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 Report 2016

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*This annual 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 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 annual 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 annual report misleading, and (3) all opinions expressed in this annual report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.*

This annual 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 annual 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

Ms. Li Oi Lai *(ACIS, ACS, FCPA, FAIA)*

COMPLIANCE OFFICER

Mr. Sie Tak Kwan

COMPLIANCE ADVISER

KGI Capital Asia Limited

AUTHORISED REPRESENTATIVES

Mr. Sie Tak Kwan
Ms. Li Oi Lai

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

REGISTERED OFFICE

P.O. Box 1350
Clifton House
75 Fort Street
Grand Cayman KY1-1108
Cayman Islands

Headquarters in the PRC

4/F, Block 2
Founder Building
9 Shangdi Fifth Street
Haidian District
Beijing
China

Principal place of business in Hong Kong

18/F, Tesbury Centre
28 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISER

F. Zimmern & Co.

PRINCIPAL BANKER

Industrial and Commercial Bank of China
Beijing Zhongguancun Subbranch

WEBSITE ADDRESS

www.vixtel.com

INVESTOR RELATIONS CONTACT

Email address: info@vixtel.com
Telephone: +8610 6298 2318

STOCK CODE

8342

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 2016.

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 would raise our corporate image and enhance our competitive advantage as well as helping the Group to achieve its long-term goal of becoming an international leading provider of Application Performance Management ("**APM**") products and services.

REVIEW

For the year of 2016, the Company has grasped the rapid development opportunities in China's APM market, solidified our leadership in the APM industry, provided our clients with a broad range of Internet-based business performance management and optimization solutions, and won our clients' trust and support.

Despite the extremely challenging business environment, the Company still achieved rapid growth with strong financial performance. This is mostly credited to the Company's core technology which is in line with the latest wave of technologies, the balanced and appropriate allocation of the Company's technical talent and the good reputation established among customers. For the year ended 31 December 2016, the Group's revenue is approximately RMB74.3 million, representing an increase of approximately 44.1% when compared with the revenue for year ended 31 December 2015. The Group's profit excluding one-off listing expenses attributable to equity shareholders is approximately RMB24.9 million, representing an increase of approximately 35.9% when compared with that in 2015.

Last year, the Group's product became a core product in Internet APM field for China's largest telecom operators, and our product quality has achieved high recognition from our clients. The Group has obtained a breakthrough in the emerging market of OTT Video and IPTV performance management services, securely occupying a forward position among China's first tier suppliers and possessing a leading share in the market. At the same time, after a long period of product development and marketing preparation, the Group launched a revolutionary Software-as-a-service ("**SaaS**") based APM platform at the end of 2016 which expands our business to cover vast number of small and medium-sized enterprises using internet services. According to the preliminary market research in 2016, our product was widely welcomed, which made us very confident about the future of SaaS-based APM market.

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

PROSPECTS

Looking forward, APM technologies and markets will continue to be the hot topic for technological innovation and investment in IT industry. The development of the Internet of Things ("**IoT**") and cloud computing place Internet APM in an increasingly core position of IT development. The Group will grasp opportunities and adhere to innovation in order to create better return 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 clients for their strong support, as well as the efforts made by all our staff.

Vixtel Technologies Holdings Limited
Yue Yong
Chairman and Executive Director

Hong Kong, 15 March 2017

FINANCIAL HIGHLIGHTS

	2016 RMB'000	2015 RMB'000	CHANGE %
Revenue	**74,255**	51,529	+44.1%
Gross profit margin (%)	**59.2%**	60.6%	
Profit for the year	**10,221**	18,331	-44.2%
Net profit margin (%)	**13.8%**	35.6%	
Adjusted by: listing expenses	**14,695**	–	N/A
Profit for the year before listing expenses	**24,916**	18,331	+35.9%
Net profit margin (%) before listing expenses	**33.6%**	35.6%	
Cash and bank balances	**89,078**	20,412	+336.4%
Total equity	**113,053**	37,362	+202.6%

BUSINESS REVIEW AND OUTLOOK

The Group is a market leader in China's APM industry and is also the only China-based APM products and services provider which provides solutions to a commodity exchange in the PRC. The Group is principally engaged in the following businesses: (i) system integration services; (ii) software development services; (iii) technical services; and (iv) sales of standard hardware and software.

The Shares were successfully listed on GEM (the "**Listing**") on 15 December 2016 (the "**Listing Date**"). Since the Listing, the Group has a stronger financial position. In the coming year, the Group will continue to seize the opportunity of the blooming APM market in China to promote business development and consolidate the Company's position as a leading company in the APM industry.

For the year of 2016, the Group's operations and business have achieved a significant growth when compared with those of in 2015. The revenue of the Group has increased by approximately 44.1% from approximately RMB51.5 million for the year ended 31 December 2015 to approximately RMB74.3 million for the year ended 31 December 2016.

OUTLOOK

The Company will continue to invest in research and development to promote the integration of newly designed version with our customers' specific systems and network environment of APM technology in order to adapt to the strong demand for APM products from cloud computing and IoT and to expand the user base.

The Company plans to expand the APM business from large enterprises to small and medium-enterprises through the new SaaS platform and to enhance the growth of the APM online service revenue of the Company. The Company has clear development goals and will continue to follow the products and investment strategies set out in the Prospectus:

For the telecom operator APM business, the Group plans to:

1. develop the application of APM technologies in OTT and IPTV video, seize the current trend of rapid development of online video services and expand the Company's market share and revenue in the industry.

2. invest in big data analysis technologies, make full use of accumulated millions of user data of the Company and provide customers with value-added services based on user behavior, user portrait and user perception.

In SaaS, our focus will be on:

1. improving the channels and means of marketing, establishing a sub-industry and multi-level distributor system and expanding the user base.

2. establishing partnerships with leading companies in converged communications, CDN and cloud computing industry and promoting the Company's online services through system integration approach. In overseas markets, the Company will carefully examine countries and regions which are suitable for the Company's products and sales channels, and take Southeast Asia as the core place to promote the Company's products and services.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2016 amounted to approximately RMB74.3 million, representing a significant growth of approximately RMB22.7 million or 44.1% as compared with that of approximately RMB51.5 million recorded for the year ended 31 December 2015. The increase was mainly attributable to the combined effect of: (i) the increase in revenue generated from system integration services of approximately RMB16.7 million; (ii) the increase in revenue generated from provision of software development services of approximately RMB1.5 million; and (iii) the increase in revenue generated from provision of sales of standard hardware and software of approximately RMB9.6 million.

The following analysis sets forth a breakdown of the Group's revenue by service type for the year ended 31 December 2015 and 2016, respectively:

System integration services

This segment provides system integration services 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 revenue generated from system integration services of approximately 62.4% from approximately RMB26.7 million for the year ended 31 December 2015 to approximately RMB43.4 million for the year ended 31 December 2016. This was primarily due to an expansion of our customer base to cover more customers in telecommunications industry as well as the radio and television industry, through our continuing marketing efforts and word-of-mouth and personal references among the customers.

Software development services

The Group's software development services typically involve developing customized supporting software for upgrade and expansion of the APM products already integrated with our customers' systems and networks. Our revenue derived from software development services has increased by approximately 21.2% from approximately RMB7.0 million for the year ended 31 December 2015 to approximately RMB8.5 million for the year ended 31 December 2016. Such increase was primarily due to the increased customer base in the past years which has created an increasing demand for software development services to upgrade and expand their existing APM systems.

Technical services

This segment provides operational support for our APM products, system maintenance, network analysis and optimization, and research study of specific topics on application and network performance. Our revenue derived from technical services decreased by approximately 33.4% from approximately RMB15.1 million for the year ended 31 December 2015 to approximately RMB10.0 million for the year ended 31 December 2016. Such decrease was primarily attributable to our allocation of more resources to the promotion of new products and technologies of our system integration services.

Sales of standard hardware and software

We from time to time sell hardware and standard APM products we purchased from third parties to customers who do not require tailor-making services. Our revenue generated from the sales of standard hardware and software increased by approximately 353.5% from approximately RMB2.7 million for the year ended 31 December 2015 to approximately RMB12.3 million for the year ended 31 December 2016. Such increase was primarily due to the fact that one of our customers has deployed huge amount of hardware agents to fully cover its province for the Internet application performance monitoring and management.

Cost of sales

The Group's cost of sales increased by approximately 49.0% from approximately RMB20.3 million for the year ended 31 December 2015 to approximately RMB30.3 million for the year ended 31 December 2016, 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 in system integration services.

Gross profit and gross profit margin

The Group's gross profit increased by approximately 40.9% from approximately RMB31.2 million for the year ended 31 December 2015 to approximately RMB44.0 million for the year ended 31 December 2016. The increase was primarily due to the increase in business volume of system integration services. The Group's gross profit margin decreased slightly from approximately 60.6% for the year ended 31 December 2015 to approximately 59.2% for the year ended 31 December 2016. Such decrease was primarily due to the increase in business volume of the sales of standard hardware and software which in general have a lower gross profit margin than the other types of services due to its relatively high cost of sales.

Other income and gains

The Group recorded other income and gains of approximately RMB4.5 million and approximately RMB5.3 million for the year ended 31 December 2015 and 2016, respectively. The increase was due to the increased VAT refund which is in line with our business growth.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately 1.5% from approximately RMB5.5 million for the year ended 31 December 2015 to approximately RMB5.4 million for the year ended 31 December 2016. Such decrease was primarily due to the increased customer install base in the past few years, where more revenue are derived from the upgrade and expansion of existing systems rather than from new customers. The selling and distribution expenses for the expansion contracts of existing customers were much less than those for the contracts from new customers. The Company also imposed stricter control on sales expenses. Thus, the total selling and distribution expenses decreased for the year ended 31 December 2016.

Research and development expenses

The Group's research and development ("**R&D**") expenses increased by approximately 132.2% from approximately RMB4.0 million for the year ended 31 December 2015 to approximately RMB9.2 million for the year ended 31 December 2016. Such increase was primarily due to the increase in the purchase of equipment to conduct tests for new R&D project in relation to the development of SaaS platform.

Administrative expenses

The Group's administrative expenses increased by approximately 377.7% from approximately RMB4.5 million for the year ended 31 December 2015 to approximately RMB21.5 million for the year ended 31 December 2016 which was primarily due to the incurrence of the one-off Listing expenses of approximately RMB14.7 million.

Listing expenses

The Group recorded an one-off Listing expenses of approximately RMB14.7 million in 2016 which was included in administrative expenses.

Finance costs

The Group's finance costs decreased by approximately 83.5% from approximately RMB0.2 million for the year ended 31 December 2015 to approximately RMB0.03 million for the year ended 31 December 2016. The decrease was primarily due to the repayment of bank loans in 2015.

Profit before tax

As a result of the one-off Listing expenses and the foregoing reasons, the Group's profit before tax decreased by approximately 39.3% from approximately RMB21.6 million for the year ended 31 December 2015 to approximately RMB13.1 million for the year ended 31 December 2016.

Income tax expenses

The Group's income tax expenses decreased by approximately 11.1% from approximately RMB3.2 million for the year ended 31 December 2015 to approximately RMB2.9 million for the year ended 31 December 2016. The huge investment incurred in R&D in 2016 resulted in an additional 50% of R&D costs being deductible from the taxable income. The Group's effective tax rate was approximately 15.0% and 21.9% for the same periods, respectively. The higher effective income tax rate in 2016 was due to the one-off Listing expenses incurred which reduced our profit before tax.

Profit for the year

As a result of the foregoing reasons, the Group's net profit decreased by approximately 44.2% from approximately RMB18.3 million for the year ended 31 December 2015 to approximately RMB10.2 million for the year ended 31 December 2016. The decrease was primarily due to the one-off Listing expenses incurred. The Group's net profit margin decreased from approximately 35.6% for the year ended 31 December 2015 to approximately 13.8% for the year ended 31 December 2016, primarily due to the one-off Listing expenses incurred.

Profit for the year excluding one-off Listing expenses

The Group's net profit excluding one-off Listing expenses increased by approximately 35.9% from approximately RMB18.3 million for the year ended 31 December 2015 to approximately RMB24.9 million for the year ended 31 December 2016. The Group's net profit margin excluding the one-off Listing expenses decreased from approximately 35.6% for the year ended 31 December 2015 to approximately 33.6% for the year ended 31 December 2016 as a result of the increase in R&D expenses.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2016, the Group mainly financed the capital expenditures and working capital requirements through cash generated from operations and capital injection from its shareholders.

The Group's net current assets increased from approximately RMB37.0 million as at 31 December 2015 to approximately RMB111.9 million as at 31 December 2016. Our cash and cash equivalents also increased from approximately RMB20.4 million as at 31 December 2015 to approximately RMB89.1 million as at 31 December 2016.

As of 31 December 2016, 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 the PRC 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 material impact or difficulties in liquidity on its operations resulting from the fluctuation in exchange rate and no hedging transaction or forward contract arrangement was made by the Group during the year ended 31 December 2016. In this respect, the Group is not exposed to any significant foreign currency exchange risk in its operation. 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 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 2016, 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 2016, the Group had operating lease commitments in respect of rented office of approximately RMB1.0 million (2015: RMB0.4 million).

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2016 (2015: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

As at 31 December 2016, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

During the year under review, 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 2016, the Group had no charges on the Group's assets.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As of 31 December 2016, the Group had 201 employees. The staff costs, including Directors' emoluments was approximately RMB22.9 million for the year ended 31 December 2016 (2015: approximately RMB16.8 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 also 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.

  Leveraging the Group's leading position as the No.1 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. Given that the network architectures and technologies of China's main telecom groups are quite similar, the Group'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 department 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 APM 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 and attract new employees of the R&D department. Meanwhile, the Group 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 equity 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 operation and financial results.

  The Group is vigorously promoting products to other telecom operators 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 in a long-term and sustainable service mode, 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 to avoid the impact of the excessive concentration of business in a quarter on the Group's cash flow and performance.

Please refer to the section headed "Risk Factors" to the Prospectus for further details of other risks and uncertainties.

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 "Profit for the year" in this section of this annual report.

The Group's return on equity decreased from approximately 49.1% for the year ended 31 December 2015 to approximately 9.0% for the year ended 31 December 2016. The significant decrease was primarily due to the increase in cash and cash equivalents from the net proceeds of the Listing.

USE OF PROCEEDS

The net proceeds from the Listing as disclosed in the Prospectus was approximately HK$57.4 million.

Such proceeds are designated for the purposes in accordance with the future plans as set out in the Prospectus which is (i) approximately 30.0% of the net proceeds, or HK$17.2 million (equivalent to approximately RMB15.3 million), to be used to further solidify our leadership in China's APM market; (ii) approximately 40.0% of the net proceeds, or HK$23.0 million (equivalent to approximately RMB20.4 million), to be used to continue to strengthen in-house research and development capabilities; (iii) approximately 20.0% of the net proceeds, or HK$11.5 million (equivalent to approximately RMB10.2 million), to be used to leverage growth opportunities in China and strategically expand into certain overseas markets; and (iv) approximately 10.0% of the net proceeds, or HK$5.7 million (equivalent to approximately RMB5.1 million), to be used to fund general corporate purposes.

As at 31 December 2016, the Group did not utilize the proceeds from the Listing and all of the proceeds have been deposited into a bank account maintained by the Group. The proceeds will be utilised in accordance with the section headed "Future Plans and Use of Proceeds" as set out in the Prospectus.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

For the period from 21 November 2016, being the latest practicable date prior to the printing of the Prospectus (the "Latest Practicable Date") to 31 December 2016

Business Strategy	Business objectives for the period since the Latest Practicable Date to 31 December 2016	Actual business progress during the year ended 31 December 2016
Further solidify our leadership in China's APM market	Increase the number of customers to which we provide on-site technical support through cross-selling and continued marketing efforts	Four additional technical support Engineer with substantial experience were recruited. The cost incurred in the recruitment of additional staff was funded by our internal resources instead of the net proceeds from the Listing due to the short period of time from the Latest Practicable Date to 31 December 2016
	Participate in major promotional 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 is in the process of identifying promotional events in the industry to participate.
Continue to strengthen in-house R&D capabilities	Recruit additional talented R&D personnel	Four additional R&D engineers with substantial experience were recruited. The cost incurred in the recruitment of additional staff was funded by our internal resources instead of the net proceeds from the Listing due to the short period of time from the Latest Practicable Date to 31 December 2016.
Leverage growth opportunities in China and strategically expand into certain overseas markets	Expand in-house sales and marketing team to cover more customers in the telecommunication industry and financial industry	A sales team with substantial experience in the financial services industry was setup to explore more market opportunities. The cost incurred was funded by our internal resources instead of the net proceeds from the Listing due to the short period of time from the Latest Practicable Date to 31 December 2016.

EXECUTIVE DIRECTORS

Mr. Yue Yong (岳勇) ("**Mr. Yue**"), aged 44, was re-designated as the Chairman and executive Director of the Company on 28 July 2016. Mr. Yue has been our Chief Technology Officer since 18 January 2016 and is primarily responsible for the overall management and corporate policy making of the Group's business operation and in particular, 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 17 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 (施德群) ("**Mr. Sie**"), aged 40, 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 15 years of experience in high-technology software solution industry and in the development of application performance management technology. 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 engineering (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 (管海卿) ("**Mr. Guan**"), aged 42, 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 16 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 and joined 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)) as a senior sales manager from July 2013 to March 2015.

NON-EXECUTIVE DIRECTOR

Mr. Liang Judong (梁炬東) ("**Mr. Liang**"), aged 47, was re-designated as a non-executive Director of the Company on 28 July 2016 and is primarily 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 joined the Group as a sales manager from January 2012 to March 2016 and has 18 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 (張漢輝) ("**Mr. Cheung**"), aged 42, 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 Certified Public Accountant in Hong Kong, 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 currently the Group Financial Controller of Well Capital Corporation Limited.

Professor Lam Kin Man (林健文) ("**Professor Lam**"), aged 54, 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 (沈奇) ("**Mr. Shen**"), aged 42, was appointed as an independent non-executive Director of the Company on 21 November 2016. Mr. Shen graduated from the China Jiliang University (中國計量大學前稱中國計量學院) 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).

COMPANY SECRETARY

Ms. Li Oi Lai (李愛麗) ("**Ms. Li**"), aged 43, is the Company Secretary. Ms. Li is currently the manager of SW Corporate Services Group Limited (信永方圓企業服務集團有限公司). She has over 15 years of experience in auditing, accounting and company secretarial field. She obtained a bachelor's degree in commerce from the Hong Kong Shue Yan University in October 2010 and a master's degree in professional accounting from the Hong Kong Polytechnic University in November 2003. She is a member of the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators in the United Kingdom since October 2006, a fellow member of the Association of International Accountants since November 2014 and a fellow member of the Hong Kong Institute of Certified Public Accountants since March 2015.

SENIOR MANAGEMENT

Ms. Sie Chun Yu (施珍茹) ("**Ms. Sie**"), aged 44, 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 (劉澤衛) ("**Ms. Liu**"), aged 34, is the head of the research and development department of the Group and he 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.

Ms. Ma Xiaorui (馬曉睿) ("**Ms. Ma**"), aged 42, was appointed as the financial controller of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the supervision and management of accounting and financial operations of the company. Ms. Ma is a Certified Public Accountant in China, an associate member of the China Institute of Certified Public Accountants and a Senior Accountant in China. Ms. Ma graduated from Beijing Technology and Business University (北京工商大學) with a bachelor's degree in accounting in 1997 and obtained a master's degree from the University of International Business and Economics (對外經濟貿易大學) in 2011. Prior to joining the Group, Ms. Ma has worked as a finance manager in V1 Group (a company listed on the main board of The Stock Exchange of Hong Kong Limited (Stock Code: 00082)) and chief financial officer and secretary to the board of directors in the Beijing 58 Auto Co., Ltd. (北京五八汽車有限公司) (a company listed on National Equities Exchange and Quotations in China, Stock Code: 430081).

Mr. Yuan Feixiong (袁飛雄) ("**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 2015, he served as a senior research and development engineer in LeCloud Computing Co., Ltd (樂視雲計算有限公司).

Mr. Liu Jie (劉傑) ("**Mr. Liu**"), aged 35, was appointed as the vice president of sales team in North China of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the sales of products and services in North China of the Group. Mr. Liu was responsible for the research, development and management of products of the Group. Mr. Liu graduated from the School of Computer Science and Technology of Jilin University (吉林大學) in 2005 with a bachelor's degree in Science and he has the qualification as the advanced information systems project manager. Mr. Liu has more than 10 years of experience in research and sales in network communication solutions. Prior to joining the Group in 2006, he served as a research and development engineer in HUAWEI Technology Co., Ltd (華為技術公司).

Mr. Zou Ping (鄒平) ("**Mr. Zou**"), aged 39, was appointed as the vice president of sales team in East China of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the sales of products and services in East China. In 2000, Mr. Zou graduated from the College of Resources and Environment of East China Normal University of Shanghai (上海華東師範大學) and received a bachelor's degree in geography education. Mr. Zou received his master's degree in geographic information system (GIS) from the same university in 2005. Prior to joining the group in 2011, he worked as a research and development engineer in Shanghai LBS Information Technology Co., Ltd (上海數字位圖信息科技有限公司).

Mr. Long Jianjun (龍建軍) ("**Mr. Long**"), aged 45, was appointed as the vice president of sales team in South China of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the sales of products and services in South China. Mr. Long graduated from the Department of electronics and electrical technology of Xiangtan University (湘潭大學) in 1995. Mr. Long has 15 years experience in sales management in telecom industry. Prior to joining the group in 2013, he served as the sales director of Changsha Yestuned Monitoring Technology Co., Ltd. (長沙市業通達監控技術有限公司) and was responsible for sales and management of telecom industry in China.

The Directors is pleased to present their annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2016 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.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and its subsidiaries are principally engaged in the provision of APM products and services. Details of the principal activities of its subsidiaries are set out in note 5 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 16, and such discussion forms part of this directors' report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2016 and the state of affairs of the Group at that date are set out in the consolidated statement of profit or loss and other comprehensive income on page 49 of this annual report.

The Board did not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting is scheduled to be held on Friday, 28 April 2017 (the "**AGM**"). For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Monday, 24 April 2017 to Friday, 28 April 2017, 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, Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 21 April 2017.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2016 is set out in the financial summary on page 94 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 2016 are set out in note 13 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2016 are set out in note 21 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (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 2016 save for those related to the Reorganisation.

RESERVE

Details of movements in the reserves of the Company and the Group are set out in note 22 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), at 31 December 2016, other than share premium, no other distributable reserve is available for distribution to Shareholders by the Company.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 41.6% (2015: 39.7%) of the total turnover during the year ended 31 December 2016 and sales to the largest customer during the same period amounted to approximately 13.6% (2015: 17.0%).

Purchases from the Group's five largest suppliers accounted for approximately 57.1% (2015: 74.0%) of the total purchases during the year ended 31 December 2016 and purchases from the largest supplier during the same period amounted to approximately 31.0% (2015: 34.0%).

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 2016.

DIRECTORS

The Directors of the Company who held office during the year ended 31 December 2016 and up to the date of this annual report were as follows:

Executive Directors

Mr. Yue Yong *(Chairman)*	(appointed on 10 November 2015)
Mr. Sie Tak Kwan *(Chief Executive Officer)*	(appointed on 10 November 2015)
Mr. Guan Haiqing *(Chief Sales Officer)*	(appointed on 10 November 2015)

Non-executive Director

Mr. Liang Judong	(appointed on 10 November 2015)

Independent non-executive Directors

Mr. Cheung Hon Fai	(appointed on 21 November 2016)
Professor Lam Kin Man	(appointed on 21 November 2016)
Mr. Shen Qi	(appointed on 21 November 2016)

Pursuant to Article 112 of the Articles, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any directors so appointed by the Board shall hold office only until the next following general meeting of the Company and shall then be eligible for re-election. In accordance with Article 112 of the Articles, Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi will retire from office and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

Pursuant to Article 108 of the Articles, at each annual general meeting, one-third of the Directors for the time being for, 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. Mr. Cheung Hon Fai, since Professor Lam Kin Man and Mr. Shen Qi will not be subject to the retirement under Article 108, Mr. Sie Tak Kwan and Mr. Guan Haiqing 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 17 to page 20 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 2016.

COMPETING INTERESTS

During the year ended 31 December 2016, 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.

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, Mr. Sie, Mr. Guan and Mr. Liang (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 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 2016.

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	The Subscription price shall be a price determined by the Board, but in any case shall not be less than the highest of: (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.

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.

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 2016 or subsisted at the end of that period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2016, 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, 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 2016, none of the Directors and chief executive of the Company had an interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations that was notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was 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 31 December 2016, 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	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%

Note(s):

1. As at 31 December 2016, the Company had 486,745,000 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 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 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.

Save as disclosed above, as at 31 December 2016, 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 and short positions in Shares" above, at no time during the year ended 31 December 2016 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.

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 2016. A report on the principal corporate governance practices adopted by the Company is set out on page 34 to page 43 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 Company. 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 2016, there were no material labour disputes between the Company and the employees, and the Company has maintained good relations with the employees.

Customers

The Group has maintained long-term and stable business relationships with large and reputable customers. To optimize the quality of its products, the Group constantly collects feedback from customers. During the year ended 31 December 2016, 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. During the year ended 31 December 2016, 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 2016, 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℃ in summer and not higher than 16℃ 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. To the best knowledge of the Board, the Group has complied with relevant laws and regulations during the year ended 31 December 2016.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance adviser, KGI Capital Asia Limited (the "**Compliance Adviser**"), save for the compliance adviser agreement entered into between the Company and the Compliance Adviser dated 10 August 2016 in connection with the Listing, 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.

RELATED PARTY TRANSACTIONS

Significant related party transactions entered into by the Group during the year ended 31 December 2016 are disclosed in note 24 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 recognized 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 the reporting accountants of the Group for the purpose of the listing of the Company's Shares on the GEM. Ernst & Young was appointed by the Directors as the first auditor of the Company. The consolidated financial statements of the Group for the year ended 31 December 2016 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, 15 March 2017

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 period from the Listing Date to 31 December 2016, the Company has complied with all applicable code provisions of the Code 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.

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 17 to 20 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.

As the Company was listed on 15 December 2016, the Board did not hold regular meeting since the date of the Listing up to 31 December 2016 and the Board will schedule to have at least four regular meetings in the year going forward.

Notice of regular Board meetings will be served to all Directors at least 14 days before the meetings. Notice, agenda and board papers are sent to all Directors with reasonable time and at least 3 days prior to the meetings, so as to ensure that there is a timely access to the relevant information. Directors are free to contribute and share their views at meetings and major decisions will only be taken after deliberation at Board meetings. Directors who are considered to have conflict of interests or material interests in the proposed transactions or issues to be discussed will not be counted in the quorum of meeting and will abstain from voting on the relevant resolutions. Full minutes are prepared after the meetings and the draft minutes are sent to all Directors for their comments on the final version of which are endorsed in the subsequent Board meeting.

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 of the Company is performed by Mr. Sie Tak Kwan. The code provision A.2.1 of the Code has therefore been complied with.

Company Secretary

Ms. Li Oi Lai has been appointed as the company secretary of the Company on 20 July 2016. She is a manager 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. Li Oi Lai has taken not less than 15 hours of relevant professional training in accordance with Rule 5.15 of the GEM Listing Rules.

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 2016, 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 by the Company's legal advisers 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.

From the Listing Date to the date of this annual report, the Audit Committee had reviewed the Group's financial results for the year ended 31 December 2016 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;

(d) to perform other duties and responsibilities as assigned by the Board.

As the Audit Committee was only established on 21 November 2016 and the Company was listed on 15 December 2016, no Audit Committee meeting was held for the year ended 31 December 2016.

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.

As the Remuneration Committee was only established on 21 November 2016 and the Company was listed on 15 December 2016, no Remuneration Committee meeting was held for the year ended 31 December 2016.

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.

As the Nomination Committee was established on 21 November 2016 and the Company was listed on 15 December 2016, no Nomination Committee meeting was held for the year ended 31 December 2016.

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 2016 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 2016 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 2016 is set out below:

Items of auditor's services	**Amount RMB'000**
Audit services:	
Audit service in relation to listing	**2,468**
Annual audit service	**868**
Non-audit services:	
Tax advisory service	**27**
Total	**3,363**

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 2016, 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 2016, 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 statement is set out in the section headed "Independent Auditor's Report" on pages 44 to 48 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 2016 and the review is completed as at the date of this annual report.

For the year ended 31 December 2016, 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/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:	info@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.

22/F CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong
15 March 2016

To the shareholders of Vixtel Technologies Holdings Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vixtel Technologies Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 44 to 93, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

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**
1. Revenue recognition on construction contracts involves significant judgment	
Revenue for construction contracts is reported using the percentage of completion method and therefore requires management estimates. Revenue arising from construction contracts in system integration and software development segments represents about 70% of the Group's total revenue. The amount due from contract customers derived from revenue calculation using percentage of completion method represents about 21% of the Group's total assets. Significant management judgements are involved in the estimation of the contract total cost including the assessment of the remaining contingencies that a project is or could be facing until delivery. Reference is made to the consolidated financial statements notes 2.4 Summary of significant accounting policies: Construction contracts, notes 5. Revenue and notes 15.Construction contracts.	Our audit procedures included an evaluation of the significant judgements 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 test of details checking invoices and hours incurred to assess the status of the project. In addition, we performed confirmation procedures for the contract invoiced amount and contract total amount.
2. Collectability of trade receivables	
The balances of trade receivables are significant to the Group as they represent about 15% of the total assets and the determination as to whether trade receivables are collectable involves management judgments. Specific factors that management considers include the age of the balance, 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 judgments and due to the materiality of the amounts involved. Reference is made to the consolidated financial statements notes 3. Significant accounting judgements and estimates: Impairment for trade receivables, and notes 16. Trade receivables.	We assessed the management's judgements based on understanding of the Group's business. We selected samples of trade receivables to understand the rationale behind management's judgements, to check relevant documents and to assess 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 by management to recover the amounts outstanding and on the credit status of significant counterparties where available.

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 Group either intend to liquidate the Company 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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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.

- 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 Chau, Man Lok.

Ernst & Young
Certified Public Accountants
Hong Kong
15 March 2017

	Notes	**2016** **RMB'000**	2015 RMB'000
REVENUE	*5*	**74,255**	51,529
Cost of sales		**(30,287)**	(20,328)
Gross profit		**43,968**	31,201
Other income and gains	*5*	**5,263**	4,485
Selling and distribution expenses		**(5,401)**	(5,486)
Research and development expenses		**(9,179)**	(3,953)
Administrative expenses		**(21,530)**	(4,507)
Finance costs	*7*	**(30)**	(182)
PROFIT BEFORE TAX	*6*	**13,091**	21,558
Income tax expense	*10*	**(2,870)**	(3,227)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,221**	18,331
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**10,221**	18,331
Attributable to:			
Owners of the parent		**10,221**	18,331
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*12*		
Basic and diluted			
– For profit for the year		**RMB2.63 cents**	RMB4.77 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
NON-CURRENT ASSETS			
Property and equipment	13	**886**	331
Long term deposits	17	**225**	6
Total non-current assets		**1,111**	337
CURRENT ASSETS			
Inventories	14	**2,869**	2,200
Gross amount due from contract customers	15	**32,040**	22,930
Trade receivables	16	**23,091**	14,213
Prepayments, deposits and other receivables	17	**1,734**	1,278
Due from a related party	24(c)	**–**	1,344
Cash and cash equivalents	18	**89,078**	20,412
Total current assets		**148,812**	62,377
CURRENT LIABILITIES			
Trade payables	19	**7,926**	7,019
Gross amount due to contract customers	15	**328**	2,647
Other payables and accruals	20	**23,566**	11,762
Due to a related party	24(c)	**–**	212
Tax payable		**5,050**	3,712
Total current liabilities		**36,870**	25,352
NET CURRENT ASSETS		**111,942**	37,025
TOTAL ASSETS LESS CURRENT LIABILITIES		**113,053**	37,362
Net assets		**113,053**	37,362
EQUITY			
Issued capital	21	**4,341**	65
Reserves	22	**108,712**	37,297
Total equity		**113,053**	37,362

Yue Yong
Director

Sie Tak Kwan
Director

	Note	Attributable to owners of the parent					
		Share capital RMB'000 Note 21	Share premium RMB'000 Note 21	Capital reserve RMB'000 Note 22(a)	Statutory surplus reserve RMB'000 Note 22(b)	Accumulated loss/Retained profits RMB'000	Total RMB'000
At 1 January 2015		–	–	30,674	–	(11,708)	18,966
Profit for the year		–	–	–	–	18,331	18,331
Total comprehensive income for the year		–	–	–	–	18,331	18,331
Transfer from retained profits		–	–	–	662	(662)	–
Issue of shares		65	–	–	–	–	65
At 31 December 2015 and 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 reorganization	*11*	–	–	–	–	(10,000)	(10,000)
At 31 December 2016		**4,341**	**71,194***	**30,674***	**3,339***	**3,505***	**113,053**

* These reserve account comprise the consolidated other reserves of RMB108,712,000 (2015: RMB37,297,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

31 December 2016

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**13,091**	21,558
Adjustments for:			
Finance costs	7	**–**	170
Interest income		**(36)**	(26)
Depreciation	6	**395**	181
		13,450	21,883
Increase in inventories		**(669)**	(1,035)
Increase in gross amount due from contract customers		**(9,109)**	(6,690)
Increase in trade receivables		**(8,879)**	(4,835)
Increase in prepayments, deposits and other receivables		**(456)**	(489)
(Increase)/decrease in amounts due from related parties		**1,344**	(862)
(Increase)/decrease in long term deposits		**(219)**	207
Increase in trade payables		**907**	4,940
Increase/(decrease) in gross amount due to contract customers		**(2,317)**	1,737
Increase in advances from customers		**945**	–
Increase in other payables and accruals		**10,860**	3,619
Decrease in amounts due to related parties		**(212)**	(20)
Cash generated from operations		**5,645**	18,455
Interest received		**36**	26
Income tax paid		**(1,534)**	(242)
Net cash flows from operating activities		**4,147**	18,239
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		**(951)**	(7)
Increase in amount due from a related party		**–**	(1,650)
Repayment from a related party		**–**	1,980
Net cash flows from/(used in) investing activities		**(951)**	323
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bank borrowings		**–**	(3,991)
Repayment of amounts due to a related party		**–**	(3,000)
Interest paid		**–**	(170)
Dividends paid before reorganization		**(10,000)**	(1,500)
Proceeds from addition of paid-in capital		**14,455**	–
Proceeds from issue of shares	21	**61,015**	65
Net cash flows from/(used in) financing activities		**65,470**	(8,596)

	Notes	2016 RMB'000	2015 RMB'000
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**68,666**	9,966
Cash and cash equivalents at beginning of year		**20,412**	10,446
CASH AND CASH EQUIVALENTS AT END OF YEAR		**89,078**	20,412
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance	*18*	**89,078**	20,412
Cash and cash equivalents as stated in the statement of cash flows		**89,078**	20,412

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 "Listing Date").

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 (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 year.

In preparation for the listing of the Company's shares on the GEM of the Stock Exchange (the "Listing"), the Group underwent a corporate reorganisation (the "Reorganisation"), pursuant to which the Company became the holding company of the subsidiaries now comprising the Group. Details of the Reorganisation are set out in the prospectus of the Company dated 30 November 2016 (the "Prospectus").

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, the PRC	RMB35,882,400	–	100	Provision of APM solutions

2.1 BASIS OF PRESENTATION

As the Reorganisation only involved inserting new holding companies and has not resulted in any change of economic substances, the consolidated financial statements for the year have been presented as a continuation of the existing company using the pooling of interests method as if the Reorganisation had been completed at the beginning of the reporting period.

Accordingly, 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 are prepared as if the current group structure had been in existence throughout the year. The consolidated statement of financial position as at 31 December 2016 presents the assets and the liabilities of the companies now comprising the Group, as if the current group structure had been in existence.

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. The financial statements have been prepared under the historical cost convention. They are presented in Renminbi ("RMB"), and all values are rounded to the nearest thousand except otherwise indicated.

Basis of consolidation

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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28(2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012-2014 Cycle	*Amendments to a number of HKFRSs*

Except for the amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011), amendments to HKFRS 11, HKFRS 14, amendments to HKAS 16 and HKAS 41, amendments to HKAS 27 (2011), and certain amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (CONTINUED)

(b) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its noncurrent assets.

(c) The Annual Improvements to HKFRSs 2012-2014 Cycle issued in October 2014 sets out amendments to a number of HKFRSs. Details of the amendments are as follows:

HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs

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	*Financial Instruments*[2]
HKFRS 15	*Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKFRS 2	*Classification and Measurement of Share-based payment*[3]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
Amendments to HKFRS 10 and HKAS 28(2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealized Losses*[1]

2.3 ISSUED BUT NOT YET EFFECTIVE HKFRSs (CONTINUED)

[1] Effective for annual periods beginning on or after 1 January 2017
[2] Effective for annual periods beginning on or after 1 January 2018
[3] Effective for annual periods beginning on or after 1 January 2019
[4] Effective date is yet to be determined.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

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 expects to adopt HKFRS 9 from 1 January 2018. The Group is currently assessing the impact of the standard.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognized 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 recognizing 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. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. It distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. Subject to limited exceptions for short-term leases and low value assets, distinctions of operating and finance leases are removed for lessee accounting, and are replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees. However, the standard does not significantly change the accounting of lessors. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of the standard.

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

Subsidiaries

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsidiaries (continued)

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 results of subsidiaries are included in the Company's profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries that are not classified as held for sale in accordance with HKFRS 5 *Non-current Asset Held For Sale and Discontinued Operations* are stated at cost less any impairment losses.

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 recognized in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognized 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 recognized in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combination and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognized 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, recognized 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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of non-financial assets (continued)

An assessment is made as to whether there is an indication that previously recognized impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognized 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 recognized for the asset in prior years. A reversal of such an impairment loss is credited to the profit or loss in the period in which it arises.

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 the 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 recognizes 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 recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognized in the profit or loss in the year the asset is derecognized is the difference between the net sale proceeds and the carrying amount of the relevant asset.

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.

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 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 recognized 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 recognized 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 the profit or loss. The loss arising from impairment is recognized in the 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 derecognized (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 recognize the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognizes 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, recognized 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 recognized in the 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 recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to the profit or loss.

Financial liabilities

Initial recognition and measurement

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

All financial liabilities are recognized 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, other payables and accruals, amounts due to related parties, and interest-bearing bank borrowings.

Subsequent measurement

After initial recognition, interest-bearing bank borrowings 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 recognized in the profit or loss when the liabilities are derecognized 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 the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial liabilities

A financial liability is derecognized 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 recognized in the 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 recognized 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 statements 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 recognized outside profit or loss is recognized 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 recognized 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 recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognized 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 recognized 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. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government grants

Government grants are recognized 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 recognized 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 profit or loss by way of a reduced depreciation charge.

Revenue recognition

Revenue is recognized 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 hardware and 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 recognized 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 recognized profits less recognized 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 recognized profits less recognized losses, the surplus is treated as an amount due to contract customers.

Employee benefits

Pension scheme

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalized. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

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 recognized in the profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies (continued)

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 recognized in other comprehensive income or profit or loss is also recognized in other comprehensive income or profit or loss, respectively).

Dividends

Final dividends are recognized as a liability when they are approved by the shareholders in a general meeting.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgments, 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.

Current and deferred tax

Significant judgment is required in interpreting the relevant tax rules and regulation so as to determine whether the Group is subject to corporate income tax. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of the tax liabilities; such changes to tax liabilities will impact on tax expense in the period that such determination is made.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (CONTINUED)

Estimation uncertainty (continued)

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 the management on the basis of quotations from time to time provided by the major suppliers and the experience of the management. In order to keep the budget accurate and up-to-date, the management conducts periodic reviews of the management budgets by comparing the budgeted amounts to the actual amounts incurred.

Impairment for trade receivable

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.

4. OPERATING SEGMENT INFORMATION

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

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 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 was located/incurred in the PRC. Accordingly, no geographical segment information is presented.

4. OPERATING SEGMENT INFORMATION (CONTINUED)

Information about major customers

Revenue of approximately RMB59,755,000 for the year (2015: RMB37,404,000), 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 RMB10,219,000 during the year (2015: RMB8,741,000) 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:

	2016	2015
	RMB'000	RMB'000
REVENUE		
Construction contracts – System integration	**43,420**	26,740
Construction contracts – Software development	**8,477**	6,994
Rendering of services	**10,046**	15,080
Sales of goods – standard hardware and software	**12,312**	2,715
	74,255	51,529
OTHER INCOME AND GAINS		
Bank interest income	**36**	26
Government grants – related to expense*	**5,059**	4,456
Others	**168**	3
	5,263	4,485

* 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 from continuing operations is arrived at after charging/(crediting):

	Note	2016 RMB'000	2015 RMB'000
Cost of inventories sold		**4,859**	756
Cost of services rendered		**25,428**	19,572
Employee benefit expense (excluding directors' and chief executives' remuneration):			
Wages and salaries		**18,887**	14,087
Pension scheme contributions (defined contribution scheme)		**1,979**	1,044
		20,866	15,131
Research and development costs		**9,179**	3,953
Depreciation of property and equipment	*13*	**395**	181
Minimum lease payments under operating leases:			
– properties		**1,151**	770
Listing expense		**14,695**	–
Auditors' remuneration		**895**	41
Bank interest income		**(36)**	(26)

7. FINANCE COSTS

	2016 RMB'000	2015 RMB'000
Bank charge	**30**	12
Interest expenses	**–**	170
	30	182

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company did not have any chief executive, executive directors, non-executive directors and independent non-executive directors at any time during the year ended 31 December 2015.

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 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.

Certain of the directors received remuneration from a subsidiary of the Group for their appointment as directors or senior management of this subsidiary. 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:

	2016 RMB'000	2015 RMB'000
Fee	16	–
Other emoluments:		
Salaries, allowances and benefits in kind	1,903	1,570
Pension scheme contributions	69	55
	1,972	1,625
	1,988	1,625

(a) Independent non-executive directors

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

	2016 RMB'000	2015 RMB'000
Mr. Cheung Hon Fai	4	–
Professor Lam Kin Man	4	–
Mr. Shen Qi	4	–
	12	–

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

(CONTINUED)

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

2016	Fee 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 directors and chief executive:				
Mr. Sie Tak Kwan	–	620	6	626
Non-executive director:				
Mr. Liang Judong	4	60	2	66
	4	1,903	69	1,976

2015	Fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Yue Yong	–	520	18	538
Mr. Guan Haiqing	–	440	15	455
	–	960	33	993
Executive directors and chief executive:				
Mr. Sie Tak Kwan	–	352	12	364
Non-executive director:				
Mr. Liang Judong	–	258	10	268
	–	1,570	55	1,625

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included 3 directors (2015:3), details of whose remuneration are set out in Note 8 above. Details of the remuneration of the remaining 2 highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2016 RMB'000	2015 RMB'000
Salaries, allowances and benefits in kind	1,003	690
Pension scheme contributions	55	19
	1,058	709

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

	2016	2015
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 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 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 recognized as a High and New Technology Enterprise in 2010 in the 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.

10. INCOME TAX (CONTINUED)

	2016 RMB'000	2015 RMB'000
Current – PRC	**2,870**	3,227
Total tax charge for the year	**2,870**	3,227

A reconciliation of the tax expense applicable to profit before tax at the statutory rate of the PRC (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:

	2016 RMB'000	%	2015 RMB'000	%
Profit before tax	**13,091**		21,558	
Tax at the statutory tax rate	**4,679**	**36**	5,392	25
Lower tax rate for a specific entity in the PRC	**(2,964)**	**(23)**	(2,156)	(10)
Income not subject to tax	**(732)**	**(6)**	–	–
Expenses not deductible for tax*	**2,575**	**20**	282	1
Additional deductible allowance for research and development costs	**(688)**	**(5)**	(291)	(1)
Tax charge at the Group's effective rate	**2,870**	**22**	3,227	15

* Expenses not deductible for tax for the year ended December 31, 2016 mainly represented the expenses for the Listing which are not deductible according to Hong Kong tax regulation.

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 PRC.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 the 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 its subsidiary established in the PRC in respect of earnings generated from 1 January 2008.

10. INCOME TAX (CONTINUED)

At 31 December 2016, no deferred tax has been recognized for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiary established in the PRC. In the opinion of the Directors, the Group's fund will be retained in the PRC for the expansion of the Group's operation, so it is not probable that these subsidiaries will distribute such earnings in the foreseeable future and therefor there was no significant amount of temporary differences associated with the investment in Vixtel Technologies Limited for which deferred tax liabilities have not been recognized.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

11. DIVIDENDS

Prior to the Reorganization, 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 (2015: Nil). No dividends have been declared by the Company since the date of its incorporation.

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 388,228,333 (2015: 383,945,000) 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 21, as if the shares had been in issue throughout the year presented.

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2016 and 2015.

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

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

	2016	2015
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	10,221	18,331
Shares		
Weighted average number of ordinary shares in issue	388,228,333	383,945,000
Basic and diluted earnings per share	RMB2.63 cents	RMB4.77 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 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

13. PROPERTY AND EQUIPMENT (CONTINUED)

	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Total RMB'000
31 December 2015				
At 1 January 2015:				
Cost	317	236	667	1,220
Accumulated depreciation	(95)	(212)	(518)	(825)
Net carrying amount	222	24	149	395
At 1 January 2015, net of accumulated depreciation	222	24	149	395
Additions	–	–	117	117
Depreciation provided during the year (note 6)	(64)	(22)	(95)	(181)
At 31 December 2015, net of accumulated depreciation	158	2	171	331
At 31 December 2015:				
Cost	317	236	784	1,337
Accumulated depreciation	(159)	(234)	(613)	(1,006)
Net carrying amount	158	2	171	331

14. INVENTORIES

	2016 RMB'000	2015 RMB'000
Finished goods	**1,005**	2,101
Raw materials	**1,864**	99
	2,869	2,200

15. CONSTRUCTION CONTRACTS

	2016 RMB'000	2015 RMB'000
Gross amount due from contract customers	**32,040**	22,930
Gross amount due to contract customers	**(328)**	(2,647)
	31,712	20,283
Contract costs incurred plus recognized profits	**79,738**	50,945
Less: Progress billings	**(48,026)**	(30,662)
	31,712	20,283

16. TRADE RECEIVABLES

	2016 RMB'000	2015 RMB'000
Trade receivables	**23,091**	14,213

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 minimise 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.

16. TRADE RECEIVABLES (CONTINUED)

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

	2016 RMB'000	2015 RMB'000
Within 90 days	**17,874**	12,374
90 to 180 days	**2,718**	656
180 to 1 year	**2,299**	566
Over 1 year	**200**	616
	23,091	14,213

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

	2016 RMB'000	2015 RMB'000
Neither past due nor impaired	**14,534**	11,108
Less than 6 months past due	**6,276**	2,360
6 to 12 months past due	**2,192**	493
Over 12 months past due	**89**	252
	23,091	14,213

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

17. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 RMB'000	2015 RMB'000
Non-current portion		
Rental deposits	**225**	6
Current portion		
Prepayments	**232**	30
Rental deposits	**149**	249
Advance to employees	**460**	388
Bidding deposits	**893**	611
	1,959	1,284

18. CASH AND CASH EQUIVALENTS

	2016 RMB'000	2015 RMB'000
Cash and bank balances	**89,078**	20,412
Denominated in:		
RMB	**26,189**	20,334
HK$	**62,889**	78

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.

19. 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:

	2016	2015
	RMB'000	RMB'000
Within 90 days	**7,063**	3,304
90 to 180 days	**74**	1,047
180 to 1 year	**769**	2,421
Over 1 year	**20**	247
Total	**7,926**	7,019

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

20. OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB'000	RMB'000
Salary and welfare payable	**7,771**	5,899
Other tax payable	**6,306**	4,872
Other payables	**8,546**	370
Advance from customers	**943**	621
	23,566	11,762

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

21. SHARE CAPITAL

	2016 RMB'000	2015 RMB'000
Issued and fully paid:		
486,745,000 (2015:7,800,000) ordinary shares of HK$0.01 each	**4,341**	65

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

	Note	**Number of shares in issue**	**Issued capital** RMB'000	**Share premium account** RMB'000	**Total** RMB'000
At 1 January 2015					
Issue of shares		7,800,000	65	–	65
At 31 December 2015 and 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		**486,745,000**	**4,341**	**71,194**	**75,535**

Note:

(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 Vixtel 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 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.

22. 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 51 of the financial statements.

(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.

23. 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:

	2016 **RMB'000**	2015 RMB'000
Within one year	**980**	320
In the second to fifth years, inclusive	**–**	30
	980	350

24. RELATED PARTY TRANSACTIONS

(a) Names and relationships of related parties

Name	Relationship
Mr. Sie Tak Kwan	Director of the Company
Mr. Sze Oi Kwan	Brother of a director
Vixtel Science (Beijing) Co., Ltd. ("Vixtel Science") 飛思達科技北京有限公司	The then shareholder of Vixtel Technologies Limited
Hainan Feisida Information Technologies Co., Ltd ("Hainan Feisida") 海南飛思達通信技術有限公司	A company of which Mr. Yue Yong was a director until 13 April 2016
Guangzhou Xincai Telecommunication Co., Ltd. ("Xincai") 廣州信彩通訊技術有限公司	A company controlled by a director of the Company

(b) Transactions with a related party

i) Purchases of products:

	2016 RMB'000	2015 RMB'000
Xincai	–	444
Hainan Feisida	–	181

ii) Sales of products:

	2016 RMB'000	2015 RMB'000
Hainan Feisida	–	1,464

iii) Other transaction with related parties

	2016 RMB'000	2015 RMB'000
Advances to a related party:		
Vixtel Science	–	1,650
Repayment of advances to a related party:		
Vixtel Science	–	1,980
Repayment of an advances to a related party:		
Mr. Sze Oi Kwan	–	3,000

24. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Outstanding balances with a related party

As disclosed in the statements of financial position, the Group had the following outstanding balances with a related party at 31 December 2015 and 31 December 2016.

Amount due from a related party

	2016 RMB'000	2015 RMB'000
Hainan Feisida *	–	1,344

The balance is unsecured, interest-free and repayable on demand.

Amount due to a related parties party

	2016 RMB'000	2015 RMB'000
Hainan Feisida *	–	212

The amount due to a related party is unsecured, interest-free and repayable on demand.

* The amounts due to/from Hainan Feisida have been transferred to trade receivables and trade payables on 13 April 2016 when Hainan Feisida was no longer a related party of the Group.

(d) Compensation of key management personnel of the Group:

	2016 RMB'000	2015 RMB'000
Fee	4	–
Other emoluments:		
Salaries, allowances and benefits in kind	3,777	1,948
Pension scheme contributions	190	65
	3,967	2,013
	3,971	2,013

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

25. 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:

	2016	2015
	RMB'000	RMB'000
FINANCIAL ASSETS – LOANS AND RECEIVABLES		
Trade receivables	**23,091**	14,213
Amount due from a related party	**–**	1,344
Financial assets included in prepayments, deposits and other receivables	**1,502**	1,248
Cash and cash equivalents	**89,078**	20,412
Financial assets included in other non-current assets	**225**	6
	113,896	37,223

	2016	2015
	RMB'000	RMB'000
FINANCIAL LIABILITIES AT AMORTISED COST		
Trade payables	**7,926**	7,019
Amounts due to a related party	**–**	212
Financial liabilities included in other payables and accruals	**8,546**	370
	16,472	7,601

26. 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.

27. 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 amounts 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.

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

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 recognized 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.

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 2016			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total 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

27. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (CONTINUED)

Liquidity risk (continued)

	As at 31 December 2015			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Trade payables	2,668	1,047	3,304	7,019
Financial instruments included in other payables and accruals	370	–	–	370
	3,038	1,047	3,304	7,389

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 capital structure of the Group consists of borrowings disclosed as in note 21, and 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:

	2016 RMB'000	2015 RMB'000
Total assets	**149,923**	62,714
Total liabilities	**36,870**	25,352
Asset-liability ratio	**25%**	40%

28. 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:

	2016 RMB'000	2015 RMB'000
CURRENT ASSETS		
Due from subsidiaries	54,689	–
Prepayments, deposits and other receivables	101	–
Cash and cash equivalents	44,975	65
Total current assets	99,765	65
CURRENT LIABILITIES		
Due to subsidiaries	9,101	–
Other payables and accruals	210	–
Total current liabilities	9,311	–
NET CURRENT ASSETS	90,454	65
Total assets less current liabilities	90,454	65
Net assets	90,454	65
EQUITY		
Issued capital	4,341	65
Reserves	86,113	–
Total equity	90,454	65

28. 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
At 1 January 2015	–	–	–	–	–
Profit for the year	–	–	–	–	–
Issue of shares	65	–	–	–	65
At 31 December 2015 and 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	**4,341**	**71,194**	**30,674**	**(15,755)**	**90,454**

29. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 15 March 2017.

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		
	2016	2015	2014
	RMB'000	RMB'000	RMB'000
RESULTS			
REVENUE	**74,255**	51,529	40,991
Cost of sales	**(30,287)**	(20,328)	(17,275)
Gross profit	**43,968**	31,201	23,716
Other income and gains	**5,263**	4,485	1,037
Selling and distribution expenses	**(5,401)**	(5,486)	(4,334)
Research and development expenses	**(9,179)**	(3,953)	(4,725)
Administrative expenses	**(21,530)**	(4,507)	(3,787)
Finance costs	**(30)**	(182)	(251)
PROFIT BEFORE TAX	**13,091**	21,558	11,656
Income tax expense	**(2,870)**	(3,227)	(1,885)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**10,221**	18,331	9,771
Attributable to:			
Owners of the parent	**10,221**	18,331	9,771
ASSETS AND LIABILITIES			
Total assets	**149,923**	62,714	39,529
Total liabilities	**36,870**	25,352	20,563
Total equity	**113,053**	37,362	18,966