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Vixtel Technologies Holdings Limited

飛思達科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 8342)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2017

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

GEM has been positioned as a market designed to accommodate 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. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.

The board of Directors (the “**Board**”) of Vixtel Technologies Holdings Limited (the “**Company**”) is pleased to announce the consolidated financial statements of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2017 together with the audited comparative figures for the year ended 31 December 2016.

This announcement, for which the directors (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 the GEM (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: (1) the information contained in this announcement is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this announcement misleading.

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2017, the operations and business of the Company and its subsidiaries have achieved significant growth when compared with those for the year ended 31 December 2016.

- Revenue for the year ended 31 December 2017 amounted to approximately RMB109,103,000, representing an increase of approximately 46.9% from approximately RMB74,255,000 for the year ended 31 December 2016.
- Profit attributable to owners of the Company for the year ended 31 December 2017 amounted to approximately RMB22,175,000, representing an increase of approximately 117.0% from the profit attributable to owners of the Company for the year ended 31 December 2016 of approximately RMB10,221,000.
- Basic earnings per share for the year ended 31 December 2017 was approximately RMB4.56 cents (for the year ended 31 December 2016: basic earnings per share was approximately RMB2.63 cents).
- The Board has resolved to pay a final dividend of HK\$1.20 cents per share for the year ended 31 December 2017 out of the share premium account of the Company, which will be paid on or about 26 April 2018 to the shareholders whose names appear on the register of members of the Company as at 18 April 2018. Together with an interim dividend of HK\$0.60 cents per share already paid, total dividend for the year of 2017 will amount to HK\$1.80 cents per share (for the year ended 31 December 2016: Nil).

BOARD OF DIRECTORS

Executive Directors

Mr. Yue Yong (*Chairman*)
Mr. Sie Tak Kwan (*Chief Executive Officer*)
Mr. Guan Haiqing (*Chief Sales Officer*)

Non-executive Director

Mr. Liang Judong

Independent Non-executive Directors

Mr. Cheung Hon Fai
Professor Lam Kin Man
Mr. Shen Qi

COMPANY SECRETARY

Ms. Hui Yin Shan (*ACIS, ACS*)
(*resigned on 9 February 2018*)
Mr. Cheung Kai Cheong Willie (*FCCA, FCCA*)
(*appointed on 9 February 2018*)

COMPLIANCE OFFICER

Mr. Sie Tak Kwan

COMPLIANCE ADVISER

KGI Capital Asia Limited

AUTHORISED REPRESENTATIVES

Mr. Sie Tak Kwan
Ms. Hui Yin Shan (*ACIS, ACS*)
(*resigned on 9 February 2018*)
Mr. Cheung Kai Cheong Willie (*FCCA, FCCA*)
(*appointed on 9 February 2018*)

AUDIT COMMITTEE

Mr. Cheung Hon Fai (*Chairman*)
Professor Lam Kin Man
Mr. Shen Qi

REMUNERATION COMMITTEE

Professor Lam Kin Man (*Chairman*)
Mr. Cheung Hon Fai
Mr. Shen Qi
Mr. Sie Tak Kwan

NOMINATION COMMITTEE

Mr. Cheung Hon Fai (*Chairman*)
Professor Lam Kin Man
Mr. Shen Qi
Mr. Sie Tak Kwan

INDEPENDENT AUDITOR

Ernst & Young

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PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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LEGAL ADVISER

F. Zimmern & Co.

PRINCIPAL BANKER

Industrial and Commercial Bank of China
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STOCK CODE

8342

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors (the "**Board**") of Vixtel Technologies Holdings Limited (the "**Company**"), I am pleased to present the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2017.

On 15 December 2016, the shares of the Company (the "**Shares**") were successfully listed on the GEM, which marked an important milestone for the Group. The listing not only enhanced our corporate image, but also expanded our competitive edge and helped us achieving our long-term goal of becoming an international leading provider of Application Performance Management ("**APM**") products and services.

REVIEW

In 2017, with the rapid development of the APM market, especially the stunning development of the digital household and Internet of Things ("**IoT**") markets in China, the Group achieved an extraordinary growth in its operating results. The Group's APM system was widely adopted in the digital experience monitoring aspect, and was deployed in the network environments of more than 10 million digital households in 2017, providing its users with in-depth application experience management and performance optimization. This significant progress has not only expanded the application scope and consolidated the customer base of our products, but also laid a data foundation for the Group rolling out performance management for its big data analysis and artificial intelligence business.

Digital household and IoT underwent rapid development in 2017. Thanks to its advanced product concept, level of design, capability of managing terminal networks for millions of households simultaneously and its outstanding big data analysis and presentation functionality, our APM platform is highly recognised by our customers and has become their first choice for digital household user experience management. Our ability to lead the technology trend has laid a solid foundation for the Group's outstanding financial performance. For the year ended 31 December 2017, the Group recorded a revenue of approximately RMB109.1 million, representing a significant increase of approximately RMB34.8 million or 46.9% as compared to approximately RMB74.3 million for the year ended 31 December 2016.

During the previous year, the Company explored deeper into the field of performance management for digital household and IoT and deployed performance management software for the digital equipment of tens of millions households, securing a significant advantage in terms of technology and scale in China. With the development of technology and advancement of China's overall strategy of building smart cities, it is expected that hundreds of millions of household users and numerous enterprises will be implementing digital household and IoT applications in the near future. This will give a strong boost to the Group's business in the coming years. Based on the needs of our customers and our advantage in data size, the Group has also made strategic plans to develop digital household experience management and optimization products based on artificial intelligence ("**AI**"). We believe that with the introduction of AI technology, the Group's market share and technological advantage will be further expanded.

For the software-as-a-service ("**SaaS**") business, the Group has been making proactive marketing efforts during the previous year. As there was difficulty in promoting SaaS in China, we focused on developing sales channels in 2017 to lay a solid foundation, and entered into long-term cooperation agreements with a number of channel suppliers. Although the revenue from SaaS accounts for a lower percentage of the Group's total revenue, we remain optimistic about the potential of the SaaS market in the long term and will maintain our investment in product development and marketing, and we believe that there will be a surge in the use of the SaaS-based APM in China in the next few years.

The Group will continue to carry out its expansion plans as disclosed in the Company's prospectus dated 30 November 2016 (the "**Prospectus**"), including further consolidating our leadership in China's APM market, continuing to strengthen our in-house research and development capabilities and leveraging growth opportunities in China and strategically expanding into certain overseas markets.

PROSPECTS

Looking forward, 2018 will be a milestone for investments in the information industry in China. Industrial IoT and household IoT are expected to gain stunning popularity. The industry is also expecting that the launch of 5G services in 2018 will further boost IoT and make it a hot spot of the IT industry, allowing the Group to fully capitalize our advantage on investment and technology in APM for digital household and IoT. The Group will grasp the opportunities while adhering to innovation so as to maximize the returns for our shareholders (the "**Shareholders**").

Finally, on behalf of the Board, I would like to express my sincere gratitude to all Shareholders, investors, business partners, suppliers and customers for their ongoing support and trust, as well as the efforts made by all our staff.

Vixel Technologies Holdings Limited

Yue Yong

Chairman and Executive Director

Hong Kong, 9 February 2018

FINANCIAL HIGHLIGHTS

	2017	2016	CHANGE
	RMB'000	RMB'000	%
Revenue	109,103	74,255	+46.9%
Gross profit margin (%)	60.6%	59.2%	
Profit for the year	22,175	10,221	+117.0%
Net profit margin (%)	20.3%	13.8%	
Total equity	132,675	113,053	+17.4%

BUSINESS REVIEW AND OUTLOOK

The Group is a market leader in China's APM industry which primarily provides APM products and service solutions for telecom operators and large enterprises. The Group is principally engaged in the following businesses: (1) integrated APM system solutions; (2) software development services; (3) technical services; and (4) sales of embedded hardware and standard APM software.

The Shares of the Company were successfully listed on GEM (the "**Listing**") on 15 December 2016 (the "**Listing Date**"). Since then, the Group's financial position has been significantly improved. In the coming year, the Group will continue to exploit the opportunities in the blooming APM market in China so as to boost business growth and consolidate our position as a leading company in the APM industry.

In 2017, the Group's operations and business achieved a significant growth as compared with those recorded in 2016. The total revenue of the Group increased by approximately 46.9% from approximately RMB74.3 million for the year ended 31 December 2016 to approximately RMB109.1 million for the year ended 31 December 2017, while the Group's net profit increased by approximately 117.0% from approximately RMB10.2 million for the year ended 31 December 2016 to approximately RMB22.2 million for the year ended 31 December 2017.

OUTLOOK

The Company will maintain its investment in the digital application performance management technology for households and businesses, which supports ultra-large-scale user data access, in order to roll out the APM business for big data analysis and artificial intelligence development.

The Company has developed a brand new platform for large-scale access to the IoT "Vaporware" and household digital internet equipment, which will be officially commercialized in 2018. The platform can expand flexibly to accommodate data access requests from tens of millions of users, extending our APM services to home users and IoT terminals in addition to enterprises. Meanwhile, we are working with our customers to develop the Artificial Intelligence for IT Operations ("**AIOps**") technologies, which use the data collected from the new platform to conduct analysis on user experience, business trends and security.

In respect of our APM services for telecom operators, the Group plans to:

1. continue to consolidate the digital experience of large number of users and the technical advantages in APM services for Internet business of the Company and provide the operators with comprehensive IoT business performance management products and services.

MANAGEMENT DISCUSSION AND ANALYSIS

- invest in big data and AI analysis technologies; make full use of the Company's fundamental advantages on digital household data collection to provide value-added services based on user behaviour, user portraits and user perception; employ AI technology to locate experience optimization targets and directions for operators from tens of millions of customers.

In respect of the enterprise market and SaaS, our focus will be on:

- improving the channels and means of marketing, establishing a sub-industry and multi-level distributor system and expanding the user base. As an important step in our channel expansion process, we will work with the operator's Information and Communication Technology ("ICT") department to sell our SaaS products to enterprise users as a value-added service from the operator. We have entered into cooperation agreements with operators with an aim to introduce the internet performance management solution of the Company into their intelligent broadband business for government and corporate clients, and accordingly we expect the number of corporate clients and the revenue derived from them will grow rapidly.
- providing a more comprehensive corporate digital performance management suite that covers the whole process of enterprise network performance monitoring, business performance optimization, server performance management, information security management and network security management. We expect that the one-stop digital performance management platform will become increasingly popular in the enterprise SaaS market.
- boosting cooperation with major public cloud platforms and sell the Company's SaaS services as a standardized product in the public cloud market, with the aim of serving a larger number of small and medium-sized customers.
- establishing partnership with leading companies in converged communications, Content Delivery Network ("CDN") and cloud computing industry and promoting the Company's online services through system integration. In overseas markets, the Company will carefully select countries and regions which are suitable for the Group's products and sales channels, and concentrate our efforts in promoting the Group's products and services in Southeast Asia.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2017 amounted to approximately RMB109.1 million, representing a significant growth of approximately RMB34.8 million or 46.9% as compared with that for the year ended 31 December 2016 (2016: approximately RMB74.3 million). The increase was mainly attributable to the combined effect of: (i) the increase in revenue generated from provision of integrated APM system solutions of approximately RMB31.3 million; (ii) the increase in revenue generated from provision of software development services of approximately RMB1.7 million; (iii) the increase in revenue generated from provision of technical services of approximately RMB2.8 million; and (iv) the decrease in revenue generated from sales of embedded hardware and standard APM software of approximately RMB1.0 million.

The following analysis sets forth a breakdown of the Group's revenue by service type for the year ended 31 December 2016 and 2017, respectively:

Integrated APM system solutions

This segment provides integrated APM system solutions by tailor-making our APM products to allow our customers to better manage and monitor their applications and networks. The Group has recorded a growth in the revenue generated from integrated APM system solutions of approximately 72.1% from approximately RMB43.4 million for the year ended 31 December 2016 to approximately RMB74.7 million for the year ended 31 December 2017. Such increase was primarily due to (i) the constant launch of new network applications; (ii) more traditional applications transfer to cloud platforms; and (iii) the strong demand for digital experience management resulting from the rapid growth of household IoT users, which led to the continuous growth in the demand of integrated APM system solutions of the Group.

Software development services

The Group's software development services typically involve developing customized supporting software for upgrade and expansion of the APM products which are already integrated with our customers' systems and networks. Our revenue derived from the provision of software development services has increased by approximately 20.0% from approximately RMB8.5 million for the year ended 31 December 2016 to approximately RMB10.2 million for the year ended 31 December 2017. Such increase was primarily due to the increased customer base in the previous years which has created an increasing demand for software development services to upgrade and expand their existing APM systems to cover increased new network-based applications and users.

Technical services

This segment provides operational support, system maintenance, network analysis and optimization of full-chain of internet application and research study of specific topics on application and network performance. Our revenue derived from the provision of technical services has increased by approximately 28.0% from approximately RMB10.0 million for the year ended 31 December 2016 to approximately RMB12.8 million for the year ended 31 December 2017. Such increase was primarily attributable to the increase in the demand from customers for our in-depth Internet APM analysis and consulting services to enhance the applications performance over their mobile Internet and broadband networks.

Sales of embedded hardware and standard APM software

We have from time to time sold embedded hardware and standard APM software to customers who do not require tailor-making services. Our revenue generated from the sales of embedded hardware and standard APM software has decreased by approximately 8.1% from approximately RMB12.3 million for the year ended 31 December 2016 to approximately RMB11.3 million for the year ended 31 December 2017. Such decrease was primarily due to the fact that more and more existing customers are acquiring new software systems and expanding hardware equipment together when deploying their integrated APM system solutions.

MANAGEMENT DISCUSSION AND ANALYSIS

Cost of sales

The Group's cost of sales has increased by approximately 41.9% from approximately RMB30.3 million for the year ended 31 December 2016 to approximately RMB43.0 million for the year ended 31 December 2017, which was in line with the increase in our revenue. The increase was primarily due to (1) higher labour costs resulting from an increased headcount and compensation base; and (2) higher hardware costs derived from the increased business volume of integrated APM system solutions.

Gross profit and gross profit margin

The Group's gross profit has increased by approximately 50.2% from approximately RMB44.0 million for the year ended 31 December 2016 to approximately RMB66.1 million for the year ended 31 December 2017. Such increase was primarily due to the increased business volume in the sales of integrated APM system solutions and software development services. The Group's gross profit margin has increased from approximately 59.2% for the year ended 31 December 2016 to approximately 60.6% for the year ended 31 December 2017. Such increase was primarily due to the increase in the provision of technical services and the sales of embedded hardware and standard APM software which in general have a higher gross profit margin than the other types of services due to their relatively low labour costs and hardware costs.

Other income and gains

The Group recorded other income and gains of approximately RMB5.3 million and approximately RMB6.2 million for the year ended 31 December 2016 and 2017, respectively. Such increase was primarily due to the increased value-added tax refund which was in line with our business growth.

Selling and distribution expenses

The Group's selling and distribution expenses has increased by approximately 46.3% from approximately RMB5.4 million for the year ended 31 December 2016 to approximately RMB7.9 million for the year ended 31 December 2017. Such increase was primarily due to our enhanced efforts in marketing our APM services and products to build up broader customer awareness.

Research and development expenses

The Group's research and development ("R&D") expenses has increased by approximately 60.9% from approximately RMB9.2 million for the year ended 31 December 2016 to approximately RMB14.8 million for the year ended 31 December 2017. Such increase was primarily due to the higher labour costs resulting from an increased R&D headcount and compensation base and the purchase of equipment to conduct development and tests for our new R&D projects.

Administrative expenses

The Group's administrative expenses has decreased by approximately 27.0% from approximately RMB21.5 million for the year ended 31 December 2016 to approximately RMB15.7 million for the year ended 31 December 2017, which was primarily due to the fact that no Listing expenses were incurred for the year ended 31 December 2017.

Profit before tax

The Group's profit before tax has increased by approximately 136.6% from approximately RMB13.1 million for the year ended 31 December 2016 to approximately RMB31.0 million for the year ended 31 December 2017.

Income tax expenses

The Group's income tax expenses have increased by approximately 203.4% from approximately RMB2.9 million for the year ended 31 December 2016 to approximately RMB8.8 million for the year ended 31 December 2017, which was primarily due to an increase in profit before tax. The increase in income tax expenses, however, was higher than the increase in profit before tax, due to the Group recognised a relevant deferred tax liability of RMB2.9 million (2016: Nil) on dividends declared by Vixtel Technologies Limited for the year ended 31 December 2017.

Net profit for the year

As a result of the foregoing reasons, the Group's net profit has increased by approximately 117.0% from approximately RMB10.2 million for the year ended 31 December 2016 to approximately RMB22.2 million for the year ended 31 December 2017. The Group's net profit margin increased from approximately 13.8% for the year ended 31 December 2016 to approximately 20.3% for the year ended 31 December 2017. The increase in net profit and net profit margin was mainly due to the increase in the operating revenue of the Group and no Listing expenses were incurred for the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2017, the Group mainly financed the capital expenditures and working capital requirements through cash flow from operations.

The Group's net current assets increased from approximately RMB111.9 million as at 31 December 2016 to approximately RMB130.9 million as at 31 December 2017. Our cash and cash equivalents were approximately RMB74.5 million as at 31 December 2017 (as at 31 December 2016: approximately RMB89.1 million).

As at 31 December 2017, the Group had no borrowings and thus no gearing ratio was calculated. The calculation of gearing ratio is based on the total borrowings divided by total equity and multiplied by 100.0%.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The Group's main operations are in China with most of its transactions being settled in RMB. Some of the Group's cash and bank deposits are denominated in Hong Kong dollars ("HK\$"). The Group did not experience any impact or difficulties in liquidity on its operations resulting from currency exchange and no hedging transaction or forward contract arrangement was made by the Group during the year ended 31 December 2017. In this respect, the Group is not exposed to any significant foreign currency exchange risk. However, the management will closely monitor foreign exchange risk to ensure that appropriate measures are implemented in a timely and effective manner.

CAPITAL STRUCTURE

The shares of the Company were successfully listed on GEM of the Stock Exchange on 15 December 2016. There has been no change in the capital structure of the Group since then. The share capital of the Group only comprises ordinary shares.

As at 31 December 2017, the Company's issued share capital was HK\$4,867,450 and the number of its issued ordinary shares was 486,745,000 of HK\$0.01 each.

OPERATING LEASE COMMITMENTS

As at 31 December 2017, the Group had operating lease commitments in respect of rented office of approximately RMB2.4 million (2016: approximately RMB1.0 million).

MATERIAL COMMITMENTS OR CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material commitments or contingent liabilities (2016: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the Prospectus, the Group did not have any substantial future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the year ended 31 December 2017, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

For the year ended 31 December 2017, the Group did not hold any significant investments nor made any significant acquisition of capital assets.

CHARGE ON GROUP'S ASSETS

As at 31 December 2017, the Group had no charges on the Group's assets.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As of 31 December 2017, the Group had 265 employees. The staff costs including Directors' emoluments was approximately RMB37.7 million for the year ended 31 December 2017 (2016: approximately RMB22.9 million).

The employees' compensation of the Group includes basic salary, bonuses and cash subsidies. The Group determines employees' compensation based on each employee's performance, qualifications, position and seniority.

The Company adopted a share option scheme (the "**Share Option Scheme**") on 21 November 2016 to provide incentives and rewards to eligible persons for their contribution to, and continuing efforts to promote the interest of, the Group.

The Company recognizes the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory requirements and environment for such listed company. To meet this goal, the Group is committed to our employees' continuing education and development.

The Group provides various training programs to the employees, such as corporate culture training and initial training for new employees with a view to improving staff knowledge in a number of important areas of our services, on a quarterly basis. Internal training programs of our Group are also dynamic and tailored in accordance with the particular stage of the Group's development.

PRINCIPAL RISKS AND UNCERTAINTIES

- A substantial amount of our revenue is derived from the contracts entered into with the subsidiaries of the China's largest telecom group and any decrease or loss of business from them could adversely and substantially affect our business, results of operations and financial conditions.

MANAGEMENT DISCUSSION AND ANALYSIS

Leveraging the Group's position as a leading provider of APM products and services in China's telecommunications industry, the Group is now expanding business to China's second and third largest telecom groups and the broadcasting and television industry. Given that the network architectures and technologies of China's telecom groups are quite similar, the Company's products and services can meet their needs. The Group has also established a sales team to promote our new SaaS cloud platform products to small and medium-sized enterprise customers. The Group is also actively promoting the diversification of customers which will effectively reduce the risk.

- We may be exposed to payment delays and/or defaults by our customers, particularly our largest customer, the China's largest telecom group, which would adversely affect our cash flow or financial results.

The Group has established a special team to follow up with the payment status of the customer contracts, to strictly review the terms and conditions of the contracts and to avoid and reduce the delay in payment or delinquency.

- We rely on staff in our R&D department to maintain and enhance our products and services. Failure to retain staff in our R&D department would materially and adversely affect our business, financial conditions and results of operations.

The Group has provided competitive compensation and benefits to retain the outstanding employees. Meanwhile, the Group has strengthened the training of our new staff in order to avoid the impact of employee turnover on our business operations. The Group has also actively considered the employee share option scheme incentive program to increase R&D staff loyalty and to reduce employee turnover.

- Our revenue is mainly derived from projects which are not recurring in nature and any decrease in the number of projects would affect our operations and financial results.

The Group is vigorously promoting products to other telecom operators and the broadcasting and television industry to increase the number of projects and to heighten the proportion of the services that can be renewed each year in these projects. The new cloud-based SaaS application performance management system will provide a large number of small and medium-sized enterprise customers with long-term and sustainable services, which will effectively reduce the Group's dependence on the revenue derived from one-time projects.

- Our business may be subject to seasonal effects, and any disruption of business during the peak seasons could adversely affect our liquidity and results of operations.

The Group actively expands our customer base, including small and medium-sized enterprises and overseas markets, to lessen the seasonal impact of a single industry and strengthen our contract/order management to avoid the impact of the excessive concentration of business in a quarter on the Group's cash flow and performance.

KEY FINANCIAL AND BUSINESS PERFORMANCE INDICATORS

The key financial and business performance indicators comprise profitability growth and return on equity. Details of the Group's profitability growth are shown in the paragraph headed "Net profit for the year" in this section of this annual report.

The Group's return on equity increased from 9.0% for the year ended 31 December 2016 to 16.7% for the year ended 31 December 2017. The significant increase was primarily due to the significant increase in net revenue.

USE OF PROCEEDS

The Shares of the Company were listed on GEM of the Stock Exchange on the Listing Date, of which 102,800,000 new shares of HK\$0.74 each were issued by the Company. The net proceeds from the listing of the Company, after deduction of the underwriting fees and other related expenses, was approximately HK\$57.4 million. The Company intends to apply proceeds in the manner as described under the section headed "Future Plans and Use of Proceeds" in the Prospectus.

The future plans and the planned use of proceeds disclosed in the Prospectus were based on the Group's best estimate on the future market condition during the preparation of the Prospectus, and the proceeds have been applied taking into consideration the actual business and market development. As at the date of this report, the Group expects that the planned use of proceeds from the Listing will remain unchanged. Most of the unutilized net proceeds have been deposited into a bank account maintained by the Group.

As of 31 December 2017, the net proceeds from the Listing have been applied and utilized as follows:

Use of net proceeds	Planned amount as presented in the Prospectus (HK\$ million)	Approximate percentage of total net proceeds	Actual utilized amount as of 31 December 2017 (HK\$ million)	Unutilized net proceeds as of 31 December 2017 (HK\$ million)
Further solidify our leadership in China's APM market	17.22	30%	5.37	11.85
Continue to strengthen in-house R&D capabilities	22.96	40%	7.00	15.96
Leverage growth opportunities in China and strategically expand into certain overseas markets	11.48	20%	3.67	7.81
Fund general corporate purposes	5.74	10%	1.78	3.96
Total	57.40	100%	17.82	39.58

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

For the period from 1 January 2017 to 31 December 2017

Business strategy	Business objectives for the period from 1 January 2017 to 31 December 2017	Actual business progress during the year ended 31 December 2017
Further solidify our leadership in China's APM market	Improve the functionalities and add new features for our existing products	<p>As an industry leading product, OTT/IPTV end-to-end management platform was developed and launched to the market. The relevant core technology of video quality analysis, which is based on probe software for set-top box, were developed and delivered to users in the fourth quarter of the year. It received good response with orders from key OTT/IPTV operators in the PRC. It is expected to bring good return to the Company continuously.</p> <p>A cloud computing central APM system for both private and public cloud applications was developed. Meanwhile, APM features for SDN/NFV were developed and put into trial operation.</p> <p>Data mining system based on big data analysis was added to existing flagship products. Frontend load balancing feature was enhanced, capable of sustaining millions of monitoring points and providing the basis for Internet of Things support of the system. CDN on IPIV performance analysis was strengthened to support rapid CDN development.</p>
	Enter into additional sales agreements for system integration projects with major customers through continued marketing efforts	The Company has entered into new procurement contracts with its existing customers to purchase its new products.
	Participate in major marketing events held by the relevant industry organizations and organize free online or on-site training and expert speaker sessions to broaden our customer awareness of our products and services	The Group has participated in marketing events and exhibitions held by relevant industry organizations during the period and plans to participate in other marketing events during the next year to broaden our customer awareness of our products and services.

MANAGEMENT DISCUSSION AND ANALYSIS

Business strategy	Business objectives for the period from 1 January 2017 to 31 December 2017	Actual business progress during the year ended 31 December 2017
Continue to strengthen in-house R&D capabilities	Recruit additional talented R&D personnel	Experienced R&D engineers were additionally recruited to strengthen our in-house R&D capabilities
	Develop new products and contents	Core features of SaaS products were developed. A user perception test on Android and iOS App was developed on SaaS platform. The App is subject to further upgrading in meeting the needs of the users. The market of SaaS-based products is developing with trial products offered for free, which are changing to paid products. The Company has developed an internet end-to-end APM platform and made it commercialized during the year. The relevant core technology based on active monitoring for services quality of embedded equipment were developed in the fourth quarter of the year. With good response in the market and a number of user contracts being entered into, the products become the key products of the Company in 2018. Our development team is making progress in the development of a big data analysis system from framework building to code development and completion of products. The Company is confident in the sales of such big data products in the market.
Leverage growth opportunities in China and strategically expand into certain overseas markets	Recruit additional service specialists to further expand our technical support service department into 31 provinces and regions in China	Additional technical service engineers were recruited to optimize technical support and advisory services provided to our clients.
	Set up an overseas development department consisting of R&D, sales and technical support service members specialized in overseas markets such as Asia- Pacific countries	Agreements were signed with overseas partners. Efforts of overseas sales and bidding have been made with first batch of orders received.
	Promote our new products and services across China	Agreements were signed with various domestic partners to jointly exploit opportunities in new markets and promote new products and services. The first batch of orders have been received.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Yue Yong (“**Mr. Yue**”), aged 45, was re-designated as the Chairman and executive Director of the Company on 28 July 2016 and is primarily responsible for the overall management and corporate policy making of the Group’s business operations. Mr. Yue is also our Chief Technology Officer and is responsible for overseeing the engineering and technical operations as well as research and development of the Group.

Mr. Yue obtained a bachelor’s degree in information engineering and a master’s degree in engineering from Xidian University (西安電子科技大學) in July 1994 and March 1997 respectively. Mr. Yue joined our Group as the technical director in September 2006 and has over 18 years of experience in the Internet and software industry. Prior to joining the Group, Mr. Yue worked as an application engineer in the Agilent Technologies Group (安捷倫科技集團).

Mr. Sie Tak Kwan (“**Mr. Sie**”), aged 41, was re-designated as an executive Director and Chief Executive Officer of the Company on 28 July 2016. He is primarily responsible for the overall planning, management and strategic development of and overseeing the operations of the Group’s business. Mr. Sie has over 16 years of experience in high-technology software solution industry. Mr. Sie graduated from the Hong Kong Polytechnic University with a bachelor’s degree in electronic engineering in November 2000. He further obtained a master’s degree of science in communication engineering from the University of Hong Kong in December 2003. Mr. Sie joined the Group as a supervisor in December 2010. Prior to joining the Group, Mr. Sie has worked as an application engineer and the Asia Business Development Manager of the Electronic Measurements Group at Agilent Technologies Hong Kong Limited (安捷倫科技香港有限公司) successively.

Mr. Guan Haiqing (“**Mr. Guan**”), aged 43, was re-designated as an executive Director on 28 July 2016. Mr. Guan has been the Chief Sales Officer of the Group since 18 January 2016 and is primarily responsible for overseeing the sales and marketing activities of the Group. Mr. Guan graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor’s degree in automation in July 1995. Mr. Guan has over 17 years of sales and marketing experience in high technology software solution enterprises. Prior to joining the Group, Mr. Guan has worked in the capacity of research and development engineer and a testing engineer in Shanghai Bell Alcatel Mobile Communication System Company Limited (上海貝爾阿爾卡特移動通訊系統有限公司) from April 1996 to April 2000 and the sales manager of Agilent Technologies Group (安捷倫科技集團) from June 2000 to April 2010. Mr. Guan then worked in the sales department of JDSU Photoelectric Technology (Beijing) Co., Ltd (捷迪訊光電技術(北京)有限公司) from August 2010 to June 2013. Prior to joining the Group, Mr. Guan worked as a senior sales manager at JDSU Communication Technology (Shenzhen) Co., Ltd (Shanghai Branch) (捷迪訊通訊技術(深圳)有限公司(上海分公司)).

NON-EXECUTIVE DIRECTOR

Mr. Liang Judong (“**Mr. Liang**”), aged 48, was re-designated as a non-executive Director of the Company on 28 July 2016 and is responsible for providing advice on the strategic development of the Group. Mr. Liang obtained a bachelor’s degree in industrial electronics and automation from the South China University of Technology (華南理工大學) in July 1991. Mr. Liang worked as a sales manager of the Group from January 2012 to March 2016 and has over 19 years of sales and marketing experience. Prior to joining the Group, Mr. Liang joined Agilent Technologies Group (安捷倫科技集團) as a senior sales engineer from December 1997 to April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Hon Fai (“**Mr. Cheung**”), aged 43, was appointed as an independent non-executive Director of the Company on 21 November 2016. Mr. Cheung obtained a bachelor’s degree in accountancy from the Hong Kong Polytechnic University in November 1996 and a postgraduate diploma in enterprise risk management from the School of Professional and Continuing Education of the University of Hong Kong in May 2011. Mr. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 20 years of experience in accounting and finance. He is a Certified Public Accountant in Hong Kong and is currently the Group Financial Controller of Well Capital Corporation Limited.

Professor Lam Kin Man (“**Professor Lam**”), aged 55, was appointed as an independent non-executive Director of the Company on 21 November 2016. Professor Lam obtained a master’s degree of science in communication engineering from the Imperial College of Science and Technology of the University of London in December 1987. He further obtained a doctorate degree of philosophy from the University of Sydney in October 1996. Since July 2010, Professor Lam has served as a professor of the Electronic and Information Engineering Department in the Hong Kong Polytechnic University. Currently, he is a member of the Board of Governors of the Asia-Pacific Signal and Information Processing Association, being responsible for the member relations and development of the association.

Mr. Shen Qi (“**Mr. Shen**”), aged 43, was appointed as an independent non-executive Director of the Company on 21 November 2016. Mr. Shen graduated from the China Jiliang University (中國計量大學) (formerly known as 中國計量學院) with a bachelor’s degree in information engineering in July 1997 and obtained another bachelor’s degree in economics law from the Jilin University (吉林大學) in July 1998. He is a qualified solicitor and has been practicing law in the PRC since May 1999. Mr. Shen had worked as a lawyer at Shanghai Xinmin Law Firm (上海市新閔律師事務所) from April 2003 to May 2013 and was promoted as a partner of the firm in 2008. Currently, Mr. Shen is a partner of Shanghai Qi Dao Law Firm (上海祺道律師事務所).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

COMPANY SECRETARY

Mr. Cheung Kai Cheong Willie (“**Mr. Cheung**”), is a manager of SW Corporate Services Group Limited, mainly responsible for assisting listed companies in professional company secretarial work. Prior to joining SW Corporate Services Group Limited, he served as the company secretary and finance controller of certain companies whose shares are listed on the Stock Exchange. He has more than 19 years of professional experiences in company secretarial, accounting and finance matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He obtained a Bachelor Degree of Arts (Honors) in Accounting and Finance at the University of Glamorgan in the United Kingdom in June 1996.

SENIOR MANAGEMENT

Ms. Sie Chun Yu (“**Ms. Sie**”), aged 45, joined the Group as our financial controller on 4 July 2016. Ms. Sie is primarily responsible for the overall management of the finance and accounting operations and providing financial strategic planning, budgeting and forecast to the Group. Ms. Sie is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the CPA Australia Ltd. She obtained a bachelor’s degree in business administration in accounting from the Hong Kong Baptist University in November 1995 and a master’s degree in corporate finance from the Hong Kong Polytechnic University in December 2006. Ms. Sie has over 20 years of experience in the field of audit and financial management. Prior to joining the Group, she was a financial controller of EE Hobbies Australia Pty Ltd.

Mr. Liu Zewei (“**Mr. Liu**”), aged 35, is the head of the research and development department of the Group and joined our Group on 27 December 2007. He is primarily responsible for leading the research and development department. Mr. Liu obtained a bachelor’s degree in computer science and technology from the Shanxi University (山西大學) in July 2004. He has over 10 years of experience in the research and development of software systems. Prior to joining the Group, Mr. Liu worked as an engineer with Shenzhen Smartcom Business Co., Ltd (慧通商務(深圳)有限公司) from December 2005 to September 2007.

Mr. Yuan Feixiong (“**Mr. Yuan**”), aged 33, was appointed as the research director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for research, development and management of the SaaS cloud products division of the Group. Mr. Yuan graduated from the College of Computer and Communication of Hunan University (湖南大學計算機與通信學院) (now known as the College of Computer Science and Electronic Engineering, Hunan University (湖南大學資訊科學與工程學院)) in 2006 with a bachelor’s degree in Communication Engineering. Mr. Yuan has more than 10 years of experience in research and development of communications software. Prior to joining the Group in 2016, he served as a senior research and development engineer in LeCloud Computing Co., Ltd (樂視雲計算有限公司).

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Ren Dong (“Ms. Ren”), aged 42, was appointed as the financial controller of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 27 June 2017 and is responsible for the management of accounting and financial operations of the subsidiaries of the Group. Ms. Ren is a Certified Public Accountant in China, an associate member of the China Institute of Certified Public Accountants, Certified Internal Auditor and an internal auditor of the Beijing Institute of Internal Auditors (北京註冊內部審計師). Ms. Ren graduated from Capital University of Economics and Business in 1998 with a bachelor’s degree in accounting. Ms. Ren has worked at Pan Asia Certified Public Accountants Limited and Deloitte Touche Tohmatsu CPA Ltd. Beijing Branch. She has also worked as the Financial Analysis Supervisor at Beijing Innovative Linkage Technology Ltd.. Prior to joining the Group, she has worked as the Financial Analysis Manager at Beijing RITT-Net Technology Development Co.,Ltd (北京華瑞網研科技有限公司).

Mr. Ma Xuejia (“Mr. Ma”), aged 35, was appointed as the technical services director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the management and coordination of technical departments of the Group. Mr. Ma was previously responsible for the pre-sale management and technical support of the Group’s products. Prior to joining the Group in 2009, he worked in Guangdong Eshore Technology Co., Ltd., a wholly owned subsidiary of China Telecom, as a System Integration Engineer.

Mr. Wu Peng (“Mr. Wu”), aged 37, was appointed as the group customer sales director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the group customer sales of products and services of the Group. Mr. Wu was previously responsible for pre-sale technical support of the Group’s products. He graduated from Xi’an Technological University (西安工業學院) in 2003 with a bachelor’s degree in engineering (electronic and information engineering) and holds qualifications of Project Management Professional (PMP) certification and network engineer. Mr. Wu has over 10 years of experience in research and sales of network communication solutions. Prior to joining the Group in 2010, he worked as an engineer at Huawei Technologies Co., Ltd..

Mr. Zhang Haoyu (“Mr. Zhang”), aged 42, was appointed as the key account sales director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the sales of products and services to the Group’s key accounts. He graduated from Beijing Xicheng Economic Science University in 1999 and has over 15 years of experience in the sales of network communication solutions. Prior to joining the Group in 2013, he worked at the sales department of Chengdu Evercreative Technology Co.,Ltd. (成都九鼎瑞信網路技術有限公司).

REPORT OF DIRECTORS

The Directors is pleased to present the annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2017 to the shareholders.

CORPORATE REORGANIZATION

The Company was incorporated with limited liability in the Cayman Islands on 10 November 2015.

In preparing for the Listing of the Company's shares on GEM of the Stock Exchange, the Group underwent the corporate reorganisation (the "**Reorganisation**"). Details of the Reorganisation are set out in the Prospectus. Upon the completion of the Reorganisation on 8 July 2016, the Company became the holding company of the companies now comprising the Group.

The Shares of the Company were listed on GEM of the Stock Exchange with effect from 15 December 2016. There has been no change in the capital structure of the Group since then.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the provision of Internet and Web APM products and services. Details of the principal activities of its subsidiaries are set out in note 1 to the consolidated financial statements. There were no significant changes in the nature of the principal activities of the Group during the year.

BUSINESS REVIEW

Part of the business review as required under Schedule 5 of the Companies Ordinance is included in the sections headed "Chairman's statement" in this annual report on page 4 to 5, and "Management Discussion and Analysis" in this annual report on page 7 to 17, and such discussion forms part of this directors' report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2017 and the consolidated statement of profit or loss and other comprehensive income of the Group as at that date are set out in the consolidated financial statements on page 53 of this annual report.

The Board has resolved to declare a final dividend of HK\$1.20 cents (equivalent RMB1 cent) per Share for the year ended 31 December 2017 out of the share premium account of the Company, which will be paid on or about 26 April 2018 to the shareholders whose names appear on the register of members of the Company on 18 April 2018 (2016: Nil).

On 8 August 2017, the Board resolved to declare and pay an interim dividend of HK\$0.60 cents per Share for the six months ended 30 June 2017 to the shareholders of the Company whose names appeared on the register of members of the Company on 6 September 2017.

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting (the “**AGM**”) is scheduled to be held on Friday, 23 March 2018. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 19 March 2018 to Friday, 23 March 2018, both days inclusive, during which period no transfer of Shares of the Company will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen’s Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 16 March 2018.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2017 is set out in the financial summary on page 103 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2017 are set out in note 13 to the consolidated financial statements.

ISSUED CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2017 are set out in note 23 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company’s articles of association (the “**Articles**”) or the laws of the Cayman Islands, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Since the first date of Listing of the shares of the Company on GEM, i.e. 15 December 2016, neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the year ended 31 December 2017 save for those related to the Reorganisation.

REPORT OF DIRECTORS

RESERVES

Details of movements in the reserves of the Group are set out in note 24 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands, Chapter 22 (Law 3 of 1961, as consolidated and revised), other than share premium, no other distributable reserve is available for distribution to Shareholders by the Company as at 31 December 2017,

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 45.9% (2016: approximately 41.6%) of the total turnover during the year ended 31 December 2017 and sales to the largest customer during the same period amounted to approximately 19.9% (2016: approximately 13.6%).

Purchases from the Group's five largest suppliers accounted for approximately 63.3% (2016: approximately 57.1%) of the total purchases during the year ended 31 December 2017 and purchases from the largest supplier during the same period amounted to approximately 33.5% (2016: approximately 31.0%).

To the best knowledge of the Directors, none of the Directors, or any of their associates or any Shareholders (own more than 5% of the Company's issued share capital) had any beneficial interest in the share capital of any of the five largest customers or suppliers of the Group in 2017.

DIRECTORS

The Directors of the Company who held office during the year ended 31 December 2017 and up to the date of this annual report were as follows:

Executive Directors

Mr. Yue Yong (*Chairman*)
Mr. Sie Tak Kwan (*Chief Executive Officer*)
Mr. Guan Haiqing (*Chief Sales Officer*)

Non-executive Director

Mr. Liang Judong

Independent non-executive Directors

Mr. Cheung Hon Fai
Professor Lam Kin Man
Mr. Shen Qi

Pursuant to Article 108 of the Articles, at each annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years. Therefore, Mr. Yue Yong, Mr. Liang Judong and Mr. Cheung Hon Fai will retire from office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographic details of the Directors and senior management of the Group are set out on page 18 to page 21 of this annual report.

DIRECTOR'S SERVICE CONTRACTS/LETTERS OF APPOINTMENT

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service agreement or a letter of appointment (as the case may be) with the Company for an initial term of three (3) years commencing from the Listing Date which may only be terminated in accordance with the provision of the service agreement or letter of appointment (as the case may be).

Save as disclosed above, none of the Directors has entered into any service agreements with the Company which is not determinable by the Group within one year without payment of compensation other than the statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director had material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2017.

COMPETING INTERESTS

During the year ended 31 December 2017, none of the Directors or the controlling Shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

REPORT OF DIRECTORS

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDERS

On 21 November 2016, Cohort Investments Limited, Copious Link Investments Limited, Hugemind Investments Limited, Worldgate Ventures Limited, Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong (the “**Controlling Shareholders**”) entered into a deed of non-competition (“**Deed of Non-Competition**”) in favour of the Company (for itself and as trustee for each of its subsidiaries), pursuant to which each Controlling Shareholder, jointly and severally, warrants and undertakes to the Company that, from the Listing Date, he/it shall not, and shall procure his/its close associates or any company directly or indirectly controlled by him/it (other than members of the Group) not to directly or indirectly, carry on, participate, engage or otherwise be interested in any business in anywhere or place which is or may be in competition with the business of any members of the Group from time to time. For details of the Deed of Non-Competition, please refer to the section headed “Relationship with Our Controlling Shareholders” in the Prospectus.

Each Controlling Shareholder has confirmed to the Company of its/his compliance with the Deed of Non-Competition from the Listing Date up to the date of this annual report. The independent non-executive Directors have also reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders since the Listing Date and up to the date of this annual report.

EMOLUMENT POLICY

The Remuneration Committee of the Company was set up for reviewing and determining the Group’s emolument policy and structure for all remuneration of the Directors and senior management based on the Group’s operating results, individual performance and comparable market practices

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 to 9 to the consolidated financial statements, respectively.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year ended 31 December 2017.

SHARE OPTION SCHEME

The Company adopted the Share Option Scheme on 21 November 2016 to provide incentives and rewards to eligible persons for their contribution to, and continuing efforts to promote the interest of, the Group.

Details of the Share Option Scheme are as follows:

- | | | |
|----|--|--|
| 1. | Purpose of the Share Option Scheme | The purpose of the Share Option Scheme is to enable the Company to grant options to Eligible Persons as incentives or rewards for their contribution to the Group. |
| 2. | Who may join | Any eligible employee (full time or part-time), executive director, non-executive director and independent non-executive director, advisor and consultant of the Group. |
| 3. | Total number of shares available for issue under the Share Option Scheme and percentage to the issued share capital as at the date of this annual report | 48,674,500 Shares (equivalent to 10% of the total issued share capital as at the date of this annual report). |
| 4. | Subscription Price | <p>The Subscription price shall be a price determined by the Board, but in any case shall not be less than the highest of:</p> <ul style="list-style-type: none"> (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a trading day; (ii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share on such date of grant. |
| 5. | Maximum entitlement of each participant | The total number of Shares issued and to be issued upon exercise of options granted in any 12-month period to a Participant under this Share Option Scheme and other schemes must not exceed 1% of the Shares in issue. |
| 6. | Time of acceptance | An offer of the grant of option may be accepted by the Eligible Person within 28 days from the date of the offer of grant of options. |
| 7. | Option period | A period which may not expire later than 10 years from the date of the offer of to be determined and notified by Directors to the grantee thereof |
| 8. | Rights are personal to grantee | An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber, or create any interest in favour of any third party over or in relation to any option. |

REPORT OF DIRECTORS

Since the adoption of the Share Option Scheme and up to the date of this annual report, no share options have been granted pursuant to the Share Option Scheme. On 31 December 2017 and as of the date of this annual report, the Company does not have any outstanding share options, warranties, derivatives or securities that are convertible into or exchangeable for shares.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as described above, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year ended 31 December 2017 or subsisted at the end of that period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2017, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the required standards of dealing by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules were as follows:

Long Positions in Shares

Name of Directors	Capacity/nature of interests	Number of Shares held	Approximate percentage of shareholding
Mr. Yue Yong (Notes 1 and 2)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	63.70%
Mr. Sie Tak Kwan (Notes 1 and 3)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	63.70%
Mr. Guan Haiqing (Notes 1 and 4)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	63.70%
Mr. Liang Judong (Notes 1 and 5)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	63.70%

Notes:

1. Pursuant to the deed of concert parties dated 11 August 2016 as supplemented by a supplemental deed dated 10 November 2016 (the "Deed of Concert Parties"), Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong confirm, agree and acknowledge, among other things, that they are parties acting in concert in respect of the Group since 29 December 2010. As such, pursuant to the Deed of Concert Parties, each of Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong is deemed to be interested in 63.70% of the issued share capital of the Company.
2. Shares in which Mr. Yue Yong is interested consist of (i) 103,335,000 Shares held by Worldgate Ventures Limited, a company wholly-owned by him, in which Mr. Yue Yong is deemed to be interested under the SFO; and (ii) 206,705,000 Shares in which Mr. Yue Yong is deemed to be interested as a result of being a party acting-in-concert with Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong.
3. Shares in which Mr. Sie Tak Kwan is interested consist of (i) 103,335,000 Shares held by Cohort Investments Limited, a company wholly-owned by him, in which Mr. Sie Tak Kwan is deemed to be interested under the SFO; and (ii) 206,705,000 Shares in which Mr. Sie Tak Kwan is deemed to be interested as a result of being a party acting-in-concert with Mr. Yue Yong, Mr. Guan Haiqing and Mr. Liang Judong.
4. Shares in which Mr. Guan Haiqing is interested consist of (i) 72,365,000 Shares held by Copious Link Investments Limited, a company wholly-owned by him, in which Mr. Guan Haiqing is deemed to be interested under the SFO; and (ii) 237,675,000 Shares in which Mr. Guan Haiqing is deemed to be interested as a result of being a party acting-in-concert with Mr. Sie Tak Kwan, Mr. Yue Yong and Mr. Liang Judong.
5. Shares in which Mr. Liang Judong is interested consist of (i) 31,005,000 Shares held by Hugemind Investments Limited, a company wholly-owned by him, in which Mr. Liang Judong is deemed to be interested under the SFO; and (ii) 279,035,000 Shares in which Mr. Liang Judong is deemed to be interested as a result of being a party acting-in-concert with Mr. Sie Tak Kwan, Mr. Yue Yong and Mr. Guan Haiqing.

Save as disclosed above, as at 31 December 2017, 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 (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required to be recorded pursuant to section 352 of the SFO, or 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 SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, Shareholders (other than Directors and the chief executive of the Company) who had interests or short positions in the Shares and 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 which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

REPORT OF DIRECTORS

Long Positions in Shares

Name of Shareholder	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding (Note 1)
Worldgate Ventures Limited (Note 2)	Beneficial owner	103,335,000	21.23%
Ms. Li Duan (Note 3)	Interest of spouse	310,040,000	63.70%
Cohort Investments Limited (Note 4)	Beneficial owner	103,335,000	21.23%
Ms. Chen Baozhu (Note 5)	Interest of spouse	310,040,000	63.70%
Copious Link Investments Limited (Note 6)	Beneficial owner	72,365,000	14.87%
Ms. Gu Wei (Note 7)	Interest of spouse	310,040,000	63.70%
Hugemind Investments Limited (Note 8)	Beneficial owner	31,005,000	6.37%
Ms. Bai Xiaoqian (Note 9)	Interest of spouse	310,040,000	63.70%
Sino Impact Limited	Beneficial owner	54,710,000	11.24%
Mr. Kwan Shan (Note 10)	Interest in a controlled corporation; Interest of spouse	54,710,000	11.24%
Ms. Tam Suk Fan Sindy (Note 10)	Interest in a controlled corporation; Interest of spouse	54,710,000	11.24%
Mr. Ruan David Ching-chi (Note 11)	Interest in a controlled corporation	24,400,000	5.01%
RAYS Capital Partners Limited (Note 11)	Investment manager	24,400,000	5.01%

Notes:

- As at 31 December 2017, the Company had 486,745,000 Shares in issue.
- Worldgate Ventures Limited is wholly-owned by Mr. Yue Yong. Under the SFO, Mr. Yue Yong is deemed to be interested the Shares held by Worldgate Ventures Limited.
- Ms. Li Duan is the spouse of Mr. Yue Yong. Under the SFO, Ms. Li Duan is deemed to be interested in the same number of Shares in which Mr. Yue Yong is interested.
- Cohort Investments Limited is wholly-owned by Mr. Sie Tak Kwan. Under the SFO, Mr. Sie Tak Kwan is deemed to be interested the Shares held by Cohort Investments Limited.

5. Ms. Chen Baozhu is the spouse of Mr. Sie Tak Kwan. Under the SFO, Ms. Chen Baozhu is deemed to be interested in the same number of Shares in which Mr. Sie Tak Kwan is interested.
6. Copious Link Investments Limited is wholly-owned by Mr. Guan Haiqing. Under the SFO, Mr. Guan Haiqing is deemed to be interested the Shares held by Copious Link Investments Limited.
7. Ms. Gu Wei is the spouse of Mr. Guan Haiqing. Under the SFO, Ms. Gu Wei is deemed to be interested in the same number of Shares in which Mr. Guan Haiqing is interested.
8. Hugemind Investments Limited is wholly-owned by Mr. Liang Judong. Under the SFO, Mr. Liang Judong is deemed to be interested the Shares held by Hugemind Investments Limited.
9. Ms. Bai Xiaoqian is the spouse of Mr. Liang Judong. Under the SFO, Ms. Bai Xiaoqian is deemed to be interested in the same number of Shares in which Mr. Liang Judong is interested.
10. Mr. Kwan Shan and Ms. Tam Suk Fan Sindy, each holds 50% of Sino Impact Limited, which directly holds 54,710,000 Shares. By virtue of the SFO, Mr. Kwan Shan and Ms. Tam Suk Fan Sindy are deemed to be interested in the 54,710,000 Shares in which Sino Impact Limited is interested.
11. Mr. Ruan David Ching-chi holds 95.24% of RAYS Capital Partners Limited, which holds 24,400,000 Shares. By virtue of the SFO, Mr. Ruan David Ching-chi is deemed to be interested in the 24,400,000 Shares in which RAYS Capital Partners Limited is interested.

Save as disclosed above, as at 31 December 2017, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who held an interest 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 which were recorded in the register required to be kept 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 in Shares" above, at no time during the year ended 31 December 2017 and up to the date of this annual report, have the Directors and chief executive of the Company and their respective close associates (as defined in 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).

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 5.09 of the GEM Listing Rules and considers all the independent non-executive Directors to be independent.

REPORT OF DIRECTORS

CORPORATE GOVERNANCE

The Company has complied with all the code provisions set out in the Corporate Governance Code as contained in Appendix 15 to the GEM Listing Rules from the Listing Date to 31 December 2017. A report on the principal corporate governance practices adopted by the Company is set out on page 35 to page 46 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Directors confirm that at least 25% of the Company's total issued share capital was held by the public as at the date of this annual report.

RELATIONSHIPS WITH STAKEHOLDERS

Employees

Talent has always been regarded as one of the most important and precious assets of the Group. The Group is committed to providing talented people with safe and comfortable working environment. The Group has also set up a sound management system, which provides reasonable salary and social welfare to attract and retain outstanding personnel with rich knowledge and experience to join us. In addition, the Group also provides regular training for technical staff. During the year ended 31 December 2017, there were no material labour disputes between the Group and the employees, and the Group has maintained good relations with its employees.

Customers

The Group has maintained long-term and stable business relationships with large and reputable customers, including subsidiaries of the China's largest telecom group. The Group has established our business relationship with the subsidiaries of the China's largest telecom group for more than 10 years, since 2007. To optimize the quality of its products, the Group constantly collects feedback from its customers. During the year ended 31 December 2017, the Group did not have any material disputes with its customers and has maintained good relationship with them.

Suppliers

The Group procures hardware and installation engineering services from various suppliers to minimize the risk of disruption of our operations. In particular, the Group has maintained 6 years of business relationship with its largest supplier. During the year ended 31 December 2017, the Group did not have any material disputes with its suppliers and has maintained good relationship with them.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's business does not involve any natural resources emissions. However, the Group is committed to implement policies and measures to minimise the Group's operation impact on the environment. During the year ended 31 December 2017, the Group adopted the following policies to improve the environmental quality:

- The use of electricity in office must comply with the principles of power saving, high efficiency and low consumption.
- Lights and electronic appliances in workplace must be turned off when not in use.
- Every member of the staff and management must turn off the power of computers, photocopiers, facsimile machines and other electronic equipment when they are off duty or on leave.
- Adjusting the heat supply system to low settings during the winter period and strictly implementing the rule that "the office air conditioning temperature setting shall not be lower than 26°C in summer and not higher than 16°C in winter".
- Strengthening the management of office resources consumption, making full use of e-government functions, reducing the amount of paper printing and promoting the reuse of double-sided papers, envelopes and duplicating papers.
- Improving material utilization and promoting the recycling of waste and renewable resources.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements which could lead to adverse impact on business operation and financial position of the Group. The Board as a whole is responsible to ensure that the Group is in compliance with the relevant laws and regulations. The laws and regulations which have a significant impact on the Group include, among others, copyright Law of the PRC, the Regulations on Computer Software Protection the Patent Law of the PRC, the Trademark Law of the PRC and the provisions on protection of personal Information of Telecommunication and Internet User. To the best knowledge of the Board, the Group has complied with relevant laws and regulations during the year ended 31 December 2017.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance adviser, KGI Capital Asia Limited (the "**Compliance Adviser**"), for the year ended 31 December 2017, none of the Compliance Adviser or its directors, employees or associates (as defined in the GEM Listing Rules) had any interest in the Group or in the share capital of any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the reporting period. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors.

REPORT OF DIRECTORS

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2017 are disclosed in note 26 to the consolidated financial statements. The related party transactions did not fall within the definition of “connected transaction” or “continuing connected transaction” in Chapter 20 of the GEM Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event of the Group after the reporting period.

CORPORATE AND SOCIAL RESPONSIBILITY

The Group recognised that social responsibility of a company is not only the requirement of social civilization and progress but also the need of enterprise survival and development. The Group places great importance to and conscientiously fulfill its social responsibilities by promoting the harmony and interaction of the Group and society; achieving sustainable development; setting up a good corporate image; providing employment opportunities for the society in accordance with the laws and regulations, having a passion for the public welfare undertaking, creating a better social atmosphere for the Group and achieving long-term sustainable development. The Group vigorously promotes independent innovation to enhance the core competitiveness of enterprises by actively safeguarding the interests of workers, protecting the health of employees and enhancing the welfare treatment of workers by improving employee happiness index and building a harmonious atmosphere between enterprises and workers. These activities include travelling abroad, organizing Halloween party, Christmas party, staff birthday party etc. On the other hand, the Group establishes and maintains a good corporate image of integrity, law-abiding and justice, by paying taxes according to the law and taking the initiative to assume responsibility for the natural environment, social and economic development. The Group has integrated the corporate social responsibility with the Group’s business development, unremittingly pursue the common progress and development of the Company and our customers, employees, Shareholders and society.

AUDITOR

Ernst & Young was appointed by the Directors as the auditor of the Company and there was no change in the auditor of the Company in the past three financial years. The consolidated financial statements of the Group for the year ended 31 December 2017 have been audited by Ernst & Young whose term of office will expire upon the forthcoming AGM. A resolution to re-appoint Ernst & Young as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Yue Yong

Chairman and Executive Director

Hong Kong, 9 February 2018

CORPORATE GOVERNANCE PRACTICES

The Group's corporate governance practices are based on the principles and the code provisions in the Corporate Governance Code (the "**Code**") as set out in Appendix 15 to the GEM Listing Rules.

The Board recognizes the value and importance of achieving high corporate governance standards and is committed to upholding good corporate standards and procedures for the best interest of its shareholders.

During the year ended 31 December 2017, the Group has complied with all applicable code provisions of the Code as contained in Appendix 15 to the GEM Listing Rules.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct for dealing in securities of the Company by the Directors in accordance with the required standard of dealings as set out in Rules 5.46 to 5.67 of the GEM Listing Rules (the "**Code of Conduct**"). The Company has made specific enquiries with all Directors who confirmed their compliance with the Code of Conduct from the Listing Date and up to the date of this annual report.

BOARD OF DIRECTORS

Composition of the Board of Directors

Up to the date of this annual report, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors, details of which are set out below:

Executive Directors

Mr. Yue Yong (*Chairman*)
Mr. Sie Tak Kwan (*Chief Executive Officer*)
Mr. Guan Haiqing (*Chief Sales Officer*)

Non-executive Director

Mr. Liang Judong

Independent non-executive Directors

Mr. Cheung Hon Fai
Professor Lam Kin Man
Mr. Shen Qi

From the Listing Date up to the date of this annual report, there was no change in the composition of the Board.

CORPORATE GOVERNANCE REPORT

Mr. Sie Tak Kwan is the younger brother of Ms. Sie Chun Yu, the financial controller of the Company. Save as disclosed herein, no Board member has any relationship with the other Board members and the chief executive officer of the Company.

The biographic details of each of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 18 to 21 of this annual report.

Functions of the Board

The primary duty of the Board is to ensure the viability of the Company and to ensure that it is managed in the best interests of the Shareholders while taking into account the interests of other stakeholders. Apart from its statutory responsibilities, the Board also considers and approves the overall business plans and strategies of the Group, develops and implements the corporate governance functions in accordance with code provisions D3-1 to the code, monitors the implementation of these policies and strategies and the management of the Company and to review the Company’s compliance with the Code and disclosure in the Corporate Governance Report. Daily business operations and administrative functions of the Group are delegated to the executive Directors and the senior management of the Company.

Board Meetings and Attendance Record of Directors

Code provision A.1.1 of the Code states that at least four regular Board meetings should be held each year at approximately quarterly intervals with active participation of a majority of Directors, either in person or through other electronic means of communication.

During the year ended 31 December 2017, the Company has convened six Board meetings. The individual attendance records of each Director at the meetings of the Board are set out below:

	Number of Attendance of Board meetings/ Number of Board meetings
Executive Directors	
Mr. Yue Yong	6/6
Mr. Sie Tak Kwan	6/6
Mr. Guan Haiqing	6/6
Non-executive Director	
Mr. Liang Judong	6/6
Independent non-executive Directors	
Mr. Cheung Hon Fai	6/6
Professor Lam Kin Man	6/6
Mr. Shen Qi	6/6

Directors' Appointment, Re-election and Removal

Each of the executive Directors, namely Mr. Yue Yong, Mr. Sie Tak Kwan and Mr. Guan Haiqing, has entered into a service agreement with the Company on 21 November 2016 for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

Under the code provision A.4.1 of the Code, the non-executive Directors should be appointed for a specific term.

The non-executive Director, Mr. Liang Judong and each of the independent non-executive Directors has entered into a letter of appointment with the Company on 21 November 2016 for an initial term of three years commencing from the Listing Date, which may be terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

Pursuant to the Articles of Association of the Company, the Directors shall hold office subject to retirement by rotation at the annual general meetings of the Company at least once every three years. In addition, any Director appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Independent non-executive Directors

The Company has three independent non-executive Directors to comply with Rule 5.05 of the GEM Listing Rules. Furthermore, among the three independent non-executive Directors, Mr. Cheung Hon Fai has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 5.05(2) of the GEM Listing Rules. In accordance with Rule 5.09 of the GEM Listing Rules, the Company has received from each of its independent non-executive Directors the written confirmation of his independence. The Company, based on such confirmations, considers Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi to be independent.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the Code, the roles of the Chairman and Chief Executive Officer shall be separate and should not be performed by the same individual. During the year, the role of the Chairman is performed by Mr. Yue Yong and the role of the Chief Executive Officer is performed by Mr. Sie Tak Kwan. The code provision A.2.1 of the Code has therefore been complied with.

Company Secretary

Ms. Hui Yin Shan has been appointed as the company secretary of the Company on 23 June 2017 (Note 1). She is the Vice President of SW Corporate Services Group Limited. Her primary corporate contact person at the Company is Mr. Sie Tak Kwan, the executive Director of the Company. During the year, Ms. Hui Yin Shan has taken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

Note 1: Ms. Hui Yin Shan resigned as the company secretary of the Company and Mr. Cheung Kai Cheong Willie appointed as the company secretary of the Company with effect from 9 February 2018.

CORPORATE GOVERNANCE REPORT

Compliance Officer

Pursuant to Rule 5.19 of the GEM Listing Rules, Mr. Sie Tak Kwan, who is also an executive Director and a chief executive officer of the Company, was appointed as the Compliance Officer of our Company on 28 July 2016. Please refer to his biography above for details.

Training for Directors and Continuing Professional Development

Each of the Directors should keep abreast of the responsibilities as a Director and of the conduct, business activities and developments of the Company.

According to the code provision A.6.5 of the Code, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. For the year ended 31 December 2017, all Directors namely, Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing, Mr. Liang Judong, Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi have participated in the training regarding director responsibilities and duties to ensure that he has appropriate understanding of his responsibilities and obligations under the GEM Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors where necessary.

Directors' and Officers' Liabilities

The Company has arranged appropriate insurance to cover the liabilities in respect of legal action against the Directors and officers of the Company that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis.

BOARD COMMITTEES

The Board established three committees, namely the audit, remuneration and nomination committees, to oversee particular aspects of the Group's affairs. Each of the three committees has its specific terms of reference relating to authority and duties.

All members of the audit committee and the majority of members of the remuneration and nomination committees are independent non-executive Directors.

The Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, they are able to seek independent professional advice in appropriate circumstances at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

Audit Committee

The audit committee of the Company (the “**Audit Committee**”) was established on 21 November 2016 with written terms of reference in compliance with Rules 5.28 and 5.29 of the GEM Listing Rules and the code provision C.3.3 of the Code. The Audit Committee comprises three independent non-executive Directors, namely Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi. The chairman of the Audit Committee is Mr. Cheung Hon Fai, who holds the appropriate professional qualifications as required under Rules 5.05(2) and 5.28 of the GEM Listing Rules. None of the members of the Audit Committee are former partners of the Company’s existing external auditors.

The Audit Committee had reviewed the Group’s financial results for the year ended 31 December 2017 with the management and is of the view 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 had been made.

The main duties of the Audit Committee include the following:

- (a) to assist the Board by providing an independent view on the effectiveness of the financial reporting process, internal control and risk management system of the Group;
- (b) to review the financial information and disclosures;
- (c) to oversee the audit process; and
- (d) to perform other duties and responsibilities as assigned by the Board.

The Audit Committee is required to meet at least twice a year. During the year, four Audit Committee meetings were held.

Details of the attendance of the members of the Audit Committee are set out below:

	Number of Attendance of meetings/ Number of meetings
Mr. Cheung Hon Fai (<i>Chairman</i>)	4/4
Professor Lam Kin Man	4/4
Mr. Shen Qi	4/4

Minutes of the Audit Committee meeting is kept by the company secretary of the Company. The draft and final version of the minutes of the meeting are sent to all committee members for comments and records respectively within a reasonable time after the meeting. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. Sufficient resources are provided by the Company for the Audit Committee to perform its duties.

Remuneration Committee

The remuneration committee of the Company (the “**Remuneration Committee**”) was established by the Board on 21 November 2016 with written terms of reference in compliance with code provisions of the Code. The Remuneration Committee currently comprises three independent non-executive Directors, namely Professor Lam Kin Man, Mr. Cheung Hon Fai and Mr. Shen Qi, and one executive Director, namely Mr. Sie Tak Kwan. The chairman of the Remuneration Committee is Professor Lam Kin Man.

The main duties of the Remuneration Committee include the following:

- (a) to review and make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group;
- (b) to review and make recommendations to the Board on the establishment of a formal and transparent procedure for developing policy in relation to remuneration;
- (c) to review and approve the management’s remuneration proposals with reference to the Board’s corporate goals and objectives; and
- (d) to consider and approve the grant of share options to eligible participants pursuant to the share option scheme.

The Remuneration Committee is required to meet at least once a year. During the year, two Remuneration Committee meetings were held. Details of the attendance of the members of the Remuneration Committee are set out below:

	Number of Attendance of meetings/ Number of meetings
Professor Lam Kin Man (<i>Chairman</i>)	2/2
Mr. Cheung Hon Fai	2/2
Mr. Shen Qi	2/2
Mr. Sie Tak Kwan	2/2

Nomination Committee

The nomination committee of the Company (the “**Nomination Committee**”) was established on 21 November 2016, with written terms of reference in compliance with the GEM Listing Rules and the Code. The Nomination Committee comprises three independent non-executive Directors, namely Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi and one executive Director, namely Mr. Sie Tak Kwan. The chairman of the Nomination Committee is Mr. Cheung Hon Fai.

The main duties of the Nomination Committee include the following:

- (a) to review the structure, size and composition of the Board annually;
- (b) to identify individuals suitably qualified to become Board members;
- (c) to assess the independence of independent non-executive Directors; and
- (d) to make recommendations to the Board on the relevant matters relating to the appointment or re-appointment of Directors.

The Nomination Committee is required to meet at least once a year. During the year, two Nomination Committee meetings were held. Details of the attendance of the members of the Nomination Committee are set out below:

	Number of Attendance of meetings/ Number of meetings
Mr. Cheung Hon Fai (<i>Chairman</i>)	2/2
Professor Lam Kin Man	2/2
Mr. Shen Qi	2/2
Mr. Sie Tak Kwan	2/2

CORPORATE GOVERNANCE REPORT

Board Diversity Policy

The Company adopted a board diversity policy and aims to achieve diversity on the Board through the consideration of a number of aspects, including but not limited to gender, age, cultural and ethnic background, professional qualification, skills, knowledge and length of service.

The Nomination Committee will review the board diversity policy as appropriate, to ensure the effectiveness of the board diversity policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Remuneration policy for Directors and Senior Management

Particulars of the Directors' remuneration for the year ended 31 December 2017 are set out in note 8 to the consolidated financial statements of this annual report.

Pursuant to code provision B1.5 of the Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are set out in the section headed "Biographical details of Directors and senior management" in this annual report for the year ended 31 December 2017 by band is as follows:

Remuneration Band (in HK\$)	Number of individuals
Nil to 500,000	5
500,001 to 1,000,000	2

ACCOUNTABILITY AND AUDIT

Auditors' Remuneration

The remuneration paid or payable to the Company's auditor, Ernst & Young, in respect of their audit services and non-auditing services for the year ended 31 December 2017 is set out below:

Items of auditor's services	Amount RMB'000
Audit services:	
Annual audit service	1,110
Interim review service	340
<hr/>	<hr/>
Total	1,450
<hr/>	<hr/>

Directors' and auditor's responsibilities for the consolidated financial statements

All Directors acknowledge their responsibilities to prepare the Group's consolidated financial statements for each financial year to give a true and fair view of the financial position of the Group and of its financial performance and cash flows for that financial year. In preparing the consolidated financial statements for the year ended 31 December 2017, the Board has selected suitable accounting policies and applied them consistently, made and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

As at 31 December 2017, the Board was not aware of any material misstatement or uncertainties that might be relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of auditor regarding their reporting responsibility for the financial statements is set out in the section headed "Independent Auditor's Report" on pages 47 to 52 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for the effectiveness of the Group's risk management and internal control systems. The risk management process includes risk identification, risk evaluation, risk management and risk control and review.

The management is entrusted with duties to identify, analyze, evaluate, respond, monitor and communicate risks associated with any activity, function or process within its scope of responsibility and authority.

The Group has conducted a review of the implemented system and procedures, including areas covering financial, operational, legal compliance controls and risk management functions. The systems are implemented to minimize the risk to which the Group is exposed and is used as a management tool for the day-to-day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Group does not have an internal audit function as the Board has reviewed the effectiveness of the internal control system of the Company and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. The situation will be reviewed from time to time.

The Group has engaged external auditor to conduct independent internal control review for the year ended 31 December 2017 and the review is completed as at the date of this annual report.

For the year ended 31 December 2017, the Board considered the Group's internal control system as adequate and effective and that the Company has complied with the code provisions on internal control of the Code.

Disclosure of inside information

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the GEM Listing Rules that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and disseminating inside information are as follows:

- the Group conducts its affairs with strict compliance with the disclosure requirement under the GEM Listing Rules and the “Guideline on Disclosure of Inside Information” published by the Securities and Futures Commission of Hong Kong;
- the Group has implemented its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcement and its website; and
- the Group has strictly prohibited any unauthorized use of confidential or inside information.

INVESTOR RELATIONS

The Company is committed to maintain an open and effective investor relations policy and to update investors on relevant information and developments in a timely manner, subject to relevant regulatory requirements. The Company uses a range of formal communications channel, such as the annual general meeting; the publication of quarterly, interim and annual reports, notices, announcements and circulars, to update Shareholders and investors with the latest business development and financial performance of the Group. The corporate website of the Company at www.vixtel.com provides a communication platform through which the public and investor community can access up-to-date information regarding the Company.

Shareholders may at any time send their enquiries and concerns to the Board in writing. Contact details are as follows:

Address: 18/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong
Tel: +86 10 6298 2318
Fax: +86 10 6298 1015
Email: ir@vixtel.com

Shareholders’ enquiries and concerns will be forwarded to the Board and/or relevant Board committees of the Company, where appropriate, to answer the Shareholders’ questions.

SHAREHOLDER RIGHTS

Right to convene extraordinary general meeting

Pursuant to the Company's Articles of Association, any Shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition requiring an extraordinary general meeting to be called by the Board. The written requisition (i) must state the purpose(s) of the extraordinary general meeting, and (ii) must be signed by the requisitionist(s) and deposited at the registered office of the Company for attention of the company secretary of the Company, and may consist of several documents in like form, each signed by one or more requisitionist(s). Such requisitions will be verified with the Company's branch share registrar and upon their confirmation that the requisition is proper and in order, the company secretary will ask the Board to convene an extraordinary general meeting by serving sufficient notice to all Shareholders. On the contrary, if the requisition has been verified as not in order, the requisitionist(s) will be advised of this outcome and accordingly, the extraordinary general meeting will not be convened as requested.

If the Board does not within 21 days from the date of the deposit of the requisition proceed duly to convene the extraordinary general meeting, the requisitionist(s) or any of them representing more than one-half of the total voting rights of all of them may convene an extraordinary general meeting, but any extraordinary general meeting so convened shall not be held after expiration of two months from the said date of deposit of the requisition. An extraordinary general meeting convened by the requisitionist(s) shall be convened in the same manner, as nearly as possible, as that in any extraordinary general meeting to be convened by the Board.

Right to put forward proposals at general meeting

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal with his/her detailed contact information at the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the proposal in the agenda for the general meeting.

Right to make enquiries to the Board

Shareholders may send their enquiries and concerns, in written form, to the Board by addressing them to the Company Secretary at 18/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong. Shareholders may also make enquiries to the Board at the general meeting of the Company. In addition, Shareholders can contact Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, if they have any enquiries about their shareholdings and entitlements to dividend.

SHAREHOLDER COMMUNICATION POLICY

The Company has established a Shareholders Communication Policy to set out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.

CONSTITUTIONAL DOCUMENTS

The Company adopted the amended and restated Memorandum and Articles of Association of the Company on 21 November 2016 to comply with the listing requirements in Hong Kong.



To the shareholders of Vixel Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vixel Technologies Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 53 to 102, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters	How our audit addressed the key audit matters
<i>Revenue recognition on construction contracts involving significant judgement</i>	
<p>Revenue from construction contracts is reported using the percentage of completion method and therefore requires management estimates. The percentage of completion is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads. Revenue arising from construction contracts in system integration and software development segments accounts for about 78% of the Group's total revenue. The amount due from contract customers derived from revenue calculation using percentage of completion method accounts for about 38% of the Group's total assets.</p> <p>Significant management judgements are involved in the estimation of the total contract cost including the assessment of the remaining contingencies that a project is or could be facing until completion.</p> <p>References are made to the consolidated financial statements in note 2.4 Summary of significant accounting policies: Construction contracts, note 5 Revenue, other income and gains and note 16 Construction contracts.</p>	<p>We performed the following procedures, among others, evaluations of the significant estimates made by management, whereby we examined project documentation and discussed the status of projects under construction with management, finance, and technical staff of the Group. We tested the controls the Group designed and implemented over its process to record contract costs and contract revenue and the calculation of the stage of completion. We also performed tests of details on costs incurred, including checking invoices and hours, and reviewing the estimated contract costs to assess the status of the project. In addition, we performed confirmation procedures for the invoiced contract amount and the total contract amount.</p>

KEY AUDIT MATTERS (CONTINUED)

Key audit matters	How our audit addressed the key audit matters
<i>Collectability of trade receivables</i>	
<p>The balances of trade receivables as at 31 December 2017 are significant to the Group as they represent about 13% of the total assets and the determination as to whether trade receivables are collectable or not involves management judgements. Specific factors that management considers include the ageing of the balances, location of customers, existence of disputes, recent historical payment patterns and any other available information concerning the creditworthiness of counterparties. Management uses this information to determine whether a provision for impairment is required either for a specific transaction or for a customer's balance overall. We focused on this area because it requires a high level of management judgements.</p> <p>References are made to the financial statements in note 3 Significant accounting judgements and estimates: Impairment for trade receivables, and note 17 Trade and bills receivables.</p>	<p>We performed the following procedures, among others, including assessments on the management's estimates based on our understanding of the Group's business, selected samples of trade receivables to understand the rationale behind management judgements, checked relevant documents to support management's assumptions in making their judgements and assessed the collectability of trade receivables. We checked whether balances were overdue, the customer's historical payment patterns and whether any post year-end payments had been received up to the date of completing our audit procedures. We also checked documents including correspondence supporting any disputes between the parties involved, attempts made by management to recover the amounts outstanding and on the credit status of significant counterparties where available.</p>
<i>Capitalised development costs</i>	
<p>The specific criteria that need to be met for capitalisation involves significant management estimates, such as technical feasibility, intention and ability to complete the intangible assets, ability to use or sell the asset, generation of future economic benefits and ability to measure the costs reliably.</p> <p>References are made to the financial statements in note 2.4 Summary of significant accounting policies: Intangible assets (other than goodwill), note 3 Significant accounting judgements and estimates: Development costs, and note 14 Other intangible assets.</p>	<p>Our audit procedures included, among others, assessing the recognition criteria for intangible assets and the key assumptions used or estimates made in capitalising development costs, including technical feasibility, intention and ability to complete the intangible asset, ability to use or sell the asset, generation of future economic benefits, the authorisation of the stage of the project in the development phase and the accuracy of costs included and assessing the useful economic life attributable to the asset. We also tested the controls the Group designed and implemented on capitalised development costs.</p>

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong
9 February 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
REVENUE	5	109,103	74,255
Cost of sales		(43,023)	(30,287)
Gross profit		66,080	43,968
Other income and gains	5	6,201	5,263
Selling and distribution expenses		(7,864)	(5,401)
Research and development expenses		(14,808)	(9,179)
Administrative expenses		(15,736)	(21,530)
Other expenses	7	(2,914)	(30)
PROFIT BEFORE TAX	6	30,959	13,091
Income tax expenses	10	(8,784)	(2,870)
PROFIT FOR THE YEAR		22,175	10,221
OTHER COMPREHENSIVE INCOME		–	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		22,175	10,221
Attributable to:			
Owners of the parent		22,175	10,221
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	12		
Basic and diluted			
– For profit for the year		RMB4.56 cents	RMB2.63 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	1,645	886
Other intangible assets	14	2,995	–
Long term deposits		28	225
Total non-current assets		4,668	1,111
CURRENT ASSETS			
Inventories	15	1,691	2,869
Gross amount due from contract customers	16	65,681	32,040
Trade and bills receivables	17	23,116	23,091
Prepayments, deposits and other receivables	18	2,051	1,734
Cash and cash equivalents	19	74,533	89,078
Total current assets		167,072	148,812
CURRENT LIABILITIES			
Trade payables	20	10,616	7,926
Gross amount due to contract customers		320	328
Other payables and accruals	21	21,289	23,566
Tax payable		3,984	5,050
Total current liabilities		36,209	36,870
NET CURRENT ASSETS		130,863	111,942
TOTAL ASSETS LESS CURRENT LIABILITIES		135,531	113,053
NON-CURRENT LIABILITIES			
Deferred tax liabilities	22	2,856	–
Total non-current liabilities		2,856	–
Net assets		132,675	113,053
EQUITY			
Issued capital	23	4,341	4,341
Reserves	24	128,334	108,712
Total equity		132,675	113,053

Yue Yong
Director

Sie Tak Kwan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2017

	Attributable to owners of the parent						
	Notes	Share capital RMB'000 Note 23	Share premium RMB'000 Note 23	Capital reserve RMB'000 Note 24(a)	Statutory	Retained profits RMB'000	Total RMB'000
					surplus		
					reserve RMB'000 Note 24(b)		
At 1 January 2016		65	–	30,674	662	5,961	37,362
Profit for the year		–	–	–	–	10,221	10,221
Total comprehensive income for the year		–	–	–	–	10,221	10,221
Transfer from retained profits		–	–	–	2,677	(2,677)	–
Addition of paid-in capital		15	14,440	–	–	–	14,455
Capitalisation issue		3,343	(3,343)	–	–	–	–
Issue of shares		918	66,823	–	–	–	67,741
Share issue expenses		–	(6,726)	–	–	–	(6,726)
Dividends declared before reorganisation	11	–	–	–	–	(10,000)	(10,000)
At 31 December 2016 and 1 January 2017		4,341	71,194	30,674	3,339	3,505	113,053
Profit for the year		–	–	–	–	22,175	22,175
Total comprehensive income for the year		–	–	–	–	22,175	22,175
Transfer from retained profits		–	–	–	3,164	(3,164)	–
Interim 2017 dividend	11	–	–	–	–	(2,553)	(2,553)
At 31 December 2017		4,341	71,194*	30,674*	6,503*	19,963*	132,675

* These reserve account comprise the consolidated other reserves of RMB128,334,000 (2016: RMB108,712,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		30,959	13,091
Adjustments for:			
Interest income		(174)	(36)
Depreciation	6	713	395
Amortisation to other intangible assets	14	68	–
Net foreign exchange differences		(2,132)	–
		29,434	13,450
(Increase)/decrease in inventories		1,176	(669)
Increase in gross amount due from contract customers		(33,641)	(9,109)
Increase in trade and bills receivables		(25)	(8,879)
Increase in prepayments, deposits and other receivables		(316)	(456)
Decrease in amounts due from related parties		–	1,344
(Increase)/decrease in long term deposits		196	(219)
Increase in trade payables		2,691	907
Decrease in gross amount due to contract customers		(8)	(2,317)
Increase/(decrease) in advances from customers		(502)	945
Increase/(decrease) in other payables and accruals		(1,775)	10,860
Decrease in amounts due to related parties		–	(212)
Cash (used in)/generated from operations		(2,770)	5,645
Interest received		174	36
Income tax paid		(6,993)	(1,534)
Net cash flows (used in)/from operating activities		(9,589)	4,147
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		(1,472)	(951)
Additions to other intangible assets		(3,063)	–
Net cash flows used in investing activities		(4,535)	(951)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interim dividend paid	11	(2,553)	–
Dividends paid before reorganisation		–	(10,000)
Proceeds from an addition of paid-in capital		–	14,455
Proceeds from issue of shares	23	–	61,015
Net cash flows (used in)/from financing activities		(2,553)	65,470

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2017

	Note	2017 RMB'000	2016 RMB'000
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(16,677)	68,666
Cash and cash equivalents at beginning of year		89,078	20,412
Effect of foreign exchange rate changes, net		2,132	–
CASH AND CASH EQUIVALENTS AT END OF YEAR		74,533	89,078
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance	19	74,533	89,078
Cash and cash equivalents as stated in the statement of cash flows		74,533	89,078

NOTES TO FINANCIAL STATEMENTS

31 December 2017

1. CORPORATE INFORMATION

Vixtel Technologies Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 10 November 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is P.O. Box 1350, Clifton House 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The shares of the Company were listed on the Growth Enterprise Market (the “GEM”) of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 December 2016.

The Company is an investment holding company. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in providing application performance management (“APM”) solutions in the Mainland China (the “PRC”). There has been no significant change in the Group’s principal activities during the year.

As of the date of the approval of the financial statements, the Company has direct and indirect interests in the following entities:

Company name	Date and place of incorporation/ registration and place of business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Vixtel Systems Limited	17 November 2015, British Virgin Islands	US\$1	100	–	Investment holding
Vixtel Networks Limited	27 November 2015, Hong Kong	HK\$10,000	–	100	Investment holding
Sino Impact Company Holding Limited	30 October 2015, Hong Kong	HK\$10,000	–	100	Investment holding
Vixtel Technologies Limited	29 September 2006, PRC	RMB50,500,000	–	100	Provision of APM solutions

2.1 BASIS OF PRESENTATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Renminbi (“RMB”), and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12 included in Annual Improvements to HKFRSs 2014-2016 Cycle	<i>Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12</i>

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements.

The nature and the impact of the amendments are described below:

- (a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.
- (b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.
- (c) Amendments to HKFRS12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs that have been issued but are not yet effective, in the consolidated financial statements.

HKFRS 9	<i>Financial Instruments¹</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation²</i>
HKFRS 15	<i>Revenue from Contracts with Customers¹</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers¹</i>
HKFRS 16	<i>Leases²</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration¹</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments²</i>
Annual Improvements 2014-2016 Cycle	<i>Amendments to HKFRS 1 and HKFRS 28¹</i>

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

Further information about those HKFRSs that are expected to be applicable to the Group is described follows. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 is expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It is expected to continue measuring at amortised cost all financial assets currently held at amortised costs. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

(b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade and other receivables.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of the adoption of HKFRS 15.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

The Group's principal activities consist of providing integrated APM system solutions, software development, rendering of services and sales of embedded hardware and standard APM software. The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

(a) Integrated APM system solutions and software development

The Group provides integrated APM system solutions and software development, which are currently recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Based on the Group's assessment, for integrated APM system solution and software development contracts, all promised services and goods, including professional equipment, imbedded software and related installation and configuration services in the terms have been identified as one separate performance obligation ("SPO") which does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date, therefore, under HKFRS 15 revenue from t integrated APM system solutions and software development contract will be recognised over the period of project time. The group uses input method to measure the progress by recognising revenue on the basis of the costs occurred to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of the performance obligation.

(b) Transaction price of integrated APM system solutions and software development

The contracts of integrated APM system solutions and software development are fixed price contracts, with no non-refundable up-front fee. There is no variable consideration in the forms of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The amount of consideration is not contingent on the occurrence or non-occurrence of a future event, for example, a product sold with a right of return or a fixed amount promised as a performance bonus on achievement of a specified milestone. The timing of payments agreed to by the parties to the contract (either explicitly or implicitly) does not provide the customer or the entity with a significant benefit of financing the transfer of goods or services to the customer.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

(c) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (CONTINUED)

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases – Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 25 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB2,357,000. Upon adoption of HKAS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Except as described above, the Group anticipates that the application of other new and revised standards will have no material impact on the results and the financial position of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value either recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Related parties

A party is considered to be related to the Group if:

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

- (b) the party is an entity where any of the following conditions applies:
 - (i) the entity and the Group are members of the same group;
 - (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
 - (iii) the entity and the Group are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
 - (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
 - (vi) the entity is controlled or jointly controlled by a person identified in (a);
 - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
 - (viii) the entity, or any member of a group of which it is a part, provides key management personal services to the Group or to the parent of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property and equipment and depreciation

Property and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalized in the carrying amount of the asset as a replacement. Where significant parts of property and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Motor vehicles	20%
Furniture and fixtures	33%
Computer equipment	33%
Leasehold improvements	50%

Where parts of an item of property and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sale proceeds and the carrying amount of the relevant asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Other intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Computer software

Purchased computer software is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful life of three years.

Research and development costs

All research costs are charged to the statement of profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalized and deferred only when our Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, our intention to complete and our ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of five years, commencing from the date when the items of intangible assets are placed into use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets.

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets (continued)

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

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

Impairment of financial assets

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

Financial assets carried at amortised cost

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as loans and borrowings.

All financial liabilities are recognised initially at fair value and in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade payables and other payables.

Subsequent measurement

After initial recognition, interest-bearing bank borrowing are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortization process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortization is included in finance costs in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined on the first-in, first-out basis. Net realizable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statements of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks which are not restricted as to use.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income tax (continued)

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the statement of profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following basis:

- (a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" below;
- (b) from rendering of services, on the straight-line basis over the contract term;
- (c) from the sale of goods (i.e., standard embedded hardware and standard APM software), when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- (d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets; and
- (e) dividend income, when the shareholders' right to receive payment has been established.

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price construction contracts is recognised using the percentage of completion method, measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Construction contracts (continued)

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from contract customers. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers.

Employee benefit

Pension scheme

The employees of the Group's subsidiary which operates in Mainland China are required to participate in a central pension scheme operated by the local municipal government. The subsidiary operating in Mainland China is required to contribute a certain percentage of its payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

Foreign currencies

These financial statements are presented in RMB. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Percentage of completion of construction works

Revenue recognition on a project is dependent on management's estimation of the total outcome of the construction contracts, with reference to the costs incurred to the total budgeted costs. The Group reviews and revises the estimates of contract revenue, contract costs and variation orders, prepared for each construction contract as the contract progresses. Budgeted construction costs are prepared by management on the basis of quotations from time to time provided by the major suppliers and the experience of management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews of management budgets by comparing the budgeted amounts to the actual amounts incurred.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

(CONTINUED)

Estimation uncertainty (continued)

Impairment for trade receivables

The Group assesses the collectability of trade receivables periodically and makes impairment provision when there is objective evidence that a trade receivable is impaired. The Group makes its estimates based on the ageing of its trade receivable balances, customers' creditworthiness, and historical write-off experience. If the financial condition of its customers deteriorates such that the actual impairment loss might be higher than expected, the Group would be required to revise the basis for making the provision and its future results would be affected.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets and the expected future cash generation of the assets and the expected period of benefits.

Amortisation

The Group calculates the amortization of intangible assets on the straight-line basis over their estimated useful lives commencing from the date the items of intangible assets are placed into use. The estimated useful lives reflect the estimates of the directors for the period that the Group intends to derive future economic benefit from the use of the Group's items of intangible assets.

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from certain subsidiaries levied in the relevant tax jurisdiction is subject to judgement on the timing of the payment of the dividends.

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of APM solutions in the Mainland China.

Under HKFRS 8 *Operating Segments* it is required that operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate resource to segments and to assess their performance. The information reported to the directors of the Company, who are the chief operating decision-makers, for the purpose of resource allocation and assessment of performance does not contain discrete operating segment financial information and the directors reviewed the financial results of the Group as a whole. Therefore, no further information about the operating segment is presented.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

During the year, the Group operated within one geographical segment because all of its revenue was generated in the PRC and all of its non-current assets/capital expenditure were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

Information about major customers

Revenue of approximately RMB94,024,000 for the year (2016: RMB59,755,000) was derived from sales to several provincial subsidiaries under common control by a state-owned telecommunication operator group and accounted for more than 10% of the total revenue.

Revenue of approximately RMB21,732,000 during the year (2016: RMB10,219,000) was derived from sales to a particular provincial subsidiary of the state-owned telecommunication operator group and accounted for more than 10% of the total revenue.

5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the value of provision of APM solutions during the year.

An analysis of revenue, other income and gains is as follows:

	2017 RMB'000	2016 RMB'000
Revenue		
Construction contracts – Integrated APM system solutions	74,749	43,420
Construction contracts – Software development	10,223	8,477
Rendering of technical services	12,796	10,046
Sales of embedded hardware and standard APM software	11,335	12,312
	109,103	74,255
Other income and gains		
Bank interest income	174	36
Government grants – related to income*	6,027	5,059
Others	–	168
	6,201	5,263

* Government grants received from the government of the PRC mainly represented the refund of the value added tax previously paid. There are no unfulfilled conditions or contingencies relating to the grants.

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	2017 RMB'000	2016 RMB'000
Cost of inventories sold		3,960	4,859
Cost of services rendered		39,063	25,428
Employee benefit expense (excluding directors' and chief executives' remuneration):			
Wages and salaries		21,279	18,887
Pension scheme contributions (defined contribution scheme)		2,642	1,979
		23,921	20,866
Research and development costs		14,808	9,179
Amortisation of other intangible assets	14	68	–
Depreciation of property and equipment	13	713	395
Minimum lease payments under operating leases:			
– properties		1,455	1,151
Listing expense		–	14,695
Auditor's remuneration		1,450	895
Bank interest income		(174)	(36)

7. OTHER EXPENSES

	2017 RMB'000	2016 RMB'000
Exchange loss	2,836	–
Bank charge	30	30
Other	48	–
	2,914	30

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing were appointed as executive directors of the Company on 28 July 2016. Mr. Liang Judong was appointed as a non-executive director of the Company on 28 July 2016. Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi were appointed as independent non-executive directors of the Company on 28 July 2016, and Mr. Sie Tak Kwan was appointed as the chief executive of the Company on 28 July 2016.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2017 RMB'000	2016 RMB'000
Fees	449	16
Other emoluments:		
Salaries, allowances and benefits in kind	3,252	1,903
Pension scheme contributions	146	69
	3,398	1,972
	3,847	1,988

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2017 RMB'000	2016 RMB'000
Mr. Cheung Hon Fai	112	4
Professor Lam Kin Man	112	4
Mr. Shen Qi	112	4
	336	12

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

(CONTINUED)

(b) Executive directors, a non-executive director and the chief executive

2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Yue Yong	–	1,084	49	1,133
Mr. Guan Haiqing	–	1,084	48	1,132
	–	2,168	97	2,265
Executive director and the chief executive officer:				
Mr. Sie Tak Kwan	–	1,084	49	1,133
Non-executive director:				
Mr. Liang Judong	113	–	–	113
	113	3,252	146	3,511
2016	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Yue Yong	–	620	28	648
Mr. Guan Haiqing	–	603	33	636
	–	1,223	61	1,284
Executive director and the chief executive officer:				
Mr. Sie Tak Kwan	–	620	6	626
Non-executive director:				
Mr. Liang Judong	4	60	2	66
	4	1,903	69	1,976

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

NOTES TO FINANCIAL STATEMENTS

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included 3 directors (2016: 3), details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining 2 (2016: 2) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, allowances and benefits in kind	1,032	1,003
Pension scheme contributions	78	55
	1,110	1,058

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	2017	2016
Nil to HK\$1,000,000	2	2

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and is not subject to income tax.

No Hong Kong profits tax has been provided since no assessable profit arose in Hong Kong during the year.

Pursuant to the PRC Income Tax Law and the respective regulations, Vixtel Technologies Limited is subject to corporate income tax at a rate of 25% on the taxable profit. Preferential tax treatment is available to Vixtel Technologies Limited, which was recognised as a High and New Technology Enterprise in 2010 in Mainland China and a lower corporate income tax of 15% has been applied since then. The certificate of High and New Technology Enterprise has to be renewed every three years and the company has to re-apply for it every six years. The Company has re-applied for and obtained the certificate of High and New Technology Enterprise on 1 December 2016.

10. INCOME TAX (CONTINUED)

	2017 RMB'000	2016 RMB'000
Current – Mainland China	5,928	2,870
Deferred (note 22)	2,856	–
Total tax charge for the year	8,784	2,870

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of Mainland China (i.e., 25%) where the main operating entity is domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2017 RMB'000	%	2016 RMB'000	%
Profit before tax	30,957		13,091	
Tax at the statutory tax rate	7,739	25	4,679	36
Lower tax rate for a specific entity in the PRC	(3,951)	(13)	(2,964)	(23)
Withholding tax at 10% on the earnings expected to be remitted by the Group's PRC subsidiary (note 22)	2,856	9	–	–
Income not subject to tax	–	–	(732)	(6)
Expenses not deductible for tax	3,677	12	2,575	20
Additional deductible allowance for research and development costs	(1,537)	(5)	(688)	(5)
Tax charge at the Group's effective rate	8,784	28	2,870	22

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

NOTES TO FINANCIAL STATEMENTS

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10. INCOME TAX (CONTINUED)

At 31 December 2017, the Group recognised the relevant deferred tax liability of RMB2,856,000 (2016: Nil) on dividends declared and yet to be remitted by Vixtel Technologies Limited. No withholding tax had been provided for the earnings of retained by Vixtel Technologies Limited and not to be remitted to the shareholders in the foreseeable future. In the opinion of the directors, the fund of Vixtel Technologies Limited will be retained in the Mainland China for the expansion of the Group's operation, so it is not probable that Vixtel Technologies Limited will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in Vixtel Technologies Limited for which deferred tax liabilities have not been recognised totalled approximately RMB 19,964,000 at 31 December 2017 (2016: RMB 20,053,000).

11. DIVIDENDS

	2017 RMB'000	2016 RMB'000
Interim – HK0.60 cent (2016: Nil) per ordinary share	2,553	–
Proposed final – HK1.20 cents (2016: Nil) per ordinary share	4,883	–
	<hr/> 7,436	<hr/> –

An interim dividend of HK 0.60 cent per ordinary share was paid on 18 September 2017. The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

Prior to the Reorganisation, dividends of RMB10,000,000 have been declared and paid by Vixtel Technologies Limited, one of the subsidiaries of the Company, to its then shareholders during the year ended 31 December 2016.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT

The calculation of the basic earnings per share for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 486,745,000 (2016: 388,228,333) in issue during the year.

The number of ordinary shares for the purpose of calculating basic earnings per share has been retrospectively adjusted for the Capitalisation Issue described in note 23, as if the shares had been in issue throughout the year ended 31 December 2016.

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2017 and 2016.

12. EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT (CONTINUED)

The calculations of basic and diluted earnings per share are based on:

	2017	2016
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	22,175	10,221
Shares		
Weighted average number of ordinary shares in issue	486,745,000	388,228,333
Basic and diluted earnings per share	RMB4.56 cents	RMB2.63 cents

13. PROPERTY AND EQUIPMENT

	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
31 December 2017					
At 1 January 2017:					
Cost	317	236	1,349	385	2,287
Accumulated depreciation	(222)	(234)	(773)	(172)	(1,401)
Net carrying amount	95	2	576	213	886
At 1 January 2017, net of accumulated depreciation					
Additions	-	11	1,461	-	1,472
Depreciation provided during the year (note 6)	(63)	(2)	(476)	(172)	(713)
At 31 December 2017, net of accumulated depreciation	32	11	1,561	41	1,645
At 31 December 2017:					
Cost	317	229	2,382	385	3,313
Accumulated depreciation	(285)	(218)	(821)	(344)	(1,668)
Net carrying amount	32	11	1,561	41	1,645

NOTES TO FINANCIAL STATEMENTS

31 December 2017

13. PROPERTY AND EQUIPMENT (CONTINUED)

	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Leasehold improvement RMB'000	Total RMB'000
31 December 2016					
At 1 January 2016:					
Cost	317	236	784	–	1,337
Accumulated depreciation	(159)	(234)	(613)	–	(1,006)
Net carrying amount	158	2	171	–	331
At 1 January 2016, net of accumulated depreciation					
	158	2	171	–	331
Additions	–	–	565	385	950
Depreciation provided during the year (note 6)	(63)	–	(160)	(172)	(395)
At 31 December 2016, net of accumulated depreciation	95	2	576	213	886
At 31 December 2016:					
Cost	317	236	1,349	385	2,287
Accumulated depreciation	(222)	(234)	(773)	(172)	(1,401)
Net carrying amount	95	2	576	213	886

14. OTHER INTANGIBLE ASSETS

	Computer software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2017			
Cost at 1 January 2017, net of accumulated amortisation	–	–	–
Additions	184	2,879	3,063
Amortisation provided during the year	(20)	(48)	(68)
At 31 December 2017	164	2,831	2,995
At 31 December 2017			
Cost	184	2,879	3,063
Accumulated amortisation	(20)	(48)	(68)
Net Carrying amount	164	2,831	2,995

Deferred development costs primarily represent the internally developed software to be used in certain new products offered in connection with providing integrated APM system solutions. These costs are capitalized when they satisfy the criteria as defined by HKAS38. Such deferred development costs are amortized over their useful lives.

15. INVENTORIES

	2017 RMB'000	2016 RMB'000
Finished goods	665	1,005
Raw materials	1,026	1,864
	1,691	2,869

NOTES TO FINANCIAL STATEMENTS

31 December 2017

16. CONSTRUCTION CONTRACTS

	2017 RMB'000	2016 RMB'000
Gross amount due from contract customers	65,681	32,040
Gross amount due to contract customers	(320)	(328)
	<hr/>	<hr/>
	65,361	31,712
Contract costs incurred plus recognised profits	114,882	79,738
Less: Progress billings	(49,521)	(48,026)
	<hr/>	<hr/>
	65,361	31,712

17. TRADE AND BILLS RECEIVABLES

	2017 RMB'000	2016 RMB'000
Trade receivables	22,384	23,091
Bills receivables	732	–
	<hr/>	<hr/>
	23,116	23,091

17. TRADE AND BILLS RECEIVABLES (CONTINUED)

Trade receivables represented the outstanding contracted values for construction contracts, sale of goods and rendering of services receivable from the customers. The Group's trading terms with its customers are mainly on credit. For construction contracts, the credit period granted to the customers is normally 30 to 60 days upon issuance of invoice and receipt of certain forms of acceptance from its customers during the course of construction. The forms of acceptance evidence the satisfaction from the customers of the progress of construction. For sale of goods, the credit period granted to the customers is normally 30 to 60 days upon the goods were accepted by the customers. For rendering of services, the credit period granted to the customers is normally due upon completion of the service. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimize the credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned and the fact that the Group's trade receivables relate to a large number of largest state-owned telecommunication operators in the PRC and its independently-operated provincial subsidiaries, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade receivables as at the end of the reporting period, based on the billing date, is as follows:

	2017 RMB'000	2016 RMB'000
Within 90 days	15,207	17,874
90 to 180 days	6,120	2,718
180 to 1 year	904	2,299
Over 1 year	885	200
	23,116	23,091

An aged analysis of the trade receivables that are past due but not individually nor collectively considered to be impaired is as follows:

	2017 RMB'000	2016 RMB'000
Neither past due nor impaired	13,150	14,534
Less than 6 months past due	9,733	6,276
6 to 12 months past due	233	2,192
Over 12 months past due	–	89
	23,116	23,091

Receivables past due but not impaired mainly related to a large number of provincial subsidiaries of a state-owned telecommunication operator in PRC for whom there was no recent history of default.

NOTES TO FINANCIAL STATEMENTS

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18. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Non-current portion		
Rental deposits	28	225
Current portion		
Prepayments	654	232
Rental deposits	395	149
Advances to employees	6	460
Bidding deposits	960	893
Other	36	–
	2,079	1,959

19. CASH AND CASH EQUIVALENTS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	74,533	89,078
Denominated in:		
RMB	44,139	26,189
HK\$	30,394	62,889

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK\$. The RMB is not freely convertible into other currencies, however, under the PRC Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorized to conduct foreign exchange business.

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

20. TRADE PAYABLES

An aged analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2017	2016
	RMB'000	RMB'000
Within 90 days	6,940	7,063
90 to 180 days	1,312	74
180 to 1 year	1,111	769
Over 1 year	1,253	20
Total	10,616	7,926

Trade payables are non-interest-bearing and are normally settled on 180-days terms.

21. OTHER PAYABLES AND ACCRUALS

	2017	2016
	RMB'000	RMB'000
Salary and welfare payable	6,237	7,771
Other tax payable	9,976	6,306
Other payables	4,635	8,546
Advance from customers	441	943
	21,289	23,566

Other payables are non-interest-bearing and repayable on demand.

NOTES TO FINANCIAL STATEMENTS

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22. DEFERRED TAX

Deferred tax liabilities

	Withholding taxes on the earnings anticipated to be remitted by subsidiaries	
	2017	2016
	RMB'000	RMB'000
At 1 January	–	–
Deferred tax charged to the statement of profit or loss during the year (note 10)	2,856	–
At 31 December	2,856	–

As at 31 December 2017, the Group recognised the relevant deferred tax liabilities of RMB2,856,000 (2016:nil) on earnings anticipated to be remitted by certain subsidiaries in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB19,964,000 (2016: RMB20,053,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including management's estimation of overseas funding requirements.

23. ISSUED CAPITAL

	2017 RMB'000	2016 RMB'000
Issued and fully paid:		
486,745,000 (2016:486,745,000) ordinary shares of HK\$0.01 each	4,341	4,341

A summary of movements in the Company's issued capital is as follows:

	Note	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
1 January 2016		7,800,000	65	–	65
Addition of paid-in capital	(a)	1,859,540	15	14,440	14,455
Capitalisation Issue	(b)	374,285,460	3,343	(3,343)	–
Share issue under Initial Public Offering ("IPO")	(c)	102,800,000	918	66,823	67,741
		486,745,000	4,341	77,920	82,261
Share issue expenses		–	–	(6,726)	(6,726)
At 31 December 2016 and 31 December 2017		486,745,000	4,341	71,194	75,535

Notes:

- (a) Pursuant to the agreement, Great Belief Investments Limited agreed to subscribe for 482,970 new shares in consideration of RMB8,617,000, such subscription was completed on 8 July 2016.
- Pursuant to the agreement, Sino Impact Company Holding Limited ("Sino Impact HK") agreed to subscribe for 15% of the entire registered capital of Vixel Technologies Limited as enlarged by such subscription in consideration of RMB5,838,000, the consideration was fully paid by Sino Impact HK on 6 July 2016. On the same day, the Company issued 1,376,470 new shares to Sino Impact Company Limited ("Sino Impact BVI") in exchange for its 100% equity interest in Sino Impact HK.
- (b) Pursuant to the written resolutions of the shareholders passed on 30 September 2016 (the "Resolutions"), the Directors were authorised to capitalise ("Capitalisation Issue") an amount of RMB3,343,000 (original amount of HK\$3,743,000) from the amount standing to the credit of the share premium account of the Company to pay up in full at par 374,285,460 shares for allotment and issue to the person(s) whose name(s) appears 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.
- (c) In connection with the Company's Listing, 102,800,000 shares of HK\$0.01 each were issued at a price of HK\$0.74 per share for a total cash consideration, before listing expense, of approximately RMB67,741,000 (original amount of HK\$76,072,000). Dealings of these shares on the Stock Exchange commenced on 15 December 2016.

NOTES TO FINANCIAL STATEMENTS

31 December 2017

24. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statements of changes in equity on page 55 of this report.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from the shareholders of Vixtel Technologies Limited.

(b) Statutory surplus reserve

Pursuant to the relevant laws in the PRC, the Company's subsidiary in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiary.

In accordance with the Company Law of the PRC, the domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalization is not less than 25% of the registered capital.

25. COMMITMENTS

Operating lease commitments

As lessee

The Group leases certain of its offices under operating lease arrangements. Leases for offices were negotiated for terms of 1 to 2 years. As at the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	1,210	980
In the second to fifth years, inclusive	1,147	–
	<hr/> 2,357	<hr/> 980

26. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2017 RMB'000	2016 RMB'000
Fee	113	4
Other emoluments:		
Salaries, allowances and benefits in kind	5,744	3,777
Pension scheme contributions	340	190
	6,084	3,967
	6,197	3,971

Further details of the emoluments of directors and the chief executive are included in note 8.

27. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets – loans and receivables	2017 RMB'000	2016 RMB'000
Trade and bills receivables	23,116	23,091
Financial assets included in prepayments, deposits and other receivables	1,397	1,502
Cash and cash equivalents	74,533	89,078
Financial assets included in other non-current assets	28	225
	99,074	113,896
Financial liabilities at amortised cost	2017 RMB'000	2016 RMB'000
Trade payables	10,616	7,926
Financial liabilities included in other payables and accruals	4,635	8,546
	15,251	16,472

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

Management has determined that the carrying amounts of cash and cash equivalents, trade receivables, amount due from a related party, financial assets included in prepayments, deposits and other receivables, trade payables, amount due to a related party, financial liabilities included in other payables and accruals reasonably approximate to their fair values because these financial instruments are mostly short term in nature.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as amount due from a related party, trade receivables, other receivables, amounts due to related parties, trade payables and other payables and accruals, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The board of directors reviews and agrees policies for managing both of these risks and they are summarised below.

Credit risk

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, trade receivables, deposits and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. As detailed in note 4 to the consolidated financial statements, the Group trades with state-owned telecommunication operators and some of them are ultimately controlled by the same state-owned telecommunication operators. As the Group trades with each provincial subsidiary of the state-owned telecommunication operators and these trade receivables are settled independently, there are no significant concentrations of credit risk within the Group.

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2017			Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	
Trade payables	2,758	6,781	1,077	10,616
Financial instruments included in other payables and accruals	4,635	–	–	4,635
	7,393	6,781	1,077	15,251

	As at 31 December 2016			Total RMB'000
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	
Trade payables	2,880	1,103	3,943	7,926
Financial instruments included in other payables and accruals	8,546	–	–	8,546
	11,426	1,103	3,943	16,472

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Capital management

The Group's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of business. The Group's overall strategy remains unchanged from prior years.

The current capital structure of the Group only includes equity comprising capital, reserves and retained profits.

The directors of the Company review the asset-liability ratio, which is total assets divided by total liability, on a continuous basis taking into account the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the raising of new debts and equity as well as the redemption of the existing debts, so as to manage the asset-liability ratios.

The asset-liability ratios as at the end of the reporting periods are as follows:

	2017	2016
	RMB'000	RMB'000
Total assets	171,740	149,923
Total liabilities	39,065	36,870
Asset-liability ratio	23%	25%

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2017 RMB'000	2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	5	–
Total non-current assets	5	–
CURRENT ASSETS		
Due from subsidiaries	86,179	54,689
Prepayments, deposits and other receivables	125	101
Cash and cash equivalents	25,227	44,975
Total current assets	111,531	99,765
CURRENT LIABILITIES		
Due to subsidiaries	5,127	9,101
Other payables and accruals	200	210
Total current liabilities	5,327	9,311
NET CURRENT ASSETS	106,204	90,454
Total assets less current liabilities	106,209	90,454
Net assets	106,209	90,454
EQUITY		
Issued capital	4,341	4,341
Reserves	101,868	86,113
Total equity	106,209	90,454

NOTES TO FINANCIAL STATEMENTS

31 December 2017

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

(CONTINUED)

Note:

A summary of the Company's reserves is as follows:

	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2016	65	–	–	–	65
Loss for the year	–	–	–	(15,755)	(15,755)
Total comprehensive loss for the year	–	–	–	(15,755)	(15,755)
Addition of paid-in capital	15	14,440	–	–	14,455
Capitalisation issue	3,343	(3,343)	–	–	–
Issue of shares	918	66,823	–	–	67,741
Capital reserve arising from the Reorganisation	–	–	30,674	–	30,674
Share issue expenses	–	(6,726)	–	–	(6,726)
At 31 December 2016 and 1 January 2017	<u>4,341</u>	<u>71,194</u>	<u>30,674</u>	<u>(15,755)</u>	<u>90,454</u>
Profit for the year	–	–	–	18,308	18,308
Total comprehensive income for the year	–	–	–	18,308	18,308
Interim 2017 dividend	–	–	–	(2,553)	(2,553)
At 31 December 2017	<u>4,341</u>	<u>71,194</u>	<u>30,674</u>	<u>–</u>	<u>106,209</u>

31. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 9 February 2018.

FINANCIAL SUMMARY

A summary of the results, and of the assets, liabilities and non-controlling interest of the Group for the last three financial years, as extracted from the published audited consolidated financial statements or published prospectus of the Company is set out below.

	Year ended 31 December		
	2017 RMB'000	2016 RMB'000	2015 RMB'000
RESULTS			
REVENUE	109,103	74,255	51,529
Cost of sales	(43,023)	(30,287)	(20,328)
Gross profit	66,080	43,968	31,201
Other income and gains	6,201	5,263	4,485
Selling and distribution expenses	(7,864)	(5,401)	(5,486)
Research and development expenses	(14,808)	(9,179)	(3,953)
Administrative expenses	(15,736)	(21,530)	(4,507)
Other expenses	(2,914)	(30)	(12)
Financial costs	–	–	(170)
PROFIT BEFORE TAX	30,959	13,091	21,558
Income tax expense	(8,784)	(2,870)	(3,227)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	22,175	10,221	18,331
Attributable to:			
Owners of the parent	22,175	10,221	18,331
ASSETS AND LIABILITIES			
Total assets	171,740	149,923	62,714
Total liabilities	39,065	36,870	25,352
Total equity	132,675	113,053	37,362

The Group's consolidated financial results for the year ended 31 December 2017 have been reviewed by the Audit Committee and the management of the Company, which were of the view that the preparation of such financial results have 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
Vixtel Technologies Holdings Limited
Yue Yong
Chairman and executive Director

Hong Kong, 9 February 2018

As at the date of this announcement, the executive Directors are Mr. Yue Yong, Mr. Sie Tak Kwan and Mr. Guan Haiqing; the non-executive Director is Mr. Liang Judong; and the independent non-executive Directors are Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi.

This announcement will remain on the Stock Exchange's website at www.hkexnews.hk on the "Latest Company Announcements" page for at least seven days from the date of its posting. This announcement will also be published and remain on the Company's website at www.vixtel.com.