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KINETIX SYSTEMS HOLDINGS LIMITED

捷冠控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8606)

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

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

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

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

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board (the “**Board**”) of directors (the “**Directors**”) of Kinetix Systems Holdings Limited (the “**Company**”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 December 2018, together with the corresponding comparative figures of 2017. The information should be read in conjunction with the prospectus of the Company dated 30 June 2018 (the “**Prospectus**”). Capitalised terms used in this announcement shall have the same respective meanings as those defined in the Prospectus unless otherwise stated.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	5	193,518	180,970
Cost of sales		<u>(150,645)</u>	<u>(143,431)</u>
Gross profit		42,873	37,539
Other income and gains	6	65	2
Selling expenses		(5,446)	(4,242)
Allowance for expected credit losses	8	(8,425)	–
Administrative and general expenses		(26,429)	(20,932)
Listing expenses		(9,831)	(4,307)
Finance costs	7	–*	(6)
(Loss)/profit before tax	8	(7,193)	8,054
Income tax	10	(1,829)	<u>(2,069)</u>
(Loss)/profit for the year		<u>(9,022)</u>	<u>5,985</u>
Attributable to:-			
Owners of the Company		(9,008)	5,985
Non-controlling interests		(14)	–
(Loss)/profit for the year		<u>(9,022)</u>	<u>5,985</u>
		HK cents	HK cents
(Loss)/earnings per share	12		
– Basic and diluted		<u>(1.30)</u>	<u>1.00</u>

* Less than HK\$1,000.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Assets			
<i>Non-current assets</i>			
Property, plant and equipment		2,077	372
Deposits	13	500	590
		2,577	962
 <i>Current assets</i>			
Due from immediate holding company	14	—*	—*
Due from non-controlling interests	14	31	—
Trade and other receivables and prepayments	13	87,505	79,702
Contract assets		9,192	—
Cash and cash equivalents		63,414	34,676
		160,142	114,378
Total assets		162,719	115,340
 Equity and liabilities			
<i>Capital and reserves</i>			
Share capital	15	8,000	—*
Reserves		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
 <i>Current liabilities</i>			
Trade and other payables and accruals	16	69,717	68,822
Contract liabilities		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.*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company					Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000 (Note 15)	Share premium HK\$'000	Other reserve HK\$'000	Retained profits HK\$'000	Total 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 15)	2,000	58,000	—	—	60,000	—	60,000
Capitalisation issue of shares (Note 15)	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.

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, 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 certain new holding companies at the top of Kinetix Limited 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 and consolidated statement of changes in equity of the Group for the years ended 31 December 2018 and 2017 include the financial performance 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.

(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 (“**HKS**”). 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.

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.

(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

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. The Group did not designate or de-designate any financial asset at FVTPL at 1 January 2018.

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.

(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.

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 5, 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.

(i) Timing of revenue recognition

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/software and do not require the Group to carry out installation, testing and integration works.

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.

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/software 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 which the management assessed and concluded that there are significant integration activities, are recognised over time. Revenue arising from IT maintenance and support services is recognised over time. Also, in respect of transactions where the related consideration is concluded to be recognised as revenue over time, the Group has determined that an input method is an appropriate method to measure the Group's progress towards complete satisfaction of a performance obligation satisfied over time, which is based on costs incurred compared to total budgeted costs when applying HKFRS 15.

(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 advances received and the amount of retentions 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.

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.

	<i>Notes</i>	Carrying amount previously reported at 31 December 2017 <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Carrying amount under HKFRS 15 at 1 January 2018 <i>HK\$'000</i>
Current Assets				
Trade and other receivables and prepayments	13	79,702	(7,505)	72,197
Contract assets		–	7,505	7,505
Current Liabilities				
Trade and other payables and accruals	16	68,822	(3,576)	65,246
Contract liabilities		–	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:-

Impact on the consolidated statement of financial position

	<i>Notes</i>	Amounts reported under HKFRS 15 <i>HK\$'000</i>	Hypothetical amounts under HKAS 18 <i>HK\$'000</i>	Difference <i>HK\$'000</i>
Current Assets				
Trade and other receivables and prepayments	13	87,505	96,697	(9,192)
Contract assets		9,192	–	9,192
Current Liabilities				
Trade and other payables and accruals	16	69,717	74,976	(5,259)
Contract liabilities		5,259	–	5,259

4. 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.

(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 <i>HK\$'000</i>	IT development solutions services <i>HK\$'000</i>	IT maintenance and support services <i>HK\$'000</i>	Total <i>HK\$'000</i>
Reportable segment revenue	125,325	46,653	21,540	193,518
Reportable segment cost of sales	<u>(103,106)</u>	<u>(34,124)</u>	<u>(13,415)</u>	<u>(150,645)</u>
Reportable segment gross profit	<u>22,219</u>	<u>12,529</u>	<u>8,125</u>	<u>42,873</u>
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				<u>(50,066)</u>
Loss before tax				(7,193)
Income tax				<u>(1,829)</u>
Loss for the year				<u><u>(9,022)</u></u>

Year ended 31 December 2017

	IT solutions services			Total HK\$'000
	IT infrastructure solutions services HK\$'000	IT development solutions services HK\$'000	IT maintenance and support services 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	<u>19,249</u>	<u>9,581</u>	<u>8,709</u>	<u>37,539</u>
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				<u>(29,485)</u>
Profit before tax				8,054
Income tax				<u>(2,069)</u>
Profit for the year				<u>5,985</u>

(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	<u>1,352</u>	<u>3,404</u>
	<u>193,518</u>	<u>180,970</u>

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	<u>-</u>	<u>-</u>
	<u>2,577</u>	<u>962</u>

(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 <i>HK\$'000</i>
Customer A ^a	<u>–</u>	<u>21,094</u>

Note:

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

5. REVENUE

(a) **Disaggregation of revenue**

	2018 HK\$'000	2017 <i>HK\$'000</i>
<i>Revenue from contract with customers within the scope of HKFRS 15, types of goods or services</i>		
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
	<u>193,518</u>	<u>180,970</u>

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	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>	HK\$'000	<i>HK\$'000</i>
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
	<u>125,325</u>	<u>121,927</u>	<u>46,653</u>	<u>36,197</u>	<u>21,540</u>	<u>22,846</u>	<u>193,518</u>	<u>180,970</u>

(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 contract sum as stated on the Group's contracts signed. This amount represents revenue expected to be recognised in the future from contracts for IT solutions services entered into by the customers with the Group. The Group will recognise the expected revenue in future when or as the service is rendered or worked performed, 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 allocated to these unsatisfied contracts is not disclosed as permitted under HKFRS 15.

6. OTHER INCOME AND GAINS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Bank interest income	26	2
Foreign exchange gains, net	17	–
Sundry income	22	–*
	<u>65</u>	<u>2</u>

* *Less than HK\$1,000.*

7. FINANCE COSTS

An analysis of finance costs is as follows:-

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Other bank charges	–*	6
	<u>–*</u>	<u>6</u>

* *Less than HK\$1,000.*

8. (LOSS)/PROFIT BEFORE TAX

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
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	489	341
Loss on write-off of property, plant and equipment	76	–
Allowance for expected credit losses	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 contract#	416	(641)
Retirement fund scheme contributions (included in staff cost below)	1,247	1,226
Employee benefit expense (excluding compensation of key management personnel (<i>Note 9</i>))		
– Wages and salaries (including retirement fund contributions)	<u>29,645</u>	<u>26,222</u>

* 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 contracts 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.

9. COMPENSATION OF KEY MANAGEMENT PERSONNEL AND DIRECTORS' REMUNERATION

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Short-term employee benefits	5,487	5,767
Post-employee benefits	<u>118</u>	<u>126</u>
Total compensation paid to key management personnel	<u><u>5,605</u></u>	<u><u>5,893</u></u>

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

10. 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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax		
– provision for the year	1,863	2,069
– prior year overprovision	<u>(34)</u>	<u>–</u>
	<u><u>1,829</u></u>	<u><u>2,069</u></u>

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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss)/profit before tax	<u>(7,193)</u>	<u>8,054</u>
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	<u>(34)</u>	<u>–</u>
	<u>1,829</u>	<u>2,069</u>

** 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.

11. 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.

12. (LOSS)/EARNINGS PER SHARE

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

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.

13. TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

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

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

(a) Trade receivables

	2018 HK\$'000	2017 <i>HK\$'000</i>
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 <i>HK\$'000</i>
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

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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
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
	<u>38,904</u>	<u>22,553</u>

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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Unbilled receivables	43,207	41,776
Less: allowance for expected credit losses	(476)	–
	<u>42,731</u>	<u>41,776</u>

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 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 customers. For these completed services, the revenue has been fully recognised based on the contracted sum. Since the Group has unconditional right to consideration but only the passage of time is required, the Group classified these as unbilled receivables. 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.

(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".

(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.

14. 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.

15. 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 (<i>Note</i>)	9,962,000,000	99,620
	<hr/>	<hr/>
At 31 December 2018	<u>10,000,000,000</u>	<u>100,000</u>
		Share capital HK\$'000
Issued and fully paid:-		
100 ordinary shares as at 1 January 2017 and 31 December 2017		–*
Capitalisation issue of 599,999,900 shares on 16 July 2018		6,000
Issuance of 200,000,000 new shares on 16 July 2018		2,000
		<hr/>
800,000,000 ordinary shares as at 31 December 2018		<u>8,000</u>

* *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.

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.

16. TRADE AND OTHER PAYABLES AND ACCRUALS

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables	<i>(a)</i>	29,073	15,028
Accrued purchases and service costs	<i>(b)</i>	36,250	49,162
Amount due to customers for contract work	<i>13(c)</i>	–	936
Other payables and accruals		4,394	1,056
Receipt in advance		–	2,640
		69,717	68,822

- (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 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
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.

17. 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.

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 the year ended 31 December 2018 (“**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 recognized 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 Group's shares (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:-

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	–
	<u>34.10</u>	<u>0.43</u>	<u>0.06</u>
Total	<u>34.10</u>	<u>0.43</u>	<u>0.06</u>

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 announcement, 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.

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 the shareholders of the Company (the “**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, 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. 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 announcement.

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 17 to the consolidated financial statements.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed elsewhere in this announcement, 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 announcement.

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 GEM 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.

SCOPE OF WORK OF MOORE STEPHENS CPA LIMITED

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been agreed by the Group's auditors, Moore Stephens CPA Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Moore Stephens CPA Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Moore Stephens CPA Limited on the preliminary announcement.

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

Hong Kong, 22 March 2019

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

This announcement, for which the directors of the Company collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange for the purpose of giving information with regard to the Company. The directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this announcement misleading.

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