



**Ahsay Backup Software Development Company Limited**

**亞勢備份軟件開發有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 8290)**

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

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

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*This announcement, for which the directors (the “Directors”) of Ahsay Backup Software Development Company Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this 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.*

## **FINANCIAL HIGHLIGHTS**

- The Group's revenue for the nine months ended 30 September 2018 was approximately HK\$46.3 million, representing an increase of approximately 10.0% as compared to that of the corresponding period in 2017.
- Profit attributable to owners of the Company for the nine months ended 30 September 2018 was approximately HK\$4.9 million, as compared to the loss of approximately HK\$5.0 million for the corresponding period in 2017.
- Segment profit of approximately HK\$9.5 million and HK\$2.9 million was recorded from core backup business for the nine months ended 30 September 2018 and 2017 respectively.
- Segment loss of approximately HK\$3.9 million and HK\$8.3 million was recorded from information sharing services segment named "KINTIPS" for the nine months ended 30 September 2018 and 2017 respectively.
- Basic and diluted earnings per share was HK\$0.24 cents.
- The Board did not recommend payment of any dividend for the nine months ended 30 September 2018.

## **THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018 (UNAUDITED)**

The board of Directors (the "Board") of the Company is pleased to announce the following unaudited condensed consolidated results of the Company and its subsidiaries (collectively, the "Group") for the three months and nine months ended 30 September 2018 together with the unaudited comparative figures for the corresponding period in 2017 as set out below.

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

For the three months and nine months ended 30 September 2018

	NOTES	Three months ended 30 September		Nine months ended 30 September	
		2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Revenue	4	15,535	13,616	46,343	42,099
Other income	5	320	124	795	366
Other gains and losses		-	1	(56)	(5)
Staff costs and related expenses	6	(9,375)	(11,381)	(30,241)	(34,625)
Other expenses	7	(3,484)	(3,501)	(10,509)	(12,818)
Finance costs	8	-	-	-	(73)
Profit (loss) before tax		2,996	(1,141)	6,332	(5,056)
Income tax (expense) credit	9	(733)	-	(1,444)	2
<b>Profit (loss) for the period</b>		<b>2,263</b>	<b>(1,141)</b>	<b>4,888</b>	<b>(5,054)</b>
<b>Other comprehensive (expense) income</b>					
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences arising on translation of a foreign subsidiary		(7)	2	(11)	13
Other comprehensive (expense) income for the period		(7)	2	(11)	13
Total comprehensive income (expense) for the period attributable to the owners of the Company		<b>2,256</b>	<b>(1,139)</b>	<b>4,877</b>	<b>(5,041)</b>
<b>Earnings (loss) per share</b>					
- Basic (HK cents)	11	<b>0.11</b>	<b>(0.06)</b>	<b>0.24</b>	<b>(0.25)</b>

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the nine months ended 30 September 2018

	Share capital HK\$'000	Share premium HK\$'000	Capital reserve HK\$'000 (note i)	Translation reserve HK\$'000	Accumulated profits (losses) HK\$'000	Total HK\$'000
At 1 January 2017 (audited)	20,000	72,435	4,097	(35)	(26,531)	69,966
Loss for the period	-	-	-	-	(5,054)	(5,054)
Other comprehensive income for the period						
Exchange differences arising on translation of a foreign subsidiary	-	-	-	13	-	13
Total comprehensive income (expense) for the period	-	-	-	13	(5,054)	(5,041)
At 30 September 2017 (unaudited)	20,000	72,435	4,097	(22)	(31,585)	64,925
At 1 January 2018 (audited)	20,000	72,435	4,097	(15)	(27,211)	69,306
Profit for the period	-	-	-	-	4,888	4,888
Other comprehensive expense for the period						
Exchange differences arising on translation of a foreign subsidiary	-	-	-	(11)	-	(11)
Total comprehensive (expense) income for the period	-	-	-	(11)	4,888	4,877
At 30 September 2018 (unaudited)	20,000	72,435	4,097	(26)	(22,323)	74,183

Note:

i. Capital reserve comprises:

- (a) a debit amount of HK\$5,000 represents the difference between the fair value of the consideration paid of HK\$205,000 to Mrs. Chong Li Sau Fong, Mr. Chong Siu Pui, Mr. Chong Siu Ning (the "Controlling Shareholders") and the carrying amount of HK\$200,000 of the net assets attributable to the 100% equity interest in CloudBacko Corporation ("CloudBacko BVI") and Ahsay Service Centre Limited ("ASCL"), upon the transfer of 100% equity of CloudBacko BVI and ASCL from the Controlling Shareholders in April 2015;
- (b) a credit amount of HK\$1,000,000 represents the difference between the par value of the share issued by Alpha Heritage Holdings Limited ("Alpha Heritage"), a wholly owned subsidiary of the Company, and the share capital of Ahsay Systems Corporation Limited ("Ahsay HK"), upon the transfer of 100% equity interest in Ahsay HK to Alpha Heritage in May 2015;
- (c) a credit amount of HK\$2,000,000 represents the deemed capital contribution from the Controlling Shareholders with regard to waiver of amounts due to shareholders in March 2015; and
- (d) a credit amount of HK\$1,102,000 represents the deemed capital contribution from the Controlling Shareholders upon disposal of the entire equity interest in Million Victory Investment Management Limited, a subsidiary of the Group, to a related company controlled by the Controlling Shareholders in June 2015.

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the nine months ended 30 September 2018

## 1. GENERAL

The Company is a public listed company incorporated in the Cayman Islands as an exempted company and registered in the Cayman Islands with limited liability under the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company's shares were listed on GEM of The Stock Exchange of Hong Kong (the "Stock Exchange").

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of online backup software solutions to clients via internet.

The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the same as the functional currency of the Company.

## 2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the "GEM Rules").

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Other than changes in accounting policies resulting from application of new and amendments to Hong Kong Financial Reporting Standards ("HKFRS"), the accounting policies and methods of computation used in the condensed consolidated financial statements for the nine months ended 30 September 2018 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2017.

### *Application of new and amendments to HKFRSs*

In the latest interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts 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 Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

In addition, the Group has applied Amendments to HKFRS 9 *Prepayment Features with Negative Compensation* in advance of the effective date, i.e. 1 January 2019.

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

### **3.1 Impacts and changes in accounting policies of application on HKFRS 15 *Revenue from Contracts with Customers***

The Group has applied HKFRS 15 for the first time in the latest interim period. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

#### **3.1.1 Key changes in accounting policies resulting from application of HKFRS 15**

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the Group satisfies a performance obligation.

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 and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

*Timing of revenue recognition of intellectual property: right to access the intellectual property and right to use the intellectual property*

The nature of the Group’s performance obligation in granting a license is considered to be a right to access the Group’s intellectual property if all of the following criteria are met:

- the contract requires, or the customer reasonably expects, that the entity will undertake activities that significantly affect the intellectual property to which the customer has rights;
- the rights granted by the license directly exposes the customer to any positive or negative effects of the entity’s activities identified above; and
- those activities do not result in the transfer of a good or a service to the customer as those activities occur.

If the criteria above are met, the Group shall account for the promise to grant a license as a performance obligation satisfied over time. Otherwise, the Group shall consider the grant of license to be a right to use the Group’s intellectual property and the performance obligation is satisfied at a point in time at which the license is granted to the customer.

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.

### 3.1.2 Summary of effects arising from initial application of HKFRS 15

The Group recognises revenue from the following major sources:

(a) *Software license sales*

The revenue from software license sales includes software license sales and software upgrades and maintenance services, which are separately identifiable.

For software license sales, the Group considers the grant of license to be a right to use the Group's intellectual property and the performance obligation is satisfied at a point in time at which the license is granted. The Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis. The stand-alone selling price of the distinct good or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell a promised good or service separately to a customer. The stand-alone selling price of software license sales is not directly observable, the Group estimates it using residual value method. Under this method, the Group estimates the stand-alone selling price by reference to the total contract consideration less the sum of the observable stand-alone selling prices of other elements such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

See accounting policy for revenue on provision of software upgrades and maintenance services below.

(b) *Software license leasing*

The Group earns revenues by leasing the software products to its customers, the nature of the Group's performance obligation in granting a license is considered to be a right to access the Group's intellectual property, the Group accounts the grant of license as a performance obligation satisfied over time.

(c) *Provision of software upgrades and maintenance services*

Revenue from provision of software upgrades and maintenance services is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

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

	<i>Note</i>	Carrying amounts previously reported at 31 December 2017 <i>HK\$'000</i>	Reclassification <i>HK\$'000</i>	Carrying amounts under HKFRS 15 at 1 January 2018 <i>HK\$'000</i>
<b>Current liabilities</b>				
Deposits and fees received in advance	(a)	16,446	(16,446)	–
Contract liabilities	(a)	–	16,446	16,446
<b>Non-current liabilities</b>				
Deposits and fees received in advance	(a)	603	(603)	–
Contract liabilities	(a)	–	603	603

*Note:*

- (a) As at 1 January 2018, deposits and fees received in advance from customers of HK\$16,446,000 and HK\$603,000, respectively, previously included in current and non-current liabilities were reclassified to contract liabilities.

Except as described above, the application of HKFRS 15 has had no material impact on the amounts reported set out in these condensed consolidated financial statements.

### **3.2 Impacts and changes in accounting policies of application on HKFRS 9 *Financial Instruments* and the related amendments**

In the current period, the Group has applied HKFRS 9 *Financial Instruments*, Amendments to HKFRS 9 *Prepayment Features with Negative Compensation* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, trade receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9. i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement*.

#### **3.2.1 Key changes in accounting policies resulting from application of HKFRS 9**

##### *Classification and measurement of financial assets*

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The directors of the Company reviewed and assessed the Group’s financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. The application of HKFRS 9 has had no material effect on classification and measurement of financial assets in these condensed consolidated financial statements.

##### *Impairment under ECL model*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables). 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 expected credit loss 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 ECL on these assets are assessed collectively using a provision matrix based on its historical observed default rates which is adjusted for forward-looking estimates.

For all other instruments, the Group measures the loss allowance equal to 12-month expected credit loss, 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.



### *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;
- 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 considers that default has occurred when the instrument is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

### *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.

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

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.

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No impairment allowance was recognised at 1 January 2018.

## **4. REVENUE AND SEGMENT INFORMATION**

Information reported to the directors of the Company, being the chief operating decision maker ("CODM"), for the purpose of resources allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable and operating segments under HKFRS 8 *Operating Segments* are as follows:

- |   |   |  |
|---|---|--|
| Online backup software and other services segment | – | Software license sales and leasing, provision of software upgrades and maintenance services, and provision of other services |
| Information sharing services segment              | – | Provision of information sharing services  |

## Segment revenue and result

Segment results represent the profit earned by (loss from) each segment without allocation of other income and other losses that are not directly attributable to segments as disclosed in the below table. This is the measure reported to the CODM for the purposes of resources allocation and performance assessment.

The following is an analysis of the Group's revenue and results by reportable and operating segment:

### For the nine months ended 30 September 2018 (unaudited)

	Online backup software and other services <i>HK\$'000</i>	Information sharing services <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue – External</b>			
Software license sales	6,538	–	6,538
Software license leasing	21,097	–	21,097
Software upgrades and maintenance services fee	16,975	–	16,975
Other services fee	1,630	–	1,630
Information sharing services income	–	103	103
<b>Total revenue</b>	<b>46,240</b>	<b>103</b>	<b>46,343</b>
<i>Timing of revenue recognition</i>			
At a point in time	6,606	103	6,709
Over time	39,634	–	39,634
	<b>46,240</b>	<b>103</b>	<b>46,343</b>
<b>Segment profit (loss)</b>	<b>9,526</b>	<b>(3,933)</b>	<b>5,593</b>
Unallocated incomes and expenses			
Other income			795
Other losses			(56)
<b>Profit before tax</b>			<b>6,332</b>

### For the nine months ended 30 September 2017 (unaudited)

	Online backup software and other services <i>HK\$'000</i>	Information sharing services <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Segment revenue – External</b>			
Software license sales	6,931	–	6,931
Software license leasing	16,612	–	16,612
Software upgrades and maintenance services fee	16,845	–	16,845
Other services fee	1,420	–	1,420
Information sharing services income	–	291	291
<b>Total revenue</b>	<b>41,808</b>	<b>291</b>	<b>42,099</b>
<b>Segment profit (loss)</b>	<b>2,876</b>	<b>(8,293)</b>	<b>(5,417)</b>
Unallocated incomes and expenses			
Other income			366
Other losses			(5)
<b>Loss before tax</b>			<b>(5,056)</b>

During the nine months ended 30 September 2018, the Group had no material change in segment assets and segment liabilities.

## 5. OTHER INCOME

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Bank interest income	307	115	754	328
Sundry income	13	9	41	38
	<u>320</u>	<u>124</u>	<u>795</u>	<u>366</u>

## 6. STAFF COSTS AND RELATED EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Directors' emoluments	2,105	2,083	6,314	6,607
Other staff costs				
– Salaries, allowances and benefits in kind and performance and other bonus	7,317	8,909	22,840	27,370
– Retirement benefits scheme contributions, excluding directors' contributions	231	332	733	913
Long-term employee benefit expense (credit)	(245)	(130)	(156)	(720)
Total directors' and staff costs	9,408	11,194	29,731	34,170
Staff related expenses (credit)	(33)	187	510	455
Staff costs and related expenses	<u>9,375</u>	<u>11,381</u>	<u>30,241</u>	<u>34,625</u>
Research and development costs				
Amounts incurred	2,933	3,212	9,876	10,048
Less: capitalised development cost	(281)	–	(1,327)	(1,583)
Amounts included in staff costs and related expenses	<u>2,652</u>	<u>3,212</u>	<u>8,549</u>	<u>8,465</u>

## 7. OTHER EXPENSES

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Auditor's remuneration	200	200	704	700
Advertising and marketing expenses	592	760	1,688	3,476
Amortisation on intangible assets	–	132	264	132
Impairment loss recognised on intangible assets	–	–	–	1,056
Legal and professional fees	302	433	1,004	1,306
Depreciation of property, plant and equipment	128	101	333	293
Office rental expenses	620	498	2,492	2,129
Merchant credit card charges	303	270	941	925
Others	1,339	1,107	3,083	2,801
	<u>3,484</u>	<u>3,501</u>	<u>10,509</u>	<u>12,818</u>

## 8. FINANCE COSTS

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Interests on bank loan	–	–	–	73
	<u>–</u>	<u>–</u>	<u>–</u>	<u>73</u>

## 9. INCOME TAX EXPENSE (CREDIT)

	Three months ended 30 September		Nine months ended 30 September	
	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)	2018 HK\$'000 (unaudited)	2017 HK\$'000 (unaudited)
Current tax:				
Hong Kong Profits Tax	680	–	1,253	–
Deferred tax	53	–	191	(2)
	<u>733</u>	<u>–</u>	<u>1,444</u>	<u>(2)</u>

The Group is not subject to any income tax in the Cayman Islands and the British Virgin Islands pursuant to the rules and regulations in those jurisdictions.

One of the subsidiaries of the Group is subject to Hong Kong Profits Tax at the rate of 8.25% for the first HK\$2 million of assessable profits and 16.5% for the assessable profits above HK\$2 million for the current period. Other subsidiaries of the Company and the Group are subject to Hong Kong Profits Tax at the rate of 16.5% for the nine months ended 30 September 2018 and 2017 respectively.



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **FINANCIAL REVIEW**

#### **Overview**

For the nine months ended 30 September 2018 and 2017, the Company and its subsidiaries (collectively, the “Group”) recorded revenues of approximately HK\$46.3 million and HK\$42.1 million respectively, representing an increase of approximately 10.0%. The Group recorded a net profit attributable to owners of approximately HK\$4.9 million for the nine months ended 30 September 2018 as compared to a net loss of approximately HK\$5.0 million for the corresponding period in 2017. The turnaround from loss to profit is mainly attributable to (i) the continuing increase in revenue resulting from a higher adoption rate of latest version of Ahsay™ Backup Software (“Version 7”) and (ii) the decrease in staff costs and advertising and marketing expenses by enhancing the efficiency of resources allocation.

#### **Revenue**

The Group’s revenue principally represented income derived from software license sales and leasing, software upgrades and maintenance services and other services. Revenue of approximately HK\$46.3 million and HK\$42.1 million was recognised for the nine months ended 30 September 2018 and 2017 respectively, which represents an increase of approximately 10.0%. The revenue increment for the nine months ended 30 September 2018 was mainly due to the increase in revenue from software license leasing of approximately HK\$4.5 million, offset by the decrease in revenue from software license sales of approximately HK\$0.4 million, mainly due to a higher adoption rate of Version 7 compared with the same period in 2017.

#### **Other Income**

Other income increased by approximately HK\$429,000 or 117.2%, to approximately HK\$795,000 for the nine months ended 30 September 2018 from approximately HK\$366,000 for the nine months ended 30 September 2017. The increase for the nine months ended 30 September 2018 was mainly due to the increase in bank interest income as a result of the combined effect of the increase in the average interest rate and more funds placed in time deposits compared with the same period in 2017.

#### **Staff Costs and Related Expenses**

Staff costs and related expenses primarily comprised of salaries, performance bonuses, directors’ fee, MPF contributions, other staff welfare and other related expenses. Staff costs and related expenses decreased by approximately HK\$4.4 million or 12.7%, to approximately HK\$30.2 million for the nine months ended 30 September 2018 from approximately HK\$34.6 million for the nine months ended 30 September 2017. The decrease for the nine months ended 30 September 2018 was mainly due to the decrease in average headcount partially offset by salaries increment and decrease in development cost capitalised as compared with the same period in 2017.

## **Other Expenses**

Other expenses primarily comprised of depreciation, amortisation, advertising and marketing expenses, merchant credit card charges, legal and professional fees, office rental expense and other regular office expenses such as utilities. Other expenses decreased by approximately HK\$2.3 million or 18.0%, to approximately HK\$10.5 million for the nine months ended 30 September 2018 from approximately HK\$12.8 million for the nine months ended 30 September 2017. The decrease for the nine months ended 30 September 2018 was mainly due to the decrease in advertising and marketing expenses and legal and professional fees by implementing cost control measures as compared with the same period in 2017.

## **Income Tax Expenses**

The Group recorded income tax expenses of approximately HK\$1.4 million for the nine months ended 30 September 2018. The increase in income tax expenses was mainly due to the generation of assessable profits during the period ended 30 September 2018 compared with no assessable profits in corresponding period in 2017.

## **Profit (Loss) for the Period**

The Group recorded a profit of approximately HK\$4.9 million for the nine months ended 30 September 2018 as compared to a loss of approximately HK\$5.1 million for the corresponding period in 2017. Of the profit for the nine months ended 30 September 2018, approximately HK\$9.5 million pre-tax profit was generated by the Group's core backup business, which was partially offset by the segment loss of approximately HK\$3.9 million from KINTIPS.

## **Financial Position, Liquidity and Financial Resources**

The Group adopts a prudent cash and financial management policy. In order to achieve better cost control and minimise the costs of funds, the Group's treasury activities are centralised and substantial cash is generally deposited with banks in Hong Kong and denominated mostly in Hong Kong dollars. As the Group's cash and bank balances were substantially denominated in Hong Kong dollars, risk in exchange rate fluctuation would not be material.

The Group is in a sound financial resource level. As at 30 September 2018, current assets of approximately HK\$89.0 million (31 December 2017: approximately HK\$89.6 million). The Group remained at a net positive cash position as at both 30 September 2018 and 2017. With the amount of liquid assets on hand, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

## **Charges on Assets of the Group**

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

## **Capital Structure**

The capital structure of the Company comprised of ordinary shares only. As at 30 September 2018, the Company's issued share capital was HK\$20.0 million with 2,000,000,000 ordinary shares issued each of HK\$0.01.

## **Capital Commitments and Contingent Liabilities**

As at 30 September 2018, in respect of the renovation contract signed with third party for new office unit in Philippines, the Group has a total capital commitment amounted to 1.8 million Philippines Pesos including value added tax (equivalent to approximately HK\$234,000), of which 1.7 million Philippines Pesos (equivalent to approximately HK\$223,000) has not been paid.

Save as disclosed above, as at 30 September 2018, the Group did not have other significant capital commitment (31 December 2017: nil) and contingent liability (31 December 2017: nil). The Group did not have plans for material investments or purchases of capital assets in the near term.

## **Material Acquisitions and Disposals**

The Group did not have any material acquisition and disposal during the nine months ended 30 September 2017 and 2018.

## **Segmental Information**

An analysis of the Group's performance for the nine months ended 30 September 2018 by business segment is set out in note 4 to the financial statements.

## **BUSINESS REVIEW**

The Group is a Hong Kong-based online backup software developer that focuses on providing self-developed backup software products and services to customers. Developed in Hong Kong, the Group's backup software products are equipped with multi-lingual, multi-platform and multi-application features built-in. One of the Group's backup software products, the Ahsay™ Backup Software, supports more than 30 languages and dialects, and can be used on various platforms and with different software applications.

Data is incredibly important to all businesses nowadays. In view of hardware failure, data breach, malware attacks and human error, a comprehensive backup plan is crucial to protect and restore data to an error-free state. The Group would continue to uphold the mission of "Backing up businesses, not just data" in operating in its business in order to offering professional and responsive support. To avoid exposure to security threats and data loss, the demands of global backup software market and small and medium enterprises ("SMEs") for backup software products and relevant support services are expected to increase steadily in the coming years.

Customer care has long been a crucial element of our business success. Since September 2017, a customer support center in the Philippines has been opened to expand the existing customer support operations. We have further expanded the existing quality assurance operations in the Philippines in order to maintain a high standard of product quality in an efficient way. During the period, the Group purchased an office unit in the Philippines to support its current operations and future expansion.

With sufficient resources and additional talent, the Group will continue to integrate its business development with market needs and timely upgrade its existing products and technology to keep pace with technological advancements in the market. The Group believes such efforts can help strengthen its customer relationships and will ultimately enhance the competitiveness of our core products and customer services in the foreseeable future.



With the increase in market acceptance and adoption rate of Version 7, revenues of the Group has increased by approximately HK\$4.4 million, or 10.0% from approximately HK\$42.1 million for the nine months ended 30 September 2017 to approximately HK\$46.3 million for the nine months ended 30 September 2018.

## **OUTLOOK**

### **Core Backup Business**

During the period, the Group is continuing to dedicate significant resources in order to deliver the latest features, enhancements and support to Version 7 which was launched to cope with the changes in the market and to meet the latest needs of enterprises and backup service providers. Version 7 is an advanced client-server-based solution that offers on-premises and cloud backup. With the software, users can manage the backup users' authorisation procedures and systems anytime and anywhere. They can also manage the users and monitor system status in real time, thus enjoy enhanced management flexibility. For the nine months ended 30 September 2018 and 2017, the segment profit from core backup business of approximately HK\$9.5 million and HK\$2.9 million was recorded respectively.

Looking forward, the Group aims to strengthen the quality of its customer support services as well as to continue the development of new features for the next version and the improvement in the usability of Ahsay™ Backup Software with a customer value orientated focus which the Group believes would help to increase its market share in the backup software sector in coming years.

### **Information Sharing Platform**

KINTIPS LIMITED, an indirect wholly-owned subsidiary of the Company, has developed an online information sharing platform, which includes a website and a mobile-application both named KINTIPS (堅料) designed to provide information sharing services in Hong Kong. KINTIPS was officially launched, and the mobile application can be installed on mobile devices that operate on the Android OS or Apple iOS systems. KINTIPS is a trading platform for horse racing and football tips in Hong Kong designed for information providers (horse racing and football tipsters) and subscribers to share information via its website or mobile application.

With advantages of the Group's expertise and experience in the information technology industry, the KINTIPS mobile application is the first step of the Group in exploring new markets in the mobile applications industry. It is a brand new channel that allows horse racing and football tipsters to share their knowledge and views with other horse racing and football fans. KINTIPS will be a new source of revenue for the Group. For the nine months period ended 30 September 2018, the revenue contribution of the information sharing platform to the Group was not material.

## DISCLOSURE OF INTERESTS AND OTHER INFORMATION

### Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company

As at 30 September 2018, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of Laws of Hong Kong) (the "SFO")) which were 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 he/she is taken or deemed to have under such provisions of the SFO); or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required, pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, required to be notified to the Company and the Stock Exchange, were as follows:

#### Long Positions in Shares

Name of Director	Capacity/nature of interest	Note	Number of Shares	Approximate percentage of total number of Shares (note 1)
Mr. Chong King Fan	Interest of spouse	2	1,500,000,000	75.0%
Mr. Chong Siu Pui	Interest in a controlled corporation	2	1,500,000,000	75.0%
Mr. Chong Siu Ning	Interest in a controlled corporation	2	1,500,000,000	75.0%

#### Notes:

1. As at 30 September 2018, the Company had 2,000,000,000 Shares in issue.
2. As at 30 September 2018, All Divine Investments Limited ("All Divine") held a long position of 1,500,000,000 Shares, representing 75% of the issued Shares. All Divine is wholly owned by Able Future Investments Limited ("Able Future") which is owned by Mrs. Chong Li Sau Fong, Mr. Chong Siu Pui and Mr. Chong Siu Ning as to 40%, 30% and 30%, respectively. By virtue of the SFO, Mr. Chong King Fan, who is the spouse of Mrs. Chong Li Sau Fong, Mr. Chong Siu Pui and Mr. Chong Siu Ning are deemed to be interested in all the Shares held by All Divine.

Save as disclosed above, as at 30 September 2018, none of the Directors and chief executive of the Company had an interest or short position in the Shares, underlying shares and debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

## Substantial Shareholders' and Other Persons' Interests and Short Positions in the Shares and Underlying Shares and Debentures of the Company

As at 30 September 2018, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or as required to be recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

### Long Positions in Shares

Name of Shareholder	Capacity/nature of interest	Notes	Number of Shares	Approximate percentage of total number of Shares (note 1)
All Divine	Beneficial owner	2	1,500,000,000	75.0%
Able Future	Interest in a controlled corporation	2	1,500,000,000	75.0%
Mrs. Chong Li Sau Fong	Interest in a controlled corporation	2	1,500,000,000	75.0%
Ms. Wu Jui-fang	Interest of spouse	3	1,500,000,000	75.0%
Ms. Li Yin Heung	Interest of spouse	4	1,500,000,000	75.0%

#### Notes:

1. As at 30 September 2018, the Company had 2,000,000,000 Shares in issue.
2. All Divine held a long position of 1,500,000,000 Shares, representing 75% of the issued Shares. All Divine is wholly owned by Able Future which is owned by Mrs. Chong Li Sau Fong, Mr. Chong Siu Pui and Mr. Chong Siu Ning as to 40%, 30% and 30%, respectively. By virtue of the SFO, Mrs. Chong Li Sau Fong, Mr. Chong Siu Pui and Mr. Chong Siu Ning are deemed to be interested in all the Shares held by All Divine.
3. Ms. Wu Jui-fang is the spouse of Mr. Chong Siu Pui. By virtue of the SFO, Ms. Wu Jui-fang is deemed to be interested in the Shares in which Mr. Chong Siu Pui is interested.
4. Ms. Li Yin Heung is the spouse of Mr. Chong Siu Ning. By virtue of the SFO, Ms. Li Yin Heung is deemed to be interested in the Shares in which Mr. Chong Siu Ning is interested.

Save as disclosed above, as at 30 September 2018, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who had an interest or short positions in the shares or underlying shares of the Company which would fall 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 under Section 336 of the SFO.

## **Directors' Rights to Acquire Shares or Debentures**

Save as disclosed in the sections headed "Share Option Scheme" and "Directors' and Chief Executive's Interests and Short Positions in Shares, Underlying Shares and Debentures of the Company" in this announcement, for the nine months ended 30 September 2018 and up to the date of this announcement, none of the Directors and the chief executive of the Company and their respective close associates (as defined under the GEM Listing Rules) had any interest in, or had been granted, or exercised any rights to subscribe for shares or underlying shares of the Company and/or its associated corporations (within the meaning of the SFO).

## **Directors' and Controlling Shareholders' Interest in Competing Business**

For the nine months ended 30 September 2018, the Directors are not aware of any business or interest of the Directors, the Controlling Shareholders of the Company and their respective close associates (as defined under the GEM Listing Rules) that compete or may compete with the business of the Group and any other conflicts of interests which any such person has or may have with the Group.

## **Compliance with the Code of Conduct for Directors' Securities Transactions**

The Group has adopted a code of conduct regarding securities transactions by the Directors on terms no less than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. In response to specific enquiry made by the Company, each of the Directors confirms that he/she has complied with the required standard of dealings and the code of conduct regarding securities transactions by the Directors for the nine months ended 30 September 2018.

## **Compliance with the Code on Corporate Governance**

The Company is committed to achieving high standards of corporate governance with a view of safeguarding the interests of its shareholders. The Company has complied with all the code provisions set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 15 to the GEM Listing Rules for the nine months ended 30 September 2018.

## **Share Option Scheme**

A share option scheme was adopted and approved by the shareholders of the Company on 4 September 2015 (the "Share Option Scheme"). No share options have been granted pursuant to the Share Option Scheme since its adoption.

## **Purchase, Redemption or Sale of the Listed Securities of the Company**

For the nine months ended 30 September 2018 and up to the date of this announcement, neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed securities.

## **Review by the Audit Committee**

The Company has established an audit committee of the Board (the “Audit Committee”) with written terms of reference in compliance with GEM Listing Rules. The Audit Committee’s principal duties are to review and supervise the Company’s financial reporting process and internal control systems and to provide advice and comments to the Board. Members of the Audit Committee are Mr. Wong Yau Sing (chairman of the Audit Committee), Mr. Wong Cho Kei Bonnie and Ms. Wong Pui Man, all of them being independent non-executive Directors.

The quarterly financial information of the Group for the nine months ended 30 September 2018 has not been audited. The Audit Committee has reviewed with management team the quarterly financial information of the Group for the nine months ended 30 September 2018, the quarterly report, the accounting principles and practices adopted by the Group, and other financial reporting matters. The Audit Committee was satisfied that such results complied with the applicable accounting standards, the requirements under the GEM Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

By order of the Board  
**Ahsay Backup Software Development Company Limited**  
**Chong King Fan**  
*Chairman and Executive Director*

Hong Kong, 2 November 2018

*As at the date of this announcement, the executive Directors are Mr. CHONG King Fan, Mr. CHONG Siu Pui, Mr. CHONG Siu Ning and Ms. CHONG Siu Fan; and the independent non-executive Directors are Mr. WONG Cho Kei Bonnie, Ms. WONG Pui Man and Mr. WONG Yau Sing.*

*This announcement will remain on the “Latest Company Announcement” page on the GEM website on [www.hkgem.com](http://www.hkgem.com) for at least 7 days from the date of its posting and will also be published on the Company’s website at <http://www.ahsay.com.hk>.*