

The Group manages its businesses by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

– IT solutions services

(i) IT infrastructure solutions services: this segment earns revenue in relation to analyses of customers' existing IT infrastructure, procurement of hardware and/or software, installation and testing and integration services.

(ii) IT development solutions services: this segment earns revenue from designing of IT development solutions to cater to customers' special requirements which involves system analysis and design, software development and technology consultancy.

– IT maintenance and support services: this segment represents ongoing IT maintenance and support services to systems developed by the Group and maintenance and support services on hardware and software purchased or developed from third party suppliers.

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases:-

Revenue and expenses are allocated to the reportable segments with reference to revenue generated by those segments and the expenses incurred by those segments. The measure used for reporting segment profit is gross profit. No inter-segment sales have occurred during the year. The Group's other income and expense items, such as general and administrative expenses, and assets and liabilities are not measured under individual segments. Accordingly, neither information on segment assets and liabilities nor information concerning capital expenditure, depreciation and amortisation, interest income and interest expenses is presented.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2018 is set out below.

	Year ended 31 December 2018			
	IT solutions services			
	IT infrastructure solutions services HK$'000	IT development solutions services HK$'000	IT maintenance and support services HK$'000	Total HK$'000
Reportable segment revenue	125,325	46,653	21,540	193,518
Reportable segment cost of sales	(103,106)	(34,124)	(13,415)	(150,645)
Reportable segment gross profit	22,219	12,529	8,125	42,873
Segment revenue	125,325	46,653	21,540	193,518
Segment result	22,219	12,529	8,125	42,873
Reconciliation:-				
Corporate and unallocated expenses, net				(50,066)
Loss before tax				(7,193)
Income tax				(1,829)
Loss for the year				(9,022)

6. SEGMENT INFORMATION (CONTINUED)

(a) Segment revenue and results (continued)

	Year ended 31 December 2017			
	IT solutions services			
	IT infrastructure solutions services HK$'000	IT development solutions services HK$'000	IT maintenance and support services HK$'000	Total HK$'000
Reportable segment revenue	121,927	36,197	22,846	180,970
Reportable segment cost of sales	(102,678)	(26,616)	(14,137)	(143,431)
Reportable segment gross profit	19,249	9,581	8,709	37,539
Segment revenue	121,927	36,197	22,846	180,970
Segment result	19,249	9,581	8,709	37,539
Reconciliation:-				
Corporate and unallocated expenses, net				(29,485)
Profit before tax				8,054
Income tax				(2,069)
Profit for the year				5,985

(b) Geographic information

The following table sets out information about the geographical location of the Group's revenue from external customers. The geographical location of customers is based on the location at which the services were provided or the goods delivered.

The geographical information of the Group's revenue from external customers for the year ended 31 December 2018 is set out below.

	2018 HK$'000	2017 HK$'000
Hong Kong	**192,166**	177,566
Macau	**1,352**	3,404
	193,518	180,970

6. SEGMENT INFORMATION (CONTINUED)

(b) Geographic information (continued)

The geographical information of the Group's non-current assets as at 31 December 2018 is set out below.

	2018 HK$'000	2017 HK$'000
Hong Kong	**2,577**	962
Macau	**–**	–
	2,577	962

(c) Information about major customers

During the year ended 31 December 2018, there is no customer located in Hong Kong and Macau accounted for greater than 10% of the Group's total revenue:-

	2018 HK$'000	2017 HK$'000
Customer A[a]	**–**	21,094

Note:

a. Customer A did not contribute greater than 10% of the Group's total revenue for the year ended 31 December 2018.

7. REVENUE

(a) Disaggregation of revenue

	2018 HK$'000	2017 HK$'000
Revenue from contract with customers within the scope of HKFRS 15, types of goods or services		
IT solutions services		
IT infrastructure solutions services	**125,325**	121,927
IT development solutions services	**46,653**	36,197
IT maintenance and support services	**21,540**	22,846
	193,518	180,970

7. REVENUE (CONTINUED)

(a) Disaggregation of revenue (continued)

Revenue from contract with customers within the scope of HKFRS 15 by timing of revenue recognition:-

	IT solutions services							
	IT infrastructure solutions services		IT development solutions services		IT maintenance and support services		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
A point in time	**117,798**	111,049	**–**	–	**–**	–	**117,798**	111,049
Over time	**7,527**	10,878	**46,653**	36,197	**21,540**	22,846	**75,720**	69,921
	125,325	121,927	**46,653**	36,197	**21,540**	22,846	**193,518**	180,970

(b) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

As at 31 December 2018, HK$40,197,000 is the aggregated amount of the transaction price allocated to the remaining performance obligations that are unsatisfied as of the end of the reporting period, based on the contracts entered into with customers. The Group will recognise the expected revenue in future when or as a performance obligation is satisfied, which is expected to occur over the next 12 to 24 months. For contracts for IT maintenance and support services, since they are expected to occur within 12 months, the transaction price of allocated to these unsatisfied contracts is not disclosed as permitted under HKFRS 15.

8. OTHER INCOME AND GAINS

	2018	2017
	HK$'000	HK$'000
Bank interest income	**26**	2
Foreign exchange gains, net	**17**	–
Sundry income	**22**	–*
	65	2

* *Less than HK$1,000.*

9. FINANCE COSTS

An analysis of finance costs is as follows:-

	2018 HK$'000	2017 HK$'000
Other bank charges	–*	6
	–*	6

* *Less than HK$1,000.*

10. (LOSS)/PROFIT BEFORE TAX

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

	2018 HK$'000	2017 HK$'000
Auditor's remuneration		
– Audit services	268	230
– Non-audit services**	304	173
Cost of hardware and software recognised as expenses	102,258	102,748
Cost of IT solutions services*	34,572	27,848
Cost of IT maintenance and support services*	13,399	13,476
Depreciation of property, plant and equipment *(Note 16)*	489	341
Loss on write-off of property, plant and equipment	76	–
Allowance for expected credit losses *(Note 30(a)(ii))*	8,425	–
Foreign exchange differences, net	(17)	14
Minimum lease payments under operating lease		
– office premises	2,012	1,401
– director's quarter	540	348
Provision/(reversal) for onerous contracts#	416	(641)
Retirement fund scheme contributions (included in staff cost below)	1,247	1,226
Employee benefit expense (excluding compensation of key management personnel *(Note 11)*)		
– Wages and salaries (including retirement fund contributions)	29,645	26,222

* Included in cost of IT solution services and cost of IT maintenance and support services are subcontracting costs amounted to HK$36,235,000 for the year (2017: HK$29,239,000).

\# Included in cost of sales. When it is probable that the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it, provision for onerous contracts is recognised immediately. The directors of the Company reassessed the sufficiency of the provision at the end of the reporting period.

** Non-audit services represent (i) the services provided by the Company's auditor for acting as the reporting accountants of the Company for the Listing and (ii) the agreed-upon procedures provided relating to interim results for the six months ended 30 June 2018 and third quarterly results for the nine months ended 30 September 2018.

Note: The Group had no forfeited voluntary contributions available to offset future employer contributions against the pension schemes at the year end.

11. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

Compensation of key management personnel of the Group during the year was as follows:-

	2018 **HK$'000**	2017 HK$'000
Short-term employee benefits	**5,487**	5,767
Post-employee benefits	**118**	126
Total compensation paid to key management personnel	**5,605**	5,893

The above compensation of key management personnel includes directors' remuneration for the year.

The following table sets out the remuneration received or receivable by the Company's directors:-

For the year ended 31 December 2018:-

	Directors' fee HK$'000	**Salaries, allowance and other benefits in kind HK$'000**	**Contribution to defined contribution plan HK$'000**	**Total HK$'000**
Executive directors				
Yu Pak Lun Larry (Chief executive officer)	**–**	**960**	**18**	**978**
Law Cheung Moon (Head of professional resources)	**–**	**672**	**18**	**690**
Leung Patrick Cheong Yu (Sales director)	**–**	**693**	**18**	**711**
Wong Chun Pan Dennis (Head of sales) *(Note (vi))*	**–**	**740**	**14**	**754**
Wong Tsun Ho Ian (Head of enterprise services)	**–**	**679**	**18**	**697**
Independent non-executive directors				
Cheung Wah Kit Jason *(Note (v))*	**28**	**–**	**–**	**28**
Yeung Wai Keung *(Note (v))*	**28**	**–**	**–**	**28**
Lam Yau Hin *(Note (v))*	**28**	**–**	**–**	**28**
	84	**3,744**	**86**	**3,914**

11. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION (CONTINUED)

For the year ended 31 December 2017:-

	Directors' fee HK$'000	Salaries, allowance and other benefits in kind HK$'000	Contribution to defined contribution plan HK$'000	Total HK$'000
Executive directors				
Yu Pak Lun Larry (Chief executive officer)	–	1,030	18	1,048
Law Cheung Moon (Head of professional resources) *(Note (iv))*	–	616	18	634
Leung Patrick Cheong Yu (Sales director) *(Note (iv))*	–	698	18	716
Wong Chun Pan Dennis (Head of sales) *(Note (iv))*	–	998	18	1,016
Wong Tsun Ho Ian (Head of enterprise services) *(Note (iv))*	–	645	18	663
Independent non-executive directors				
Cheung Wah Kit Jason	–	–	–	–
Yeung Wai Keung	–	–	–	–
Lam Yau Hin	–	–	–	–
	–	3,987	90	4,077

Notes:-

(i) No director received any emoluments from the Group as an inducement to join or upon joining the Group or as compensation for loss of office during the year. No director waived or agreed to waive any emoluments during the year.

(ii) No share options have been granted, exercised or cancelled, or agreed to be granted during the year.

(iii) Salaries, allowance and benefits in kind paid to or for the executive directors are generally emoluments paid or payable in respect of those persons' other services in connection with the management of the affairs of the Company and its subsidiaries.

(iv) Mr. Law Cheung Moon, Mr. Leung Patrick Cheong Yu, Mr. Wong Chun Pan Dennis and Mr. Wong Tsun Ho Ian were appointed as executive directors on 26 May 2017.

(v) Mr. Cheung Wah Kit Jason, Mr. Yeung Wai Keung and Mr. Lam Yau Hin were appointed as independent non-executive directors on 22 June 2018.

(vi) Mr. Wong Chun Pan Dennis was resigned as an executive director on 1 October 2018.

(vii) Ms. Lam Shun Ka (formerly known as Lam Yuk Shan) is appointed as the Company's independent non-executive director on 7 March 2019.

12. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Out of the five individuals with the highest emoluments, two for the year ended 31 December 2018 (2017: two), are directors whose emoluments are disclosed in Note 11 and their emoluments fell within the salary band of Nil to HK$1,000,000. The emoluments of the remaining two individuals (2017: two), whose emoluments fell within the salary band of Nil to HK$1,000,000, and the remaining one individual, whose emoluments fell within the salary band of HK$1,000,001 to HK$1,500,000, for the year ended 31 December 2018 (2017: one individual whose emoluments fell within the salary band of HK$1,500,001 to HK$2,000,000), are as follows:-

	2018 **HK$'000**	2017 HK$'000
Short-term employee benefits	**2,742**	3,517
Post-employee benefits	**54**	54
Total	**2,796**	3,571

13. INCOME TAX

Provision for Hong Kong profits tax has been made at the rate of 16.5% on the estimated assessable profits arising in Hong Kong during the year.

Details of income tax are as follows:-

	2018 **HK$'000**	2017 HK$'000
Current tax		
– provision for the year	**1,863**	2,069
– prior year overprovision	**(34)**	–
	1,829	2,069

13. INCOME TAX (CONTINUED)

A reconciliation of the tax expense applicable to (loss)/profit before tax at the statutory rate for the jurisdiction in which the Company and the subsidiaries are domiciled to the tax expense at the effective tax rate is as follows:-

	2018 **HK$'000**	2017 HK$'000
(Loss)/profit before tax	**(7,193)**	8,054
Tax at applicable rate**	**(1,108)**	1,328
Income not subject to tax	**(4)**	–
Tax effect of temporary differences not recognised	**(25)**	23
Tax effect of expenses that are not deductible in determining taxable profit	**2,769**	718
Tax effect of tax losses not recognised	**231**	–
Prior year overprovision	**(34)**	–
	1,829	2,069

** On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Accordingly, starting from the current year, the Hong Kong profits tax is calculated at 8.25% on the first HK$2 million of the estimated assessable profits and at 16.5% on the estimated assessable profits above HK$2 million for the qualifying group entity.

14. DIVIDEND

During the year ended 31 December 2017, Kinetix Systems Limited declared and paid dividends of HK$6,000,000 to its members. No dividends have been declared or paid by the Company during the year.

15. (LOSS)/EARNINGS PER SHARE

	2018 **HK$'000**	2017 HK$'000
(Loss)/profit and total comprehensive (loss)/income for the year attributable to the owners of the Company	**(9,008)**	5,985
Weighted average number of ordinary shares for the purpose of calculating basic (loss)/earnings per share (in thousand)	**692,603**	600,000

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

No adjustment has been made to the basic (loss)/earnings per share amounts presented for the years ended 31 December 2018 and 2017, respectively as the Group had no potentially dilutive ordinary shares in issue for the relevant years ended. The basic (loss)/earnings per share equals to the diluted (loss)/earnings per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements HK$'000	Furniture and fixtures HK$'000	Equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost					
1 January 2017	84	82	1,176	234	1,576
Additions	150	–	181	–	331
Disposals	–	–	–	(234)	(234)
31 December 2017	234	82	1,357	–	1,673
Additions	1,459	19	792	–	2,270
Written off	(234)	(44)	(114)	–	(392)
31 December 2018	1,459	57	2,035	–	3,551
Accumulated depreciation					
1 January 2017	19	42	899	234	1,194
Depreciation provided for the year	145	15	181	–	341
Disposals	–	–	–	(234)	(234)
31 December 2017	164	57	1,080	–	1,301
Depreciation provided for the year	207	10	272	–	489
Written off	(169)	(33)	(114)	–	(316)
31 December 2018	202	34	1,238	–	1,474
Net book value					
31 December 2018	**1,257**	**23**	**797**	**–**	**2,077**
31 December 2017	70	25	277	–	372

17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

	Notes	**2018 HK$'000**	2017 HK$'000
Trade receivables	*(a)*	**38,904**	22,553
Unbilled receivables	*(b)*	**42,731**	41,776
Amount due from customers for contract work	*(c)*	**–**	7,505
Deposits	*(d)*	**3,889**	4,040
Prepayments		**1,520**	3,094
Payment in advance		**961**	1,324
		88,005	80,292

	2018 HK$'000	2017 HK$'000
Analysed as:-		
Non-current portion	**500**	590
Current portion	**87,505**	79,702
	88,005	80,292

(a) Trade receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**46,842**	22,553
Less: allowance for expected credit losses	**(7,938)**	–
	38,904	22,553

The Group did not hold any collateral as a security of other credit enhancements over the impaired trade receivables.

The following is an aging analysis of trade receivables net of allowance for expected credit losses from third parties presented based on the invoice date at the end of the reporting period:-

	2018 HK$'000	2017 HK$'000
0 – 30 days	**27,774**	20,327
31 – 90 days	**10,174**	1,797
91 – 180 days	**880**	368
Over 180 days	**76**	61
	38,904	22,553

17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(a) Trade receivables (continued)

The following is an aging analysis of trade receivables net of allowance for expected credit losses from third parties presented based on the due date at the end of the reporting period:-

	2018 **HK$'000**	2017 HK$'000
Neither past due nor impaired	**23,299**	20,458
Less than 1 month past due	**12,713**	1,576
1 to 3 months past due	**2,541**	458
3 to 6 months past due	**275**	–
More than 6 months past due	**76**	61
	38,904	22,553

Details of impairment assessment of trade receivables for the year ended 31 December 2018 are set out in Note 30(a)(ii).

As at 31 December 2017, receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default. As at 31 December 2017, receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(b) Unbilled receivables

	2018 **HK$'000**	2017 HK$'000
Unbilled receivables	**43,207**	41,776
Less: allowance for expected credit losses	**(476)**	–
	42,731	41,776

The unbilled receivables were mainly attributable to fully completed IT solutions services and maintenance and support services which will be billed within the next twelve months from the end of the reporting period in accordance with the payment terms stipulated in the relevant contracts, quotation, purchase orders and service agreements entered into between the Group and the customers. For these completed services, the revenue has been fully recognised. Since the Group has unconditional right to consideration but only the passage of time is required before payment of that consideration is due, the Group classified these as unbilled receivables. Details of impairment assessment of unbilled receivables for the year ended 31 December 2018 are set out in Note 30(a)(ii). As at 31 December 2017, these receivables were neither past due nor impaired and relate to a number of customers for whom there was no recent history of default.

17. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS (CONTINUED)

(c) Amount due from/to customers for contract work

Upon the adoption of HKFRS 15, amount due from/to customers for contract work, for which the Group's entitlement to the consideration was conditional on achieving certain stage of completion, were reclassified to "contract assets" and "contract liabilities", and disclosed in Notes 19 and 24, respectively (see also Note 3(b)(ii)).

(d) Margin deposits

As at 31 December 2018, included in deposits are margin deposits of HK$1,072,000 (2017: HK$820,000), which were pledged to a bank to secure the bank to provide performance guarantee to the Group for the due performance and observance of the Group's obligations under the contacts entered into between the Group and their customers.

18. DUE FROM IMMEDIATE HOLDING COMPANY/NON-CONTROLLING INTERESTS

Amounts due from immediate holding company and non-controlling interests are non-trade in nature, unsecured, interest-free and are repayable on demand.

19. CONTRACT ASSETS

	31 December 2018 HK$'000	**1 January 2018 HK$'000**	31 December 2017 HK$'000
Arising from IT solutions services			
– IT infrastructure solutions services	**2**	**532**	–
– IT development solutions services	**9,201**	**6,973**	–
Less: allowance for expected credit losses	**(11)**	**–**	–
	9,192	**7,505**	–

Upon the adoption of HKFRS 15, opening adjustments were made as at 1 January 2018 to reclassify contract assets arising from IT solutions services. This has resulted in an increase in contract assets and a decrease in due from customers for contract work as at that date (see Note 3(b)(ii) and Note 17(c)).

The consideration is payable on the earlier of the acceptance of the services by customers and notice from the customer to cancel the order. If the customer cancels the order then the Group is immediately entitled to receive payment for work done to date.

There is no amount of revenue recognised during the year from performance obligations satisfied (or partially satisfied) in previous periods.

19. CONTRACT ASSETS (CONTINUED)

Upon the adoption of HKFRS 9, no opening adjustments were made as at 1 January 2018 to recognise additional expected credit losses (ECLs) on contract assets. Details of the impairment assessment are set out in Note 30 (a)(ii).

20. CASH AND CASH EQUIVALENTS

	2018 **HK$'000**	2017 HK$'000
Savings accounts	**63,062**	33,814
Current accounts	**351**	861
Cash on hand	**1**	1
	63,414	34,676

Cash at banks earns interest at floating rates based on daily bank deposit rates.

21. 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 *(Note)*	9,962,000,000	99,620
At 31 December 2018	10,000,000,000	100,000

	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	2,000
800,000,000 ordinary shares as at 31 December 2018	8,000

* *Less than HK$1,000.*

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

21. SHARE CAPITAL (CONTINUED)

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. Out of the total proceeds from issuance of shares upon share offer of HK$60,000,000, an amount of HK$2,000,000, representing the par value of the shares of the Company, were credited to the Company's share capital. The remaining amount of the proceeds of HK$58,000,000, before listing expenses incurred in connection with issue of new shares and capitalisation issue of shares, were credited to the share premium account.

22. RESERVES

Details of the movements on the Group's reserves are as set out in the consolidated statement of changes in equity.

(a) Share premium

Share premium account of the Group represents the excess of the proceeds received over the nominal value of the Company's shares issued.

(b) Other reserve

Other reserve represents the difference between issued share capital of the Company issued during the Reorganisation, and the aggregate value of the respective share capital/paid-in capital of the companies now comprising the Group and the amount of advances from ultimate holding company capitalised.

23. TRADE AND OTHER PAYABLES AND ACCRUALS

	Notes	**2018** **HK$'000**	2017 HK$'000
Trade payables	*(a)*	**29,073**	15,028
Accrued purchases and service costs	*(b)*	**36,250**	49,162
Amount due to customers for contract work	*17(c)*	**–**	936
Other payables and accruals		**4,394**	1,056
Receipt in advance		**–**	2,640
		69,717	68,822

23. TRADE AND OTHER PAYABLES AND ACCRUALS (CONTINUED)

(a) Trade payables principally comprise amounts outstanding for purchases and service costs and have an average credit term of 30 days.

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

	2018 HK$'000	2017 HK$'000
0 – 30 days	**18,884**	11,688
31 – 60 days	**3,754**	2,954
61 – 90 days	**45**	67
Over 90 days	**6,390**	319
	29,073	15,028

(b) Accrued purchases and service costs

The accrued purchases and service costs were mainly attributable to services carried out by subcontractors/goods provided by suppliers which will be billed within the next twelve months from the end of the reporting dates in accordance with the payment terms stipulated in the relevant contracts, quotation, purchase orders and service agreements entered into between the Group and the suppliers or subcontractors.

24. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018 HK$'000	31 December 2017 HK$'000
Arising from IT solutions services			
– IT infrastructure solutions services	**856**	**907**	–
– IT development solutions services	**1,812**	**236**	–
Arising from IT maintenance and support services	**2,591**	**2,433**	–
	5,259	**3,576**	–

When the Group receives a deposit before the IT solutions services and IT maintenance and support services commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit.

24. CONTRACT LIABILITIES (CONTINUED)

The following table shows movements in contract liabilities:-

	2018
	HK$'000
1 January	**3,576**
Revenue recognised that was included in the contract liability balance at the beginning of the year	**(3,070)**
Increase in contract liabilities as a result of receiving sales deposits	**4,753**
31 December 2018	**5,259**

25. CONTINGENT LIABILITIES

As at 31 December 2018, the margin deposits of the Group amounted to HK$1,072,000 (2017: HK$820,000). These were pledged to a bank to secure the bank to provide guarantee to the Group in favour of the Group's customers as security for the due performance and observance of the Group's obligations under the contracts entered into between the Group and their customers. If the Group fails to provide satisfactory performance to their customers to whom performance guarantee have been given, such customers may demand the bank to pay them the sum or sum stipulated in such demand. The margin deposits will be forfeited or deducted to compensate the bank accordingly. The margin deposits will be released upon completion of the contract works.

26. 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:-

	2018	2017
	HK$'000	HK$'000
Within one year	**2,173**	2,549
In the second and fifth years, inclusive	**3,626**	5,799
	5,799	8,348

27. RELATED PARTY TRANSACTIONS

(a) No transactions with related parties were made for the years ended 31 December 2018 and 31 December 2017, respectively.

(b) Details of compensation of key management personnel of the Group are included in Note 11.

28. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:-

	2018 HK$'000	2017 HK$'000
Financial assets		
– Amortised cost	**148,969**	–
– Loans and receivables	**–**	103,045
Financial liabilities		
Amortised cost	**33,467**	16,084

29. FINANCIAL INFORMATION OF THE COMPANY

	Notes	2018 HK$'000	2017 HK$'000
Assets			
Non-current assets			
Investment in a subsidiary		**36,763**	36,763
Current assets			
Due from immediate holding company		**–***	–*
Due from a subsidiary		**6,375**	–
Prepayments		**297**	–
Cash and cash equivalents		**43,361**	–
		50,033	–*
Total assets		**86,796**	36,763
Equity and liabilities			
Capital and reserves			
Share capital	*21*	**8,000**	–*
Reserves	*(a)*	**78,522**	36,687
Total equity		**86,522**	36,687
Current liabilities			
Other payables and accruals		**274**	–
Due to subsidiaries		**–***	76
Total liabilities		**274**	76
Total equity and liabilities		**86,796**	36,763

* *Less than HK$1,000.*

29. FINANCIAL INFORMATION OF THE COMPANY (CONTINUED)

(a) Reserves

	Share premium *(Note 22(a))* HK$'000	Other reserve *(Note 22(b))* HK$'000	Accumulated losses HK$'000	Total HK$'000
1 January 2017	–	36,763	(42)	36,721
Loss for the year	–	–	(34)	(34)
Other comprehensive income for the year	–	–	–	–
Total comprehensive loss for the year	–	–	(34)	(34)
31 December 2017 and 1 January 2018	–	36,763	(76)	36,687
Loss for the year	–	–	(1,364)	(1,364)
Other comprehensive income for the year	–	–	–	–
Total comprehensive loss for the year	–	–	(1,364)	(1,364)
Transactions with owners of the Company:-				
Issue of shares upon share offer *(Note 21)*	58,000	–	–	58,000
Capitalisation issue of shares *(Note 21)*	(6,000)	–	–	(6,000)
Listing expenses incurred in connection with issue of new shares	(8,801)	–	–	(8,801)
	43,199	–	–	43,199
31 December 2018	43,199	36,763	(1,440)	78,522

Note: Other reserve represents member's deemed contribution arising from reorganisation.

30. FINANCIAL RISK MANAGEMENT

(a) Financial risk management

The Group is exposed to a variety of risks including foreign currency risk, credit risk, liquidity risk and interest rate risk arising in the normal course of the business activities.

The Group does not have any written risk management policies and guidelines. The directors of the Company monitor the financial risk management of the Group and take such measures as considered necessary from time to time to minimise such financial risks.

(i) Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Group is exposed to foreign currency risk related primarily to income and costs that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily United States dollars ("US$"). The Group does not hold or issue any derivative financial instruments for trading purposes or to hedge against fluctuations in foreign exchange rates. The Group mitigates this risk by conducting the sales and purchases transactions in the same currency, whenever possible.

In the opinion of the directors of the Company, the rate of exchange of the US$ to the HK$ is reasonably stable under the linked exchange rate system and, accordingly, the Group does not have any significant foreign exchange risk arising from US$. As a result, no sensitivity analysis is performed.

(ii) Credit risk and impairment assessment

As at 31 December 2018, the financial assets whose carrying amounts best represent the maximum exposure to credit risk. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

Trade receivables, unbilled receivables and contract assets arising from contracts with customers

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits and credit approvals. Monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually or based on provision matrix. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Due from immediate holding company/non-controlling interests

In order to minimise the credit risk from due from immediate holding company/non-controlling interests, the management of the Group has obtained financial information from immediate holding company and non-controlling interests to assess and monitor the credit risk at the end of the reporting period. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

Bank balances

The credit risks on bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk. Trade receivables consist of a large number of customers, spread across diverse industries.

The Group's internal credit risk grading assessment comprises the following categories:-

Types of customer	Internal credit rating	Description	Trade receivables/ unbilled receivables/ contract assets	Other financial assets/other items
Public sector	Low risk	The counterparty has a low risk of default	Lifetime ECL – provision matrix	12-month ECL
Private sector – listed companies – private companies	Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL – provision matrix	12-month ECL
Private sector – listed companies – private companies	Loss	There is evidence indicating the asset is credit impaired	Lifetime ECL – credit impaired	Lifetime ECL – credit impaired
Private sector – listed companies – private companies	Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery	Amount is written off	Amount is written off

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

The tables below detail the credit risk exposures of the Group's financial assets and contract assets, which are subject to ECL assessment:-

2018	Notes	Internal credit rating	12-month or lifetime ECL	Gross carrying amount	
				HK$'000	HK$'000
Financial assets at amortised costs					
Due from immediate holding company	18	*(Note 1)*	12-month ECL		–*
Due from non-controlling interests	18	*(Note 1)*	12-month ECL		31
Trade receivables	17	*(Note 2)*	Lifetime ECL (provision matrix)	38,963	–
			Lifetime ECL (credit impaired)	7,879	46,842
Unbilled receivables	17	*(Note 2)*	Lifetime ECL (provision matrix)		43,207
Deposits	17	*(Note 1)*	12-month ECL		3,889
Cash and cash equivalents	20	N/A	12-month ECL		63,414
Contract assets	19	*(Note 2)*	Lifetime ECL (provision matrix)		9,203

* *Less than HK$1,000.*

Notes:-

1. For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

	Past due	Not past due/ no fixed repayment terms	Total
	HK$'000	HK$'000	HK$'000
Due from immediate holding company	–	–*	–*
Due from non-controlling interests	–	31	31
Deposits	–	3,889	3,889

* *Less than HK$1,000.*

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(ii) Credit risk and impairment assessment (continued)

Notes:- (continued)

2. For trade receivables, unbilled receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL.

As part of the Group's credit risk management, the Group uses internal credit rating to assess the impairment for its customers in relation to its operation because these customers consist of a large number of small customers with common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The following table provides information about the exposure to credit risk for trade receivables, unbilled receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Credit-impaired debtor with gross carrying amounts of HK$7,879,000 as at 31 December 2018 is assessed individually.

Trade receivables, unbilled receivables and contract assets as at 31 December 2018

Internal credit rating	**Average loss rate**	**Gross**	**Loss allowance**
		HK$'000	HK$'000
Public sector (low risk)	0%	29,073	–
Private sector (watch list)			
– listed companies	0.2%	32,512	50
– private companies	1.7%	29,788	496
Private sector (loss) – private company*	100%	7,879	7,879
		99,252	8,425

The estimated loss rates are estimated based on internal credit ratings (taking into consideration of historical credit loss experience, average actual date of receipt, customers' background, listing status and size as groupings of various debtors) and are adjusted for forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

* The Group has made 100% allowance for expected credit losses in respect of this credit-impaired debtor.

3. Total allowance for expected credit losses

	HK$'000
At 1 January 2018	—
Add: Impairment loss	
— Trade receivables *(Note 3.1)*	**7,938**
— Unbilled receivables *(Note 3.2)*	**476**
— Contract assets *(Note 3.3)*	**11**
At 31 December 2018	**8,425**

During the year ended 31 December 2018, the Group provided HK$59,000, HK$476,000 and HK$11,000 impairment allowance for trade receivables, unbilled receivables and contract assets, respectively, based on the lifetime provision matrix. Impairment allowance of HK$7,879,000 was made on credit-impaired debtor.

30. FINANCIAL RISK MANAGEMENT (CONTINUED)

(a) Financial risk management (continued)

(iii) Liquidity risk

Liquidity risk is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at close to its fair value.

Prudent liquidity risk management implies maintaining sufficient cash. The Group monitors and maintains a level of bank balances deemed adequate to finance the Group's operations.

All of the financial liabilities of the Group are repayable on demand or fall due within one year.

(iv) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As the Group has no other significant interest-bearing assets or liabilities, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

31. CAPITAL MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners of the Company through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital and reserves including retained profits.

The directors of the Company review the capital structure on a regular basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through new share issues and raise of new borrowings.

32. NEW AND REVISED HKFRSs NOT YET ADOPTED

The Group has not applied the following new and amendments to HKFRSs and interpretations, which have been issued but are not yet effective, in these consolidated financial statements:-

		Effective for annual reporting periods beginning on or after
HKFRS 16	Leases	1 January 2019
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Amendments to HKFRS 3	Definition of a Business	1 January 2020
Amendments to HKFRS 9	Prepayment Features with Negative Compensation	1 January 2019
Amendments to HKFRS 10 and HKAS 28 (2011)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined
Amendments to HKAS 1 and HKAS 8	Definition of Material	1 January 2020
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement	1 January 2019
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures	1 January 2019
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 — 2017 Cycle	1 January 2019

The directors of the Company anticipate that, except as described below, the application of other new and amendments HKFRSs will have no material impact on the results and the financial position of the Group.

32. NEW AND REVISED HKFRSs NOT YET ADOPTED (CONTINUED)

The Group has already commenced an assessment of the related impact of adopting the above new and revised HKFRSs. So far, it has concluded that the above new and revised HKFRSs will be adopted at the respective effective dates and the adoption of them is unlikely to have a significant impact on the consolidated financial statements of the Group except for the following:-

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 Leases and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sale and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$5,799,000 as disclosed in Note 26. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

32. NEW AND REVISED HKFRSs NOT YET ADOPTED (CONTINUED)

HKFRS 16 Leases (continued)

In addition, the Group currently considers refundable rental deposits paid of HK$590,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

33. PARTICULARS OF SUBSIDIARIES OF THE COMPANY

As at the date of this report, the Company has direct or indirect interests in the following subsidiaries, all of which are private companies with limited liability, the particulars of which are set out as follows:-

Name of the company	Place of incorporation/ establishment	Particulars of issued and fully paid-up share capital/ registered capital	Attributable equity interest		Principal activities
			2018	2017	
Directly held					
Kinetix Limited*	British Virgin Islands	US$2	**100%**	100%	Investment holding
Indirectly held					
Kinetix Systems Limited	Hong Kong	HK$10,000	**100%**	100%	IT solutions and IT maintenance and supporting services
Rise Talent Limited*	Hong Kong	HK$10,000	**100%**	100%	IT solutions and IT maintenance and supporting services
Kinetix Information Systems (Macao) Limited* *(Note (a))*	Macau	MOP100,000	**51%**	–	Dormant
D&C Consulting Company Ltd.* *(Note (b))*	Macau	MOP30,000	**51%**	–	Dormant

Note:-

(a) This subsidiary is newly acquired on 22 October 2018.

(b) This subsidiary is established on 24 November 2018.

* *Companies not audited by Moore Stephens CPA Limited or member firms of Moore Stephens International Limited.*

FINANCIAL SUMMARY

RESULTS

	For the year ended 31 December			
	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	**HK$'000**
Revenue	187,334	184,247	180,970	**193,518**
Profit/(loss) before tax	18,849	21,462	8,054	**(7,193)**
Income tax	(3,094)	(4,265)	(2,069)	**(1,829)**
Profit/(loss) for the year	15,755	17,197	5,985	**(9,022)**
Attributable to:–				
Owners of the Company	15,755	17,197	5,985	**(9,008)**
Non-controlling interests	—	—	—	**(14)**
	15,755	17,197	5,985	**(9,022)**

ASSETS AND LIABILITIES

	As at 31 December			
	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	**HK$'000**
Total assets	72,496	85,579	115,340	**162,719**
Total liabilities	(39,126)	(41,012)	(70,788)	**(75,944)**
	33,370	44,567	44,552	**86,775**
Equity attributable to owners of the Company	33,370	44,567	44,552	**86,743**
Non-controlling interests	—	—	—	**32**
	33,370	44,567	44,552	**86,775**