



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



2018
Interim Report

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

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

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

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*This report, for which the directors (the “**Directors**”) of Vixtel Technologies Holdings Limited (the “**Company**”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on 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 report is accurate and complete in all material respects and not misleading or deceptive; (2) there are no other matters the omission of which would make any statement herein or this report misleading; and (3) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

This report 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 report will also be published on the Company’s website at www.vixtel.com.

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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

Mr. Cheung Kai Cheong Willie (*FCPA, FCCA*)

COMPLIANCE OFFICER

Mr. Sie Tak Kwan

COMPLIANCE ADVISER

KGI Capital Asia Limited

AUTHORISED REPRESENTATIVES

Mr. Sie Tak Kwan
Mr. Cheung Kai Cheong Willie (*FCPA, FCCA*)

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

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STOCK CODE

8342

FINANCIAL HIGHLIGHTS

For the six months ended 30 June 2018, the operations and business of Vixel Technologies Holdings Limited (the “**Company**”) and its subsidiaries (collectively, the “**Group**”) have achieved the following growth when compared with those for the six months ended 30 June 2017.

- Revenue for the six months ended 30 June 2018 amounted to approximately RMB57,343,000, representing an increase of approximately 10.2% from approximately RMB52,035,000 for the six months ended 30 June 2017.
- Profit attributable to owners of the Company for the six months ended 30 June 2018 amounted to approximately RMB10,278,000, representing an increase of approximately 34.0% from the profit attributable to owners of the Company for the six months ended 30 June 2017 of approximately RMB7,672,000.
- Basic earnings per share for the six months ended 30 June 2018 was approximately RMB2.10 cents (for the six months ended 30 June 2017: basic earnings per share was approximately RMB1.58 cents).
- The board of Directors of the Company (“**the Board**”) has proposed to pay an interim dividend of HK0.60 cents per share for the six months ended 30 June 2018 out of the share premium account of the Company (for the six months ended 30 June 2017: HK0.60 cents per share). The interim dividend is subject to approval by the shareholders of the Company (the “**Shareholders**”) at an extraordinary general meeting (“**EGM**”) of the Company to be held on 31 August 2018. If the above Board’s proposal is approved in the EGM, the interim dividend is expected to be paid on 18 September 2018 to the Shareholders whose names appear on the register of members of the Company as at 11 September 2018.

BUSINESS REVIEW AND OUTLOOK

The Group is a market leader in China's Application Performance Management (hereinafter "**APM**") industry and primarily provides APM product 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.

In 2018, the value of the digital home Internet terminal was fully unleashed. It is the core operation strategy of the current operators to rely on the two terminals of the set-top box and the gateway to gradually promote the integration of the digital home network and their core network capabilities. In the first quarter of 2018, the Company's "Digital Home AI Housekeeper" received a wide welcome. In addition to being widely used in various provinces by China Mobile, we also cooperated with China Telecom and China Unicom to carry out pilot work and achieved good results.

For the six months ended 30 June 2018, the Group's operations and business have achieved growth when compared with those for the six months ended 30 June 2017. The net profit of the Group has increased by approximately 34.0% from approximately RMB7.7 million for the six months ended 30 June 2017 to approximately RMB10.3 million for the six months ended 30 June 2018.

OUTLOOK

Due to the seasonality of the industry and the increasing demand of market for APM systems, the Group believes that revenues in the second half of the year will continue to grow rapidly.

In the second half of 2018, the Group will continue to focus on the digital home industry chain and will focus on the following tasks:

1. **Big data business analysis:** Based on massive set-top boxes and Internet terminals, it provides customers with big data analysis capabilities with user's behaviour analysis, user's experience, and terminal performance. The Group's big data analysis platform is designed specifically for the Internet of Things ("**IoT**") and digital home. It has unique competitive advantages in identity recognition, data aggregation, and abnormal data cleaning. The system has both software-as-a-service ("**SaaS**") and platform-as-a-service ("**PaaS**") capabilities and is highly scalable and flexible, and received a warm welcome and praise in the current customers' trial process.
2. **Home digital security business:** Based on Deep Packet Inspection ("**DPI**") data of Internet terminals, it provides digital home customers with family security performance management capabilities, including safe Internet access for children, protection of home data, prevention of network intrusion of video surveillance, online behaviour control. We have entered into relevant agreements with users and are optimistic about the revenue prospects and continued growth potential of this business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2018 amounted to approximately RMB57.3 million, representing a growth of approximately RMB5.3 million or 10.2% as compared with that of approximately RMB52.0 million recorded for the six months ended 30 June 2017. The increase was mainly attributable to the combined effect of: (1) the increase in revenue generated from provision of integrated APM system solutions of approximately RMB8.9 million; and (2) the increase in revenue generated from provision of technical services of approximately RMB3.0 million.

The following analysis sets forth a breakdown of the Group's revenue by service type for the six months ended 30 June 2017 and 2018, 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 significant growth in the revenue generated from the provision of integrated APM system solutions of approximately 29.7% from approximately RMB30.3 million for the six months ended 30 June 2017 to approximately RMB39.3 million for the six months ended 30 June 2018. This was primarily due to the expansion of our customers' projects to cover performance analysis of more new Internet applications.

Software development services

This segment provides software development services which 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 decreased by approximately 40.8% from approximately RMB7.1 million for the six months ended 30 June 2017 to approximately RMB4.2 million for the six months ended 30 June 2018. This was primarily due to the fact that more and more existing customers complete software development services through the integrated APM system solutions to upgrade and expand their existing APM systems to cover new network-based applications and users.

Technical services

This segment provides advisory services including operational support, system maintenance, network analysis and optimization for our APM products, and research study of specific topics on application and network performance. Our revenue derived from the provision of technical services increased by approximately 68.2% from approximately RMB4.4 million for the six months ended 30 June 2017 to approximately RMB7.4 million for the six months ended 30 June 2018. 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 36.3% from approximately RMB10.2 million for the six months ended 30 June 2017 to approximately RMB6.5 million for the six months ended 30 June 2018. 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.

Cost of sales

The Group's cost of sales increased by approximately 14.4% from approximately RMB20.2 million for the six months ended 30 June 2017 to approximately RMB23.1 million for the six months ended 30 June 2018. The increase was primarily due to higher labour costs resulting from an increased compensation base and more headcounts were required to deliver more projects for the six months ended 30 June 2018.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 7.5% from approximately RMB31.8 million for the six months ended 30 June 2017 to approximately RMB34.2 million for the six months ended 30 June 2018. The Group's gross profit margin decreased from approximately 61.2% for the six months ended 30 June 2017 to approximately 59.7% for the six months ended 30 June 2018. The decrease in gross profit margin was due to the fact that the integrated APM system solution contracts increased, and these contracts have more hardware costs.

Other income and gains

The Group recorded other income and gains of approximately RMB2.1 million and approximately RMB5.2 million for the six months ended 30 June 2017 and 2018, respectively. The increase was primarily due to the increase in government grants received.

Selling and distribution expenses

The Group's selling and distribution expenses were approximately RMB4.5 million and approximately RMB4.6 million, respectively, for the six months ended 30 June 2017 and 2018. The selling and distribution expenses for the two periods are basically unchanged.

MANAGEMENT DISCUSSION AND ANALYSIS

Research and development expenses

The Group's research and development ("R&D") expenses have increased by approximately 16.5% from approximately RMB10.9 million for the six months ended 30 June 2017 to approximately RMB12.7 million for the six months ended 30 June 2018, which were primarily utilized for the R&D of digital home application performance monitoring system and big data platform. In addition, our labour costs grew noticeably due to increased headcount and compensation base.

Administrative expenses

The Group's administrative expenses increased by approximately 30.7% from approximately RMB7.5 million for the six months ended 30 June 2017 to approximately RMB9.8 million for the six months ended 30 June 2018. The increase was primarily due to the increase in the professional consulting fees for the six months ended 30 June 2018 for the Company's application for listing on the Main Board from GEM of the Stock Exchange.

Profit before tax

As a result of the foregoing reasons, the Group's profit before tax increased by approximately 29.5% from approximately RMB9.5 million for the six months ended 30 June 2017 to approximately RMB12.3 million for the six months ended 30 June 2018.

Income tax expenses

The Group's income tax expenses increased by approximately 11.1% from approximately RMB1.8 million for the six months ended 30 June 2017 to approximately RMB2.0 million for the six months ended 30 June 2018. The increase was primarily due to increase of profit before tax. However, the increase rate of income tax expenses is lower than that of profit before tax because the Group's overseas subsidiaries reduced non-deductible expenses for the six months ended 30 June 2018, resulting in an increase in the Group's profit before tax, but no income tax was accrued from these increased profits.

Net profit

As a result of the foregoing reasons, the Group's net profit increased by approximately 34.0% from approximately RMB7.7 million for the six months ended 30 June 2017 to approximately RMB10.3 million for the six months ended 30 June 2018. The increase was primarily due to the increase in operating revenue and government grant revenue.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2018, the Group mainly financed the capital expenditures and working capital requirements through cash flows from operations.

The Group's net current assets increased from approximately RMB130.9 million as at 31 December 2017 to approximately RMB155.6 million as at 30 June 2018. Our cash and cash equivalents were approximately RMB66.6 million as at 30 June 2018 (as at 31 December 2017: approximately RMB74.5 million).

As at 30 June 2018, 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%.

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 six months ended 30 June 2018. In this respect, the Group is not exposed to any significant foreign currency exchange risk. The management will continue to closely monitor foreign exchange risk to ensure that appropriate measures are implemented in a timely and effective manner.

CAPITAL STRUCTURE

The Shares (the "Share(s)") of the Company were successfully listed on GEM of the Stock Exchange on 15 December 2016 (the "Listing"). 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 30 June 2018, the Company's issued share capital was HK\$5,080,000 and the number of its ordinary shares was 508,000,000 of HK\$0.01 each.

COMMITMENTS OR CONTINGENT LIABILITIES

As at 30 June 2018, the Group had no material commitments or contingent liabilities (2017: Nil).

DIVIDENDS

The Board has proposed to declare an interim dividend of HK0.60 cents per Share for the six months ended 30 June 2018 out of the share premium account of the Company. The interim dividend is subject to approval by the Shareholders at the EGM to be held on 31 August 2018. If the above Board's proposal is approved at the EGM, the interim dividend is expected to be paid on 18 September 2018 to the Shareholders whose names appear on the register of members of the Company as at 11 September 2018. (On 8 August 2017, the Board resolved to declare and pay an interim dividend of HK0.60 cents per Share for the six months ended 30 June 2017 to the Shareholders whose names appear on the register of members of the Company as at 6 September 2017.)

The Group has resolved to declare and pay a final dividend of HK1.2 cents per Share for the year ended 31 December 2017 to the Shareholders whose names appear on the register of members of the Company as at 18 April 2018 at the Shareholders' meeting on 23 March 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

CLOSURE OF THE REGISTER OF MEMBERS

For determining the entitlement to the interim dividend, the register of members of the Company shall be closed from 7 September 2018 to 11 September 2018, both days inclusive, during which period no transfer of Shares will be registered. In order to qualify for the interim dividend, 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on 6 September 2018.

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 November 2016 (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 six months ended 30 June 2018, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

For the six months ended 30 June 2018, the Group did not hold any significant investments nor make any significant acquisition of capital assets.

CHARGE ON ASSETS

For the six months ended 30 June 2018, the Group had no charges on the Group's assets.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

For the six months ended 30 June 2018, the Group had a total of 259 employees. The staff costs including Directors' emoluments were approximately RMB24.8 million for the six months ended 30 June 2018 (for the six months ended 30 June 2017: approximately RMB20.8 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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 a 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 improve 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.

USE OF PROCEEDS

The Shares of the Company were listed on GEM of the Stock Exchange on 15 December 2016 (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, were approximately HK\$58.4 million. The Company intends to apply the 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 30 June 2018, 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 30 June 2018 (HK\$ million)	Unutilized net proceeds as of 30 June 2018 (HK\$ million)
Further solidify our leadership in China's APM market	17.52	30%	9.98	7.54
Continue to strengthen in-house R&D capabilities	23.36	40%	13.02	10.34
Leverage growth opportunities in China and strategically expand into certain overseas markets	11.68	20%	6.74	4.94
Fund general corporate purposes	5.84	10%	3.36	2.48
Total	58.40	100%	33.10	25.30

MANAGEMENT DISCUSSION AND ANALYSIS

The Group issued 21,255,000 additional Shares at HK\$1.08 per Share on GEM of the Stock Exchange on 6 June 2018. The net proceeds from the issuance of such additional Shares (after deducting the underwriting fees and other related expenses) was approximately HK\$22.4 million. These proceeds provide funding for general corporate purposes. As of 30 June 2018, the Group has not used such proceeds and the entire amount of such proceeds have been deposited into the bank accounts held by the Group.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business strategy	Business objectives for the period from 1 January 2018 to 30 June 2018	Actual business progress during the six months ended 30 June 2018
Further solidify our leadership in China's APM market	Improve the functionalities and add new features for our existing products	<p>Functionalities for smart home and IoT performance management were developed, which can access massive sensor data. There are currently tens of millions of devices connected to the NetVista platform.</p> <p>The system framework and computing mechanism for the next-generation trading system was redesigned, and following the development of financial technology, investment in the R&D of the performance management platform for the blockchain-based trading system was started.</p> <p>The big data analysis functionality based on Over-the-Top TV (“OTT”) video content operation was developed. Based on the OTT viewing data collected by the system, digital marketing analysis was provided for customers, and marketing is currently underway.</p>
	Enter into additional sales agreements for all types of services with major customers through cross-selling and continued marketing efforts	The Company's big data service was promoted by building digital home assurance centers and digital marketing centers for customers, and multiple major customers are trying such service.

MANAGEMENT DISCUSSION AND ANALYSIS

Business strategy	Business objectives for the period from 1 January 2018 to 30 June 2018	Actual business progress during the six months ended 30 June 2018
	<p>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</p>	<p>The Group has participated in marketing events held by relevant industry organizations during the period to broaden our customer awareness of our products and services. The Group plans to particularly participate in some exhibitions for IoT solutions and big data solutions, thereby expanding our market awareness.</p>
<p>Continue to strengthen in-house R&D capabilities</p>	<p>Recruit additional talented R&D personnel</p>	<p>Experienced R&D engineers were additionally recruited to strengthen our in-house R&D capabilities.</p>
	<p>Develop new products and contents</p>	<p>The big data analysis function has been fully developed and is currently being packaged in our digital marketing and digital experience assurance solutions for users. Currently, the users' responses are enthusiastic and such function will become one of the Company's core competitiveness.</p>
		<p>Mobile application performance management system, including monitoring at the code level, has been developed. Such system has become a core solution of the Company's digital home assurance center. With the explosive growth of digital home devices with Android system as the core, the requirements for device performance assurance will also increase rapidly.</p>
		<p>The functions of the SaaS products have been fully completed. SaaS's APM product market is still in the cultivation period. Small users are not willing to pay, while large users tend to switch to On Premise installation after the trial period. At present, the SaaS system has become a sales tool for the Company to expand user contact, and revenue and market are still in the cultivation stage.</p>

MANAGEMENT DISCUSSION AND ANALYSIS

Business strategy	Business objectives for the period from 1 January 2018 to 30 June 2018	Actual business progress during the six months ended 30 June 2018
Leverage growth opportunities in China and strategically expand into certain overseas markets	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	Additional technical service engineers were recruited to optimize technical support and advisory services provided to our customers.
	Promote our new products and services across China	Agreements were signed with overseas partners. Efforts of overseas sales and bidding have been made with first batch of orders received.
		Agreements were signed with various domestic partners to jointly exploit opportunities in new markets and promote new products and services.

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 | 48,674,500 Shares |
| 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 an 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. |

OTHER INFORMATION

Since the adoption of the Share Option Scheme and up to the date of this report, no share option has been granted pursuant to the Share Option Scheme. On 30 June 2018 and as of the date of this report, the Company does not have any outstanding share options, warranties, derivatives or securities that are convertible into or exchangeable for shares.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2018, 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	61.03%
Mr. Sie Tak Kwan (Notes 1 and 3)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%
Mr. Guan Haiqing (Notes 1 and 4)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%
Mr. Liang Judong (Notes 1 and 5)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%

Notes:

1. Pursuant to the deed of concert parties dated 11 August 2016 as supplemented by a supplemental deed dated 10 November 2016, 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 61.03% 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.

OTHER INFORMATION

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 30 June 2018 and the date of this report, none of the Directors and chief executive of the Company had any interests or short positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations that 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 as otherwise 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 30 June 2018, 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:

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	20.34%
Ms. Li Duan (Note 3)	Interest of spouse	310,040,000	61.03%
Cohort Investments Limited (Note 4)	Beneficial owner	103,335,000	20.34%
Ms. Chen Baozhu (Note 5)	Interest of spouse	310,040,000	61.03%
Copious Link Investments Limited (Note 6)	Beneficial owner	72,365,000	14.25%
Ms. Gu Wei (Note 7)	Interest of spouse	310,040,000	61.03%
Hugemind Investments Limited (Note 8)	Beneficial owner	31,005,000	6.10%
Ms. Bai Xiaoqian (Note 9)	Interest of spouse	310,040,000	61.03%
Sino Impact Limited	Beneficial owner	54,710,000	10.77%
Mr. Kwan Shan (Note 10)	Interest in a controlled corporation; Interest of spouse	54,710,000	10.77%
Ms. Tam Suk Fan Sindy (Note 10)	Interest in a controlled corporation; Interest of spouse	54,710,000	10.77%

OTHER INFORMATION

Notes:

1. As at 30 June 2018, the Company had 508,000,000 Shares in issue.
2. Worldgate Ventures Limited is wholly-owned by Mr. Yue Yong. Under the SFO, Mr. Yue Yong is deemed to be interested in the Shares held by Worldgate Ventures Limited.
3. 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.
4. Cohort Investments Limited is wholly-owned by Mr. Sie Tak Kwan. Under the SFO, Mr. Sie Tak Kwan is deemed to be interested in 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 in 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 in 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.

Save as disclosed above, as at 30 June 2018, 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 executives' interests in Shares" above, at no time during the six months ended 30 June 2018 and up to the date of this report, have Directors and chief executives of the Company and their respective close associates (as defined in the GEM Listing Rules) had any interest in, or had been granted or had exercised any rights to subscribe for shares or underlying shares of the Company and/or its associated corporations (within the meaning of the SFO).

COMPETING INTERESTS

During the six months ended 30 June 2018, 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 or has any conflicts of interest which has or may have with the Group.

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 Shareholder(s)**”) entered into a deed of non-competition (the “**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 and 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 his/its compliance with the Deed of Non-Competition for the six months ended 30 June 2018. 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 for the six months ended 30 June 2018.

CORPORATE GOVERNANCE

The Group’s corporate governance practices are based on the principles of good governance 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.

For the six months ended 30 June 2018, the Company has complied with all applicable code provisions of the Code as contained in Appendix 15 to the GEM Listing Rules. The Board will review the existing corporate governance structure from time to time and will make and report to the shareholders appropriate changes when necessary.

OTHER INFORMATION

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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 required standards for transactions as set out in the Code of Conduct for the six months ended 30 June 2018.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any listed securities of the Company during the six months ended 30 June 2018.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group’s compliance adviser, KGI Capital Asia Limited (the “**Compliance Adviser**”), for the six months ended 30 June 2018, none of the Compliance Adviser or its directors, employees or close associates (as defined in the GEM Listing Rules) had any interest in the share capital of the Group or any member of the Group which is required to be notified to the Company pursuant to Rule 6A.32 of the GEM Listing Rules.

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 of 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 auditors.

The Audit Committee has reviewed the accounting principles and practices adopted by the Group and discussed the matters with the management relating to auditing, internal control and financial reporting. The Group’s unaudited interim condensed consolidated financial statements and interim report for the six months ended 30 June 2018 have been reviewed by the Audit Committee, who believes that such results were prepared in accordance with applicable accounting standards and regulations and have been adequately disclosed.

EVENTS AFTER THE REPORTING PERIOD

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

By order of the Board
Vixtel Technologies Holdings Limited
Yue Yong
Chairman

Hong Kong, 8 August 2018

As at the date of this report, 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.

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

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
REVENUE	5	57,343	52,035
Cost of sales		(23,135)	(20,192)
Gross profit		34,208	31,843
Other income and gains	5	5,212	2,094
Selling and distribution expenses		(4,617)	(4,462)
Research and development expenses		(12,665)	(10,858)
Administrative expenses		(9,807)	(7,526)
Other expenses		(19)	(1,571)
PROFIT BEFORE TAX	6	12,312	9,520
Income tax expenses	7	(2,034)	(1,848)
PROFIT FOR THE PERIOD		10,278	7,672
OTHER COMPREHENSIVE INCOME		–	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		10,278	7,672
Attributable to:			
Owners of the parent		10,278	7,672
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	8		
Basic and diluted			
– For profit for the period		RMB2.10 cents	RMB1.58 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property and equipment	10	1,426	1,645
Other intangible assets		3,867	2,995
Long term deposits	14	56	28
Total non-current assets		5,349	4,668
CURRENT ASSETS			
Inventories	11	1,519	1,691
Gross amount due from contract customers	12	–	65,681
Contract assets	12	80,943	–
Trade and bills receivables	13	33,929	23,116
Prepayments, deposits and other receivables	14	5,326	2,051
Cash and cash equivalents	15	66,623	74,533
Total current assets		188,340	167,072
CURRENT LIABILITIES			
Trade payables	16	9,283	10,616
Gross amount due to contract customers		–	320
Other payables and accruals	17	21,562	21,289
Tax payable		1,906	3,984
Total current liabilities		32,751	36,209
NET CURRENT ASSETS		155,589	130,863
TOTAL ASSETS LESS CURRENT LIABILITIES		160,938	135,531
NON-CURRENT LIABILITIES			
Deferred tax liabilities		2,856	2,856
Total non-current liabilities		2,856	2,856
Net assets		158,082	132,675
EQUITY			
Issued capital	18	4,514	4,341
Reserves		153,568	128,334
Total equity		158,082	132,675

Yue Yong
Director

Sie Tak Kwan
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2018

	Attributable to owners of the parent					Total RMB'000
	Issued capital RMB'000 Note 18	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	
At 1 January 2017	4,341	71,194	30,674	3,339	3,505	113,053
Profit for the period	–	–	–	–	7,672	7,672
Total comprehensive income for the period	–	–	–	–	7,672	7,672
Transfer from retained profits	–	–	–	1,296	(1,296)	–
At 30 June 2017 (Unaudited)	4,341	71,194	30,674	4,635	9,881	120,725
At 1 January 2018	4,341	71,194	30,674	6,503	19,963	132,675
Adjustment of retained profits pursuant to HKFRS 15	–	–	–	–	1,561	1,561
Profit for the period	–	–	–	–	10,278	10,278
Total comprehensive income for the period	–	–	–	–	10,278	10,278
Issue of shares	173	18,104	–	–	–	18,277
Final dividend for 2017	–	(4,709)	–	–	–	(4,709)
Transfer from retained profits	–	–	–	1,491	(1,491)	–
At 30 June 2018 (Unaudited)	4,514	84,589	30,674	7,994	30,311	158,082

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		12,312	9,520
Adjustments for:			
Interest income		(41)	(123)
Depreciation	6	437	317
Amortization of other intangible assets	6	318	–
Net foreign exchange differences		(760)	992
		12,266	10,706
Decrease in inventories		171	860
Decrease/(Increase) in gross amount due from contract customers		65,681	(30,987)
Increase in contract assets		(79,382)	–
Increase in trade and bills receivables		(10,813)	(754)
Increase in prepayments, deposits and other receivables		(3,275)	(3,008)
(Increase)/decrease in long term deposits		(28)	196
(Decrease)/increase in trade payables		(1,333)	678
Decrease in gross amount due to contract customers		(320)	(167)
Increase/(decrease) in advances from customers		405	(446)
Increase in other payables and accruals		997	3,044
		(15,631)	(19,878)
Cash generated from operations			
Interest received		41	20
Income tax paid		(4,111)	(5,183)
		(19,701)	(25,041)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		(217)	(697)
Additions to other intangible assets		(1,191)	–
Investments in short-term deposits		–	(26,038)
		(1,408)	(26,735)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		(4,709)	–
Payments of listing expenses		(1,129)	(6,143)
Proceeds from issue of shares		18,277	–
Net cash flows from/(used in) financing activities		12,439	(6,143)
NET DECREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of period		74,533	89,078
Effect of foreign exchange rate changes, net		760	(992)
CASH AND CASH EQUIVALENTS AT END OF PERIOD		66,623	30,167
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance	15	66,623	30,167
Cash and cash equivalents as stated in the statement of cash flows		66,623	30,167

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

1. CORPORATE INFORMATION

Vixtel Technologies Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 11 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 GEM of the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 15 December 2016 (the “Listing Date”).

The principal activity of the Company is investment holding. The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in providing application performance management (“APM”) solutions (the “Listing Business”) in the People’s Republic of China (the “PRC”). There has been no significant change in the Group’s principal activities during the period.

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements for the six months ended 30 June 2018 has been prepared in accordance with the Hong Kong Accounting Standards (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants, and applicable disclosure requirements of the GEM Listing Rules.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with those of the annual report for the year ended 31 December 2017.

The unaudited consolidated results for the six months ended 30 June 2018 have not been audited by the Company’s auditors, but have been reviewed by the Company’s audit committee.

3. NEW STANDARDS, INTERPRETATION AND AMENDMENTS ADOPTED BY THE GROUP

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments that require restatement of previous financial statements. As required by HKAS 34, the nature and effect of these changes are disclosed below.

Other than as further explained below, the directors do not anticipate that the application of the new HKFRSs above will have a material effect on the Group’s consolidated financial statements and the disclosure.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

3. NEW STANDARDS, INTERPRETATION AND AMENDMENTS ADOPTED BY THE GROUP (continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a 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 standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The Group elected to apply the practical expedient for completed contracts and did not restate the contracts completed before 1 January 2018, thus the comparative figures have not been restated.

The cumulative catch-up adjustment to the opening balance of retained earnings as at 1 January 2018, either for all contracts or only for contracts that are not completed at the date of initial application, would be recognised in the statement of changes in equity for the six months ended 30 June 2018.

Presentation and disclosure requirements

As required for the condensed consolidated financial statements, the Group disaggregated 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. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

3. NEW STANDARDS, INTERPRETATION AND AMENDMENTS ADOPTED BY THE GROUP *(continued)*

HKFRS 9 Financial Instruments *(continued)*

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss "FVPL", amortised cost, or fair value through other comprehensive income "FVOCI". The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 360 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The application of HKFRS 9 in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

4. OPERATING SEGMENT INFORMATION

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

HKFRS 8 Operating Segments requires 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 resources 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.

Geographical information

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

Information about major customers

Revenue of approximately RMB48,894,000 for six months ended 30 June 2018 (six months ended 30 June 2017: RMB44,045,000) 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 RMB10,258,000 for six months ended 30 June 2018 (six months ended 30 June 2017: RMB17,386,000) was derived from sales to two provincial subsidiaries under common control by a state-owned telecommunication operator group and accounted for more than 10% of the total revenue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

5. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Integrated APM system solutions	39,271	30,340
Software development services	4,169	7,061
Technical services	7,428	4,400
Sales of embedded hardware and standard APM software	6,475	10,234
	57,343	52,035
Other income and gains		
Bank interest income	41	123
Government grants – related to expense*	4,676	1,942
Exchange gain, net	495	–
Others	–	29
	5,212	2,094

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Cost of inventories sold	2,632	3,564
Cost of services rendered	11,602	9,504
Employee benefit expenses (excluding directors' and chief executives' remuneration):		
Wages and salaries	20,804	16,068
Pension scheme contributions (defined contribution scheme)	1,807	1,259
	22,611	17,327
Research and development costs	2,811	3,690
Depreciation of property and equipment	437	317
Amortization of other intangible assets	318	–
Bank interest income	(41)	(123)
Foreign exchange difference, net	(495)	1,540

7. 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 accordingly is not subject to income tax. No Hong Kong profits tax has been provided since no assessable profit arose in Hong Kong during the period.

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 recognized as a High and New Technology Enterprise in 2010 in PRC and a lower PRC 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

7. INCOME TAX (continued)

The income tax expenses of the Group for the reporting period are analysed as follows:

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Current – PRC	2,034	1,848
Total tax charges for the period	2,034	1,848

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

The calculation of the basic earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 508,000,000 (six months ended 30 June 2017: 486,745,000) in issue during six months ended 30 June 2018.

There were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2018 and 2017, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

	For the six months ended 30 June	
	2018 (Unaudited)	2017 (Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	10,278	7,672
Shares		
Weighted average number of ordinary shares in issue	489,106,667	486,745,000
Basic and diluted earnings per share	RMB2.10 cents	RMB1.58 cents

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2018

9. DIVIDENDS

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Proposed interim dividends – HK0.6 cents per ordinary share (2017: HK0.6 cents)	2,572	2,553

10. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2018, the Group acquired assets with a cost of RMB217,000 (six months ended 30 June 2017: RMB772,000) on additions to property and equipment.

No assets were disposed of by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: nil).

11. INVENTORIES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Finished goods	10	665
Raw materials	1,509	1,026
	1,519	1,691

12. CONSTRUCTION CONTRACTS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Gross amount due from contract customers	–	65,681
Contract assets	80,943	–
Gross amount due to contract customers	–	(320)
	80,943	65,361
Contract costs incurred plus recognized profits	98,628	114,882
Less: Progress billings	(17,685)	(49,521)
	80,943	65,361

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13. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	33,513	22,384
Bills receivable	416	732
	33,929	23,116

Trade receivables represented the outstanding contracted values for construction contracts, sales 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 business 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 sales of goods, the credit period granted to the customers is normally 30 to 60 business 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 the independently-operated provincial subsidiaries of the largest state-owned telecommunication operators in the Mainland China, 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:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 90 days	14,350	15,207
90 to 180 days	12,848	6,120
180 days to 1 year	6,403	904
Over 1 year	328	885
	33,929	23,116

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14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Non-current portion		
Rental deposits	56	28
Current portion		
Prepayments	1,020	654
Rental deposits	418	395
Advances to employees	27	6
Bidding deposits	1,114	960
Other	2,747	36
	5,382	2,079

15. CASH AND BANK BALANCES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Cash and bank balances	66,623	74,533
Denominated in:		
RMB	26,678	44,139
HK\$	39,945	30,394

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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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16. 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:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within 90 days	5,468	6,940
90 to 180 days	1,754	1,312
180 days to 1 year	1,102	1,111
Over 1 year	959	1,253
Total	9,283	10,616

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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Salary and welfare payables	6,542	6,237
Other tax payables	10,189	9,976
Other payables	3,985	4,635
Advance from customers	846	441
	21,562	21,289

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

18. ISSUED CAPITAL

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Issued and fully paid:		
508,000,000 (2017: 486,745,000) ordinary shares of HK\$0.01 each	4,514	4,341

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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19. 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 year. 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:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Within one year	1,857	1,210
In the second to fifth years, inclusive	1,221	1,147
	3,078	2,357

20. RELATED PARTY TRANSACTIONS

- (a) There was no related party transaction between the Group and its related party during the period ended 30 June 2018 and 30 June 2017.
- (b) Compensation of key management personnel of the Group:

	For the six months ended 30 June	
	2018 (Unaudited) RMB'000	2017 (Unaudited) RMB'000
Fee	71	53
Other emoluments:		
Salaries, allowances and benefits in kind	3,035	2,649
Pension scheme contributions	267	174
	3,302	2,823
	3,373	2,876

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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21. 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	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade and bills receivables	33,929	23,116
Financial assets included in prepayments, deposits and other receivables	4,306	1,397
Cash and cash equivalents	66,623	74,533
Financial assets included in other non-current assets	56	28
	104,914	99,074
Financial liabilities at amortised cost	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables	9,283	10,616
Financial liabilities included in other payables and accruals	3,985	4,635
	13,268	15,251

22. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

23. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 8 August 2018.