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 : 1782

ANNUAL REPORT 2018

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BOARD OF DIRECTORS

Executive Directors

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

Non-executive Director

Mr. Liang Judong

Independent Non-executive Directors

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

COMPANY SECRETARY

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

COMPLIANCE OFFICER

Mr. Sie Tak Kwan

COMPLIANCE ADVISER

KGI Capital Asia Limited

AUTHORISED REPRESENTATIVES

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

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

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Estera Trust (Cayman) Limited
PO 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:ir@vixtel.com
Telephone:+8610 62982318

STOCK CODE

1782

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") 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 2018 (the "Year").

The Group successfully transferred the listing of the shares of the Company (the "Shares") from GEM ("GEM") of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") to the Main Board of the Stock Exchange (the "Main Board") on 29 November 2018, which marked an important milestone. This move enhanced our corporate image and competitive edge, and at the same time helped to achieve the Group's long-term goal of becoming an international leading provider of Application Performance Management ("APM") products and services.

REVIEW AND PROSPECTS

2018 was a challenging year for all information and telecommunication high-tech companies. Affected by the economic situation, major telecommunication operators and internet companies significantly slowed down their investment plans, resulting in certain APM peers facing difficulties in their operations, which greatly narrowed their business scales or even caused them to withdraw themselves from the market. In the face of such difficult circumstances and pressure from APM market integration, the Group adhered to the needs of its customers, and provided core value and generated revenue and profit growth for them through continuous optimization of products and services. As such, the Group has achieved sustainable and healthy development during the Year.

Since 2018, the Group has strategically developed its major business towards Digital Experience, emphasizing on APM platforms and services related to digital household and Internet of Things markets. From a technical perspective, as the digital experience from end users involved key technical fields including connection management of massive digital equipments, big data and artificial intelligence, during the process of developing and optimizing products for users' digital experience, the Company has been able to enhance its technical capabilities, capture the future technological advancement and improve its corporate comprehensive competitiveness. From a market perspective, as the digital experience management system connected with millions of customers, the enterprise users had a strong inertia in using the system, and that established loyalty to the Group's products and further consolidated the market position of the Company's products.

The actual results of 2018 showed that we adopted accurate and timely strategies. Despite facing such a tough market environment, the Company still achieved double growth in performance and profit. In 2018, the annual revenue increased by 5.5% to approximately RMB115.1 million, while the profit for the year increased by 25.8% to approximately RMB27.9 million.

In 2018, the proportion of Application Network Performance Management (ANPM) involving traditional networking business in the APM product sales of the Company has reduced significantly, while digital experience management for end customers accounted for a significant proportion. More than 50 million digital households used the Company's management platform, representing nearly one-seventh of the broadband users in Mainland China. Such large user scale fully demonstrated the advantages of the Company's products in massive data connection and big data analysis, and it also showed the Company has been recognized by the market.

Meanwhile, as the platform developed by the Company has collected a large amount of digital equipment experience data from users, there was an increasing tendency from customers to conduct design optimization and marketing analysis of products based on these experience data, which has also brought new market opportunities for the Company. The Company has developed a series of products, linking the perception of digital business and marketing effect, among which the "perception-based digital marketing" platform is enjoying wide popularity in the Internet Video sector, becoming one of the most important engines for the Company's future revenue growth.

On the other hand, AI analysis engine is becoming increasingly important, showing a huge business development opportunity. For the Company's platform, we need to carry out a variety of works for millions of customers, including user portraits, perception warning and retention analysis etc.. Particularly, we need to look for goal and direction of experience optimization for telecom operators, our major customers. As such, we have established a machine learning development department in 2018, in which AI algorithm automatically discovers abnormal fluctuations in the KPI big data, providing decision-making basis for subsequent warnings, automatic damage prevention, root-cause analysis, etc., and carries out small scale application for our key customers. With continuous improvement of the Company's AI technology, we are confident that we will effectively improve the predictive ability of Company's products and provide higher value for our customers.

2018 marked the first year of China's 5G business. The Company has fully prepared for the market opportunities brought by 5G. First, the Company captured the core application of the ultra-wideband technology, made substantial investment in perception management technology from 5G Internet Video business and seized opportunities in the market. Meanwhile, the Company is actively engaged in research and development in the face of the technology revolution in core network and access network virtualization brought by 5G business. Therefore, for the 5G construction and investment boom in the next few years, the Company is confident that it can provide the most timely, comprehensive and efficient 5G network virtualization APM and solutions, and achieve sound returns.

Looking forward, the overall economic situation in 2019 is still full of challenges, however, given an unstoppable trend of digitalization, the full-scale commencement of 5G will boost this trend. As such, the Company will continue to maintain the technical advantages in the field of digital experience and analysis, and actively carry out operational optimization services based on our massive data, demonstrating the increasing users and profit growth achieved by our customers. Our platform can provide customers with cost-effective solutions, which are precisely the solutions our customers urgently need amid the uncertain economic and competitive market environment. Based on such circumstances, we are confident in achieving positive annual results for 2019.

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

Vixtel Technologies Holdings Limited
Yue Yong
Chairman and Executive Director

Hong Kong, 15 March 2019

	2018 **RMB'000**	2017 RMB'000	**CHANGE** **%**
Revenue	**115,107**	109,103	+5.5%
Gross profit margin (%)	**60.9%**	60.6%	
Profit for the year	**27,893**	22,175	+25.8%
Net profit margin (%)	**24.2%**	20.3%	
Adjusted: listing expenses of transfer to the Main Board	**2,201**	–	N/A
Profit for the year (before deducting the listing expenses of transfer of listing to the Main Board)	**30,094**	22,175	+35.7%
Net profit margin (%) (before deducting the listing expenses of transfer of listing to the Main Board)	**26.1%**	20.3%	
Total equity	**171,113**	132,675	+29.0%

BUSINESS REVIEW AND OUTLOOK

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

The shares of the Company (the "Shares") were listed on GEM (the "Listing") on 15 December 2016 (the "Listing Date") and the listing of which have been successfully transferred from GEM to the Main Board (the "Transfer of Listing") on 29 November 2018, which marked an important milestone and enhanced our corporate image and competitive edge. In the coming year, the Group will continue to exploit the opportunities in the blooming APM market in China so as to boost business growth and consolidate our position as a leading company in the APM industry.

In 2018, the Group's operations and business achieved a growth as compared with those recorded in 2017. The total revenue of the Group increased by approximately 5.5% from approximately RMB109.1 million for the year ended 31 December 2017 to approximately RMB115.1 million for the year ended 31 December 2018, while the Group's net profit increased by approximately 25.8% from approximately RMB22.2 million for the year ended 31 December 2017 to approximately RMB27.9 million for the year ended 31 December 2018.

OUTLOOK

In the future, the Company will continue to enhance the investment and technical development in respect of ultra wideband related businesses, especially application performance management of online video, and fully conduct performance analysis, optimizing and operational supporting businesses for video businesses, based on existing big data platforms.

As the era of 5G approaches, ultra wideband businesses represented by 4K video and VR are developing rapidly. For all ultra wideband businesses, there are stringent requirements on business awareness. Providing application performance management support for 5G basic businesses is the Company's strategic target for 2019. The Company has actively participated in verification work in 5G pilot zones around China. The Company's target for 2019 is to become a leader in performance management of 5G businesses, and to take the lead in deploying systems of the Company in a series of pilot networks.

Since 2018, with the development of acquisition and analysis technologies, APM based on massive customer data, namely the RUEM (Real User Experience Management) business, has seen a rapid development. The closed loop for the big data analysis products of the Company was created in 2018, and business development was started for such products. The RUEM business of the Company will focus on performance analysis of internet video services, optimization and operation of supporting businesses, and will provide customers with massive data analysis and intelligent services based on the processing by the Company's systems of viewing data of more than 50 million users per day. The Company has obtained many big data orders, with nationwide average daily volume of data processed exceeding 10PB in 2018. We believe that the APM business based on big data and AI will see a significant growth in 2019.

We notice that, with the promotion by Xiaomi, Huawei, Haier and other companies, digital home sees a rapid development. Household sensors and home broadband internet are quickly gaining in popularity. Therefore, the Company will further develop its digital home performance management system to provide a system platform for digital home support, customer service and user satisfaction management. We will work with operators and internet of things companies, and companies providing services for governments and enterprises, to develop various digital home solutions, and are actively establishing cooperative relationships with leading internet of things product companies in the industry. We believe that there will be more orders in the Group's digital home business in 2019.

Affected by the economic situation, corporate services and the SaaS (Software-as-a-Service) market were sluggish in 2018. In the market of China, most SaaS companies suffered substantial losses and even closed down. Therefore, the Company will be more cautious in the SaaS market in 2019, with a focus on the development of businesses with large enterprise groups, such as electric power company, expressway company and bank.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2018 amounted to approximately RMB115.1 million, representing a growth of approximately RMB6 million or 5.5% as compared with that for the year ended 31 December 2017 (2017: approximately RMB109.1 million). The increase was mainly attributable to the combined effect of: (i) the decrease in revenue generated from provision of integrated APM system solutions of approximately RMB3.0 million; (ii) the increase in revenue generated from provision of software development services of approximately RMB6.1 million; (iii) the increase in revenue generated from provision of technical services of approximately RMB4.5 million; and (iv) the decrease in revenue generated from sales of embedded hardware and standard APM software of approximately RMB1.6 million.

The following analysis sets forth a breakdown of the Group's revenue by service type for the year ended 31 December 2017 and 2018 respectively:

Integrated APM system solutions

This segment provides integrated APM system solutions by tailor-making our APM products to allow our customers to better manage and monitor their applications and networks. The Group has recorded a slight reduction in the revenue generated from integrated APM system solutions of approximately 4.0% from approximately RMB74.7 million for the year ended 31 December 2017 to approximately RMB71.7 million for the year ended 31 December 2018. Although the total contract value of the integrated APM system solutions signed by the Group in 2018 exceeded that in 2017, the contract signing time was delayed compared to 2017, resulting in less than 2017 in completion of contracts, and the overall total revenue was reduced.

The demands for integrated APM system solutions are mainly from: (i) various new mobile applications in the market, such as video applications, instant messaging applications, games applications and e-Bank applications etc.; (ii) relocation from traditional applications like websites, email system, enterprise resources planning and customer relation management system etc. to newly-built cloud platform; and (iii) the digital experience management brought by the rapid increase in the number of IoT household users equiped with smart home applications and internet TV/video applications. Those new web applications, newly-built cloud platform and the home application of the IoT require the customers to have stable network with excellent performance to realize its commercial purposes.

Software development services

The Group's software development services typically involve developing customized supporting software for upgrade and expansion of the APM products which are already integrated with our customers' systems and networks. Our revenue derived from the provision of software development services has increased significantly by approximately 59.8% from approximately RMB10.2 million for the year ended 31 December 2017 to approximately RMB16.3 million for the year ended 31 December 2018. Such increase was mainly due to the fact that the APM system customer base which had expanded over the past few years needed more customized software development services for upgrading and expanding their existing APM systems to cover various new mobile applications (such as mobile phone application, household internet of things application, internet TV/video application), and due to the increasing user group.

Technical services

This segment provides operational support, system maintenance, network analysis and optimization of full-chain of internet application and research study of specific topics on application and network performance. Our revenue derived from the provision of technical services has increased by approximately 35.2% from approximately RMB12.8 million for the year ended 31 December 2017 to approximately RMB17.3 million for the year ended 31 December 2018. Such increase was mainly attributable to a rise in customers' demand for the Group's in-depth internet APM analysis and consulting services for improving the application performance of their mobile internet and broadband networks. In addition, the demands for the Group's data analysis service to improve end-user experience increased rapidly in the same period, due to the significant rise in the number of internet TV or video application users in mobile phone and broadband networks of major customers.

Sales of embedded hardware and standard APM software

We have from time to time sold embedded hardware and standard APM software to customers who do not require tailor-making services. Our revenue generated from the sales of embedded hardware and standard APM software has decreased by approximately 14.2% from approximately RMB11.3 million for the year ended 31 December 2017 to approximately RMB9.7 million for the year ended 31 December 2018, mainly due to the fact that certain major customers improved product function and performance, to a larger extent through software customization and development, after completing infrastructure deployment. Therefore, the sales of embedded hardware and standard APM software of the Group without customized services decreased.

Cost of sales

The Group's cost of sales has increased by approximately 4.7% from approximately RMB43.0 million for the year ended 31 December 2017 to approximately RMB45.0 million for the year ended 31 December 2018, which was basically in line with the increase in our revenue. The increase was primarily due to higher labour costs resulting from an increased headcount and compensation base.

Gross profit and gross profit margin

The Group's gross profit has increased by approximately 6.1% from approximately RMB66.1 million for the year ended 31 December 2017 to approximately RMB70.1 million for the year ended 31 December 2018, mainly due to the increase in the business volume of software development services and technical services. The gross profit margin of the Group as of 31 December 2018 was approximately 60.9%, which was basically in line with that in 2017.

Other income and gains

The Group recorded other income and gains of approximately RMB6.2 million and approximately RMB9.3 million for the year ended 31 December 2017 and 2018, respectively. Such increase was mainly due to (i) the increase in the government subsidy income and (ii) the increase in net exchange gains for the year.

Selling and distribution expenses

The Group's selling and distribution expenses has increased by approximately 8.9% from approximately RMB7.9 million for the year ended 31 December 2017 to approximately RMB8.6 million for the year ended 31 December 2018. Such increase was primarily due to our enhanced efforts in marketing our APM services and products to build up broader customer awareness.

Research and development expenses

The Group's research and development ("R&D") expenses has increased by approximately 26.4% from approximately RMB14.8 million for the year ended 31 December 2017 to approximately RMB18.7 million for the year ended 31 December 2018. Such increase was primarily due to the higher labour costs in a larger extent resulting from an increased R&D headcount and compensation base.

Administrative expenses

The Group's administrative expenses has increased by approximately 26.8% from approximately RMB15.7 million for the year ended 31 December 2017 to approximately RMB19.9 million for the year ended 31 December 2018, mainly due to the expenses of transfer of listing to the Main Board in the amount of RMB2.2 million during the year ended 31 December 2018.

Expenses of transfer of listing to the Main Board

The Group recorded the one-off expenses of transfer of listing to the Main Board in the amount of approximately RMB2.2 million in 2018, which was included in the administrative expenses.

Profit before tax

The Group's profit before tax has increased by approximately 3.2% from approximately RMB31.0 million for the year ended 31 December 2017 to approximately RMB32.0 million for the year ended 31 December 2018.

Income tax expenses

The Group's income tax expenses have decreased by approximately 53.4% from approximately RMB8.8 million for the year ended 31 December 2017 to approximately RMB4.1 million for the year ended 31 December 2018. The decrease in the income tax expenses and the increase in profit before tax is due to the increase in expenses disbursed before income tax and write-back of deferred income tax liabilities of RMB1.5 million (the deferred income tax liabilities of RMB2.9 million recorded in 2017) according to the changes in the applicable tax rate of withholding tax for the Group. After deducting the effect of write-back of deferred income taxes, the income tax expenses on the annual profits of the Group as of 31 December 2018 were approximately RMB4.9 million (approximately RMB5.9 million as of 31 December 2017).

Net profit for the year

As a result of the foregoing reasons, the Group's net profit has increased by approximately 25.8% from approximately RMB22.2 million for the year ended 31 December 2017 to approximately RMB27.9 million for the year ended 31 December 2018. The Group's net profit margin increased from approximately 20.3% for the year ended 31 December 2017 to approximately 24.2% for the year ended 31 December 2018. The increase in the net profit and the net profit margin was mainly due to, among other things, (i) the increase in other revenues of the Group; and (ii) the decrease in the income tax expense of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2018, the Group mainly financed the capital expenditures and working capital requirements through cash flow from operations.

The Group's net current assets increased from approximately RMB130.9 million as at 31 December 2017 to approximately RMB166.2 million as at 31 December 2018. Our cash and cash equivalents were approximately RMB70.7 million as at 31 December 2018 (as at 31 December 2017: approximately RMB74.5 million).

As at 31 December 2018, the Group had no borrowings and thus no gearing ratio was calculated. The calculation of gearing ratio is based on the total borrowings divided by total equity and multiplied by 100%.

EXPOSURE TO EXCHANGE RATE FLUCTUATION

The Group's main operations are in China with most of its transactions being settled in RMB. Some of the Group's cash and bank deposits are denominated in Hong Kong dollars ("HK$"). The Group did not experience any impact or difficulties in liquidity on its operations resulting from currency exchange and no hedging transaction or forward contract arrangement was made by the Group during the year ended 31 December 2018. In this respect, the Group is not exposed to any significant foreign currency exchange risk. However, the management of the Company will closely monitor foreign exchange risk to ensure that appropriate measures are implemented in a timely and effective manner.

CAPITAL STRUCTURE

The Shares were successfully listed on GEM on 15 December 2016.

On 12 June 2018, 21,255,000 subscription shares of the Company were allotted and issued to vendors at the price of HK$1.08 per subscription share (the "Placing"). Upon the completion of the Placing, the total number of the issued Shares of the Company was 508,000,000 of HK$0.01 each.

On 29 November 2018, the listing of Shares were successfully transferred to the Main Board.

As at 31 December 2018, the Company's issued share capital was HK$5,080,000 and the number of its issued ordinary shares was 508,000,000 of HK$0.01 each. As at the date of this annual report, the share capital of the Group only comprises ordinary shares.

OPERATING LEASE COMMITMENTS

As at 31 December 2018, the Group had operating lease commitments in respect of rented office of approximately RMB1.8 million (2017: approximately RMB2.4 million).

MATERIAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group had no material commitments and contingent liabilities (2017: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 November 2016 (the "Prospectus"), the Group did not have other substantial future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the year ended 31 December 2018, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

For the year ended 31 December 2018, 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 2018, the Group had no charges on the Group's assets.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As of 31 December 2018, the Group had 203 employees. The staff costs including Directors' emoluments were approximately RMB45.1 million for the year ended 31 December 2018 (2017: approximately RMB37.7 million).

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

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

The Company recognizes the importance of keeping the Directors updated with the latest information of duties and obligations of a director of a company whose shares are listed on the Stock Exchange and the general regulatory and environmental requirements 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 on the Group's position as a leading provider of APM products and services in China's telecommunications industry, the Group is now expanding business to China's second and third largest telecom groups and the broadcasting and television industry. Given that the network architectures and technologies of China's telecom groups are quite similar, the Company's products and services can meet their needs. The Group has also promote our new SaaS cloud platform products to small and medium-sized enterprise customers. The Group is also actively promoting the diversification of customers which will effectively reduce the risk.

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

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

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

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

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

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

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

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

KEY FINANCIAL AND BUSINESS PERFORMANCE INDICATORS

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

The Group's return on equity decreased from 16.7% for the year ended 31 December 2017 to 16.3% for the year ended 31 December 2018. The decrease was primarily due to the enlarged issued share capital as a result of the Placing in June 2018.

USE OF PROCEEDS

The Shares were listed on GEM on the Listing Date, whereby 102,800,000 new shares were issued at the offer price of HK$0.74 each by the Company. The net proceeds from the Listing, after deduction of the underwriting fees and other related expenses, was approximately HK$58.4 million. The Company intends to apply the proceeds in the manner as described under the section headed "Future Plans and Use of Proceeds" in the Prospectus.

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

As of 31 December 2018, the net proceeds from the Listing have been applied and utilized as follows:

Use of net proceeds	**Planned amount as presented in the prospectus** (HK$ million)	**Approximate percentage of total net proceeds**	**Actual utilized amount as of 31 December 2018** (HK$ million)	**Unutilized net proceeds as of 31 December 2018** (HK$ million)
Further solidify our leadership in China's APM market	17.52	30%	14.60	2.92
Continue to strengthen in-house R&D capabilities	23.36	40%	19.28	4.08
Leverage growth opportunities in China and strategically expand into certain overseas markets	11.68	20%	9.82	1.86
Fund general corporate purposes	5.84	10%	4.95	0.89
Total	58.40	100%	48.65	9.75

The use of proceeds brought forward from 31 December 2017 is HK$40.58 million.

On 12 June 2018, following the Placing, 21,255,000 Shares were allotted and issued by the Group on GEM, at the price of HK$1.08 per share (market price on 6 June 2018: HK$1.26 per share). For further information, please refer to the announcements of the Company under stock code 8342 dated 6 June 2018 and 12 June 2018 respectively. The Company's net proceeds from the allotment and issuance of additional Shares (after deducting the underwriting fees and other related expenses) were approximately HK$22.4 million. Such proceeds from the Placing were used to fund general corporate purposes. As at 31 December 2018, among such proceeds from the Placing, HK$5.4 million was used by the Group, while the remainder of HK$17.0 million was not used, which will be as a general working capital for the company to provide APM products and service solutions for telecommunication operators and large enterprises in the next around two years.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

For the period from 1 January 2018 to 31 December 2018

Business strategy	**Business objectives for the period from 1 January 2018 to 31 December 2018**	**Actual business progress during the year ended 31 December 2018**
Further solidify our leadership in China's APM market	Improve the functionalities and add new features for our existing products	Good progress has been made in digital home and ultra wideband businesses for APM products. The Company has independently developed a flow line and a back-end big data processing platform capable of concurrent processing for millions of users, thus greatly enhancing the processing capacity of the Company for massive digital home businesses. Meanwhile, a big data analysis language has been created according to the features of telecommunication businesses, such that dozens of technical support engineers of the Company acquire the big data analysis skill on the platform, which becomes one of the core competitive strengths of the Company.
	Enter into additional sales agreements for system integration projects with major customers through continued marketing efforts	Digital video operation businesses have been successfully developed; a technical route of operation optimization and income increase based on video awareness has been put forward, based on the features of the APM business of the Company. In this year, several data operation contracts were successfully signed with customers.
	Participate in major marketing events held by the relevant industry organizations and organize free online or on-site training and expert speaker sessions to broaden our customer awareness of our products and services	Based on the participation in professional exhibitions, it began to actively participate in certain large comprehensive exhibition. It registered for China Content Broadcasting Network (CCBN) and considered participating in Shanghai MWC (Mobile World Congress) mobile communication exhibition.

Business strategy	Business objectives for the period from 1 January 2018 to 31 December 2018	Actual business progress during the year ended 31 December 2018
Continue to strengthen in-house R&D capabilities	Recruit additional talented R&D personnel	The Company developed and delivered the big data analysis system. The Company has migrated all data analysis systems to self-owned big data analysis systems. In next step, it will develop APP Store of the big data analysis system to build an open application development community for the system. It continued to develop an embedded software-based APM system and developed such system into the core of digital home performance management. Such philosophy has been widely recognized. Operators using the system for home network performance analysis and optimization include China Telecom, China Mobile and China Unicom covered over 50 million home broadband users. 5G end-to-end application performance management platform is launched, and together with 5G virtualization performance solutions forms the APM core platform of the Company in the 5G era.
Leverage growth opportunities in China and strategically expand into certain overseas markets	Set up an overseas development department consisting of R&D, sales and technical support service members specialized in overseas markets such as Asia- Pacific countries	Sales and tendering work for overseas projects was started, and early-stage orders had been obtained.
	Promote our new products and services across China	The Company explored new market opportunities in China, promoted new products and services, and obtained early-stage orders.

EXECUTIVE DIRECTORS

Mr. Yue Yong ("Mr. Yue"), aged 46, was re-designated as the Chairman and executive Director of the Company on 28 July 2016 and is primarily responsible for the overall management and corporate policy making of the Group's business operations. Mr. Yue is also our Chief Technology Officer and is responsible for overseeing the engineering and technical operations as well as research and development of the Group.

Mr. Yue obtained a bachelor's degree in information engineering and a master's degree in engineering from Xidian University (西安電子科技大學) in July 1994 and March 1997 respectively. Mr. Yue joined our Group as the technical director in September 2006 and has over 19 years of experience in the Internet and software industry. Prior to joining the Group, Mr. Yue worked as an application engineer in the Agilent Technologies Group (安捷倫科技集團).

Mr. Sie Tak Kwan ("Mr. Sie"), aged 42, 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 17 years of experience in high-technology software solution industry. Mr. Sie graduated from the Hong Kong Polytechnic University with a bachelor's degree in electronic engineering in November 2000. He further obtained a master's degree of science in communication engineering from the University of Hong Kong in December 2003. Mr. Sie joined the Group as a supervisor in December 2010. Prior to joining the Group, Mr. Sie has worked as an application engineer and the Asia Business Development Manager of the Electronic Measurements Group at Agilent Technologies Hong Kong Limited (安捷倫科技香港有限公司) successively.

Mr. Guan Haiqing ("Mr. Guan"), aged 44, 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 18 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信系統有限公司) from April 1996 to April 2000 and the sales manager of Agilent Technologies Group (安捷倫科技集團) from June 2000 to April 2010. Mr. Guan then worked in the sales department of JDSU Photoelectric Technology (Beijing) Co., Ltd (捷迪訊光電技術(北京)有限公司) from August 2010 to June 2013. Prior to joining the Group, Mr. Guan worked as a senior sales manager at JDSU Communication Technology (Shenzhen) Co., Ltd (Shanghai Branch) (捷迪訊通訊技術(深圳)有限公司(上海分公司)).

NON-EXECUTIVE DIRECTOR

Mr. Liang Judong ("Mr. Liang"), aged 49, was re-designated as a non-executive Director of the Company on 28 July 2016 and is responsible for providing advice on the strategic development of the Group. Mr. Liang obtained a bachelor's degree in industrial electronics and automation from the South China University of Technology (華南理工大學) in July 1991. Mr. Liang worked as a sales manager of the Group from January 2012 to March 2016 and has over 20 years of sales and marketing experience. Prior to joining the Group, Mr. Liang joined Agilent Technologies Group (安捷倫科技集團) as a senior sales engineer from December 1997 to April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Hon Fai ("Mr. Cheung"), aged 45, was appointed as an independent non-executive Director of the Company on 21 November 2016. Mr. Cheung obtained a bachelor's degree in accountancy from the Hong Kong Polytechnic University in November 1996 and a postgraduate diploma in enterprise risk management from the School of Professional and Continuing Education of the University of Hong Kong in May 2011. Mr. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 21 years of experience in accounting and finance. He is a Certified Public Accountant in Hong Kong and is currently the Group Financial Controller of Well Capital Corporation Limited.

Professor Lam Kin Man ("Professor Lam"), aged 56, was appointed as an independent non-executive Director of the Company on 21 November 2016. Professor Lam obtained a master's degree of science in communication engineering from the Imperial College of Science and Technology of the University of London in December 1987. He further obtained a doctorate degree of philosophy from the University of Sydney in October 1996. Since July 2010, Professor Lam has served as a professor of the Electronic and Information Engineering Department in the Hong Kong Polytechnic University. Currently, he is a member of the Board of Governors of the Asia-Pacific Signal and Information Processing Association, being responsible for the member relations and development of the association.

Mr. Shen Qi ("Mr. Shen"), aged 44, was appointed as an independent non-executive Director of the Company on 21 November 2016. Mr. Shen graduated from the China Jiliang University (中國計量大學) (formerly known as 中國計量學院) with a bachelor's degree in information engineering in July 1997 and obtained another bachelor's degree in economics law from the Jilin University (吉林大學) in July 1998. He is a qualified solicitor and has been practicing law in the PRC since May 1999. Mr. Shen had worked as a lawyer at Shanghai Xinmin Law Firm (上海市新閔律師事務所) from April 2003 to May 2013 and was promoted as a partner of the firm in 2008. Currently, Mr. Shen is a partner of Shanghai Qi Dao Law Firm (上海祺道律師事務所).

COMPANY SECRETARY

Mr. Cheung Kai Cheong Willie ("Mr. Cheung"), is a manager of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited), mainly responsible for assisting listed companies in professional company secretarial work. Prior to joining SWCS Corporate Services Group (Hong Kong) Limited, he served as the company secretary and finance controller of certain companies whose shares are listed on the Stock Exchange. He has more than 20 years of professional experiences in company secretarial, accounting and finance matters. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He obtained a Bachelor Degree of Arts (Honors) in Accounting and Finance at the University of Glamorgan in the United Kingdom.

SENIOR MANAGEMENT

Ms. Sie Chun Yu ("Ms. Sie"), aged 46, 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 21 years of experience in the field of audit and financial management. Prior to joining the Group, she was a financial controller of EE Hobbies Australia Pty Ltd.

Mr. Liu Zewei ("Mr. Liu"), aged 36, is the head of the research and development department of the Group and joined our Group on 27 December 2007. He is primarily responsible for leading the research and development department. Mr. Liu obtained a bachelor's degree in computer science and technology from the Shanxi University (山西大學) in July 2004. He has over 11 years of experience in the research and development of software systems. Prior to joining the Group, Mr. Liu worked as an engineer with Shenzhen Smartcom Business Co., Ltd (慧通商務(深圳)有限公司) from December 2005 to September 2007.

Mr. Yuan Feixiong ("Mr. Yuan"), aged 34, 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 11 years of experience in research and development of communications software. Prior to joining the Group in 2016, he served as a senior research and development engineer in LeCloud Computing Co., Ltd (樂視雲計算有限公司).

Ms. Ren Dong ("Ms. Ren"), aged 43, was appointed as the financial controller of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 27 June 2017 and is responsible for the management of accounting and financial operations of the subsidiaries of the Group. Ms. Ren is a Certified Public Accountant in China, an associate member of the China Institute of Certified Public Accountants, Certified Internal Auditor and an internal auditor of the Beijing Institute of Internal Auditors (北京註冊內部審計師). Ms. Ren graduated from Capital University of Economics and Business in 1998 with a bachelor's degree in accounting. Ms. Ren has worked at Pan Asia Certified Public Accountants Limited and Deloitte Touche Tohmatsu CPA Ltd. Beijing Branch. She has also worked as the Financial Analysis Supervisor at Beijing Innovative Linkage Technology Ltd.. Prior to joining the Group, she has worked as the Financial Analysis Manager at Beijing RITT-Net Technology Development Co., Ltd (北京華瑞網研科技有限公司).

Mr. Ma Xuejia ("Mr. Ma"), aged 36, was appointed as the technical services director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the management and coordination of technical departments of the Group. Mr. Ma was previously responsible for the pre-sale management and technical support of the Group's products. Prior to joining the Group in 2009, he worked in Guangdong Eshore Technology Co., Ltd., a wholly owned subsidiary of China Telecom, as a System Integration Engineer.

Mr. Wu Peng ("Mr. Wu"), aged 38, was appointed as the group customer sales director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the group customer sales of products and services of the Group. Mr. Wu was previously responsible for pre-sale technical support of the Group's products. He graduated from Xi`an Technological University (西安工業學院) in 2003 with a bachelor's degree in engineering (electronic and information engineering) and holds qualifications of Project Management Professional (PMP) certification and network engineer. Mr. Wu has over 11 years of experience in research and sales of network communication solutions. Prior to joining the Group in 2010, he worked as an engineer at Huawei Technologies Co., Ltd..

Mr. Zhang Haoyu ("Mr. Zhang"), aged 43, was appointed as the key account sales director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the sales of products and services to the Group's key accounts. He graduated from Beijing Xicheng Economic Science University in 1999 and has over 16 years of experience in the sales of network communication solutions. Prior to joining the Group in 2013, he worked at the sales department of Chengdu Evercreative Technology Co., Ltd. (成都九鼎瑞信網路技術有限公司).

The Directors is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2018 to the Shareholders.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Part of the business review as required under Schedule 5 of the Companies Ordinance is included in the sections headed "Chairman's statement" in this annual report on page 3 to 4, and "Management Discussion and Analysis" in this annual report on page 6 to 15, and such discussion forms part of this directors' report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 and the consolidated statement of profit or loss and other comprehensive income of the Group as at that date are set out in the consolidated financial statements on page 48 of this annual report.

The interim dividend of HK0.6 cent per Share for the six months ended 30 June 2018 which was to be declared and paid out of the share premium account of the Company as resolved at the extraordinary general meeting held by the Shareholders on 31 August 2018 was paid on 18 September 2018 to the Shareholders whose names appear on the register of members on 11 September 2018.

The Board has resolved to recommend the declaration of a final dividend of HK1.20 cents (equivalent to RMB1.0 cent) per Share for the year ended 31 December 2018 out of the share premium account of the Company, subject to Shareholders' approval at the AGM to be held on 17 May 2019. If approved, the proposed final dividend will be paid on or about 2 July 2019 to the Shareholders whose names appear on the register of members of the Company on 22 May 2019 (2017: HK1.20 cents).

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting (the "AGM") is scheduled to be held on Friday, 17 May 2019. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019, both days inclusive, during which period no transfer of Shares of the Company will be registered. In order to attend and vote at the AGM, all share transfer documents accompanied by the relevant share certificates must be lodged with the share registrar of the Company in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 10 May 2019.

Subject to the approval of the declaration and payment of the final dividend by the Shareholders for determining the entitlement to the proposed final dividend, the register of members of the Company will be closed from Thursday, 23 May 2019 to Friday, 24 May 2019, both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, unregistered holders of shares of the Company shall ensure all transfer documents, accompanied by relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration not later than 4:30 pm on Wednesday, 22 May 2019.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2018 is set out in the financial summary on page 110 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 2018 are set out in note 12 to the consolidated financial statements.

ISSUED CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2018 are set out in note 23 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's articles of association (the "Articles") or the laws of the Cayman Islands, which would oblige the Company to offer new Shares on a pro rata basis to existing Shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the year ended 31 December 2018. As at 31 December 2018, there were no outstanding redeemable securities of the Company.

RESERVES

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

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands, Chapter 22 (Law 3 of 1961, as consolidated and revised), other than share premium, no other distributable reserve is available for distribution to Shareholders by the Company as at 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 38.0% (2017: approximately 45.9%) of the total turnover for the year ended 31 December 2018 and sales to the largest customer for the same period amounted to approximately 11.7% (2017: approximately 19.9%).

Purchases from the Group's five largest suppliers accounted for approximately 65.0% (2017: approximately 63.3%) of the total purchases during the year ended 31 December 2018 and purchases from the largest supplier during the same period amounted to approximately 28.7% (2017: approximately 33.5%).

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 2018.

DIRECTORS

The Directors of the Company who held office during the year ended 31 December 2018 and up to the date of this annual report were as follows:

Executive Directors

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

Non-executive Director

Mr. Liang Judong

Independent non-executive Directors

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

Pursuant to Article 108 of the Articles, at each annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three (3), the number nearest to but not less than one-third shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years. Therefore, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Shen Qi 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 16 to page 18 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 contract 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 contract or letter of appointment (as the case may be).

Save as disclosed above, none of the Directors has entered into any service contracts 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 nor its connected person(s) 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 2018.

COMPETING INTERESTS

During the year ended 31 December 2018, none of the Directors or the controlling shareholders of the Company or their respective associates (as defined in the Rules Governing the Listing of the Securities (the "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 Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong (the "Controlling Shareholders") entered into a deed of non-competition ("Deed of Non-Competition") in favour of the Company (for itself and as trustee for each of its subsidiaries), pursuant to which each Controlling Shareholder, jointly and severally, warrants and undertakes to the Company that, from the Listing Date, he/it shall not, and shall procure his/its close associates or any company directly or indirectly controlled by him/it (other than members of the Group) not to directly or indirectly, carry on, participate, engage or otherwise be interested in any business in anywhere or place which is or may be in competition with the business of any members of the Group from time to time. For details of the Deed of Non-Competition, please refer to the section headed "Relationship with Our Controlling Shareholders" in the Prospectus.

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

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 7 to 8 to the consolidated financial statements, respectively.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or was subsisting during the year ended 31 December 2018.

SHARE OPTION SCHEME

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

Details of the Share Option Scheme are as follows:

1	Purpose of the Share Option Scheme	The purpose of the Share Option Scheme is to enable the Company to grant options to Eligible Persons as incentives or rewards for their contribution to the Group.
2.	Who may join	Any eligible employee (full time or part-time), executive Director, non-executive Director and independent non-executive Director, advisor and consultant of the Group.
3.	Total number of shares available for issue under the Share Option Scheme	48,674,500 Shares (representing 10% of the total number of Shares in issue as at the Listing Date)
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.
9.	Duration of the Share Option Scheme	The Share Option shall be valid and effective for a period of 10 years commencing on 21 November 2016 and has not expired as at the date of this annual report.

Since the adoption of the Share Option Scheme and up to the date of this annual report, no share options have been granted pursuant to the Share Option Scheme. On 31 December 2018 and as of the date of this annual report, the Company does not have any outstanding share options, warranties, derivatives or securities that are convertible into or exchangeable for shares.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme of the Company as described above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year ended 31 December 2018 or subsisted at the end of that period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2018, the interests or 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 Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long Positions in Shares

Name of Directors	Capacity/nature of interests	Number of Shares held	Approximate percentage of shareholding
Mr. Yue Yong *(Notes 1 and 2)*	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%
Mr. Sie Tak Kwan *(Notes 1 and 3)*	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%
Mr. Guan Haiqing *(Notes 1 and 4)*	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%
Mr. Liang Judong *(Notes 1 and 5)*	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%

Notes:

1. Pursuant to the deed of concert parties dated 11 August 2016 as supplemented by a supplemental deed dated 10 November 2016 (the "Deed of Concert Parties"), Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong confirm, agree and acknowledge, among other things, that they are parties acting in concert in respect of the Group since 29 December 2010. As such, pursuant to the Deed of Concert Parties, each of Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong is deemed to be interested in 61.03% of the issued share capital of the Company.

2. Shares in which Mr. Yue Yong is interested consist of (i) 103,335,000 Shares held by Worldgate Ventures Limited, a company wholly-owned by him, in which Mr. Yue Yong is deemed to be interested under the SFO; and (ii) 206,705,000 Shares in which Mr. Yue Yong is deemed to be interested as a result of being a party acting-in-concert with Mr. Sie Tak Kwan, Mr. Guan Haiqing and Mr. Liang Judong.

3. Shares in which Mr. Sie Tak Kwan is interested consist of (i) 103,335,000 Shares held by Cohort Investments Limited, a company wholly-owned by him, in which Mr. Sie Tak Kwan is deemed to be interested under the SFO; and (ii) 206,705,000 Shares in which Mr. Sie Tak Kwan is deemed to be interested as a result of being a party acting-in-concert with Mr. Yue Yong, Mr. Guan Haiqing and Mr. Liang Judong.

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 2018, none of the Directors and chief executive of the Company had an interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required to be recorded pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER THE SFO

As at 31 December 2018, Shareholders (other than Directors and the chief executive of the Company) who had interests or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO were as follows:

Long Positions in Shares

Name of Shareholder	Capacity/Nature of Interest	Number of Shares held	Approximate percentage of shareholding *(Note 1)*
Worldgate Ventures Limited *(Note 2)*	Beneficial owner	103,335,000	20.34%
Ms. Li Duan *(Note 3)*	Interest of spouse	310,040,000	61.03%
Cohort Investments Limited *(Note 4)*	Beneficial owner	103,335,000	20.34%
Ms. Chen Baozhu *(Note 5)*	Interest of spouse	310,040,000	61.03%
Copious Link Investments Limited *(Note 6)*	Beneficial owner	72,365,000	14.25%
Ms. Gu Wei *(Note 7)*	Interest of spouse	310,040,000	61.03%
Hugemind Investments Limited *(Note 8)*	Beneficial owner	31,005,000	6.10%
Ms. Bai Xiaoqian *(Note 9)*	Interest of spouse	310,040,000	61.03%
Sino Impact Limited	Beneficial owner	54,710,000	10.77%
Mr. Kwan Shan *(Note 10)*	Interest in a controlled corporation; Interest of spouse	54,710,000	10.77%
Ms. Tam Suk Fan Sindy *(Note 10)*	Interest in a controlled corporation; Interest of spouse	54,710,000	10.77%

Notes:

1. As at 31 December 2018, the Company had 508,000,000 Shares in issue.

2. Worldgate Ventures Limited is wholly-owned by Mr. Yue Yong. Under the SFO, Mr. Yue Yong is deemed to be interested the Shares held by Worldgate Ventures Limited.

3. Ms. Li Duan is the spouse of Mr. Yue Yong. Under the SFO, Ms. Li Duan is deemed to be interested in the same number of Shares in which Mr. Yue Yong is interested.

4. Cohort Investments Limited is wholly-owned by Mr. Sie Tak Kwan. Under the SFO, Mr. Sie Tak Kwan is deemed to be interested in the Shares held by Cohort Investments Limited.

5. Ms. Chen Baozhu is the spouse of Mr. Sie Tak Kwan. Under the SFO, Ms. Chen Baozhu is deemed to be interested in the same number of Shares in which Mr. Sie Tak Kwan is interested.

6. Copious Link Investments Limited is wholly-owned by Mr. Guan Haiqing. Under the SFO, Mr. Guan Haiqing is deemed to be interested in the Shares held by Copious Link Investments Limited.

7. Ms. Gu Wei is the spouse of Mr. Guan Haiqing. Under the SFO, Ms. Gu Wei is deemed to be interested in the same number of Shares in which Mr. Guan Haiqing is interested.

8. Hugemind Investments Limited is wholly-owned by Mr. Liang Judong. Under the SFO, Mr. Liang Judong is deemed to be interested in the Shares held by Hugemind Investments Limited.

9. Ms. Bai Xiaoqian is the spouse of Mr. Liang Judong. Under the SFO, Ms. Bai Xiaoqian is deemed to be interested in the same number of Shares in which Mr. Liang Judong is interested.

10. Mr. Kwan Shan and Ms. Tam Suk Fan Sindy, each holds 50% of Sino Impact Limited, which directly holds 54,710,000 Shares. By virtue of the SFO, Mr. Kwan Shan and Ms. Tam Suk Fan Sindy are deemed to be interested in the 54,710,000 Shares in which Sino Impact Limited is interested.

Save as disclosed above, as at 31 December 2018, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who held an interest or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Option Scheme" and "Directors' And Chief Executive's Interests in Shares" above, at no time during the year ended 31 December 2018 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 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 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE

Prior to the Transfer of Listing, 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. Following the Transfer of Listing, the Company has complied with all the code provisions of Appendix 14 to the Listing Rules and was not aware of any non-compliance relating thereto.

SUFFICIENCY OF PUBLIC FLOAT

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

RELATIONSHIPS WITH STAKEHOLDERS

Employees

Talent has always been regarded as one of the most important and precious assets of the Group. The Group is committed to providing talented people with safe and comfortable working environment. The Group has also set up a sound management system, which provides reasonable salary and social welfare to attract and retain outstanding personnel with rich knowledge and experience to join us. In addition, the Group also provides regular training for technical staff. During the year ended 31 December 2018, there were no material labour disputes between the Group and the employees, and the Group has maintained good relations with its employees.

Customers

The Group has maintained long-term and stable business relationships with large and reputable customers, including subsidiaries of the China's largest telecom group. The Group has established our business relationship with the subsidiaries of the China's largest telecom group for more than 11 years, since 2007. To optimize the quality of its products, the Group constantly collects feedback from its customers. During the year ended 31 December 2018, the Group did not have any material disputes with its customers and has maintained good relationship with them.

Suppliers

The Group procures hardware and installation engineering services from various suppliers to minimize the risk of disruption of our operations. In particular, the Group has maintained 7 years of business relationship with its largest supplier. During the year ended 31 December 2018, the Group did not have any material disputes with its suppliers and has maintained good relationship with them.

Dividend Policy

1. The Company intends to pay dividends semi-annually to the shareholders of the Company (the "Shareholders"), subject to the capacity of the Company to pay from accumulated and future earnings, liquidity position and future commitments and the dividend policy at the time of declaration of dividends. Save for the aforesaid regular semi-annual dividends, the dividend policy allows the Company to declare special dividends from time to time but no dividends shall exceed the amount recommended by the board of directors.

2. It is the policy of the Board, in recommending dividends, to allow Shareholders to share the profits of the Company and for the Company to retain adequate reserves for the Company's future growth. The capacity of the Company to pay dividends (including but not limited to the above-mentioned semi-annual dividends) will depend upon the Company's current and future operations, liquidity position and capital requirements. The payment of dividend is also subject to any restrictions under the laws of the Cayman Islands, the Articles requirements and applicable laws and regulations. Whilst the dividend policy reflects the current views of the board of directors on the financial and cash-flow position of the Group, such dividend policy will continue to be reviewed from time to time, and there can be no assurance that dividends will be paid in any particular amount for any given period. Even if the Board decides to recommend and pay dividends, the form, frequency and amount will depend upon the operations and earnings, capital requirements and surplus, general financial position, contractual restrictions and other factors of and affecting the Group.

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 operational impact on the environment. During the year ended 31 December 2018, 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 the business operation and financial position of the Group. The Board is responsible for ensuring that the Group is in compliance with the relevant laws and regulations. The laws and regulations which have a significant impact on the Group include, among others, copyright Law of the PRC, the Regulations on Computer Software Protection the Patent Law of the PRC, the Trademark Law of the PRC and the provisions on protection of personal Information of Telecommunication and Internet User. To the best knowledge of the Board, the Group has complied with relevant laws and regulations during the year ended 31 December 2018.

INTERESTS OF THE COMPLIANCE ADVISER

As confirmed by the Group's compliance adviser, KGI Capital Asia Limited (the "Compliance Adviser"), for the year ended 31 December 2018, none of the Compliance Adviser or its directors, employees or associates (as defined in the 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 Group.

PERMITTED INDEMNITY PROVISION

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

RELATED PARTY TRANSACTION

Significant related party transactions entered into by the Group during the year ended 31 December 2018 are disclosed in note 26 to the consolidated financial statements. The related party transactions did not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE AND SOCIAL RESPONSIBILITY

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

AUDITOR

Ernst & Young was appointed by the Directors as the auditor of the Company and there was no change in the auditor of the Company in the past four financial years. The consolidated financial statements of the Group for the year ended 31 December 2018 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 2019

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 14 to the Rules Governing the Listing of Securities of the Stock Exchange (the "Listing Rules").

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

During the year ended 31 December 2018, the Group has complied with all applicable code provisions as contained in the Corporate Governance Code as set out in Appendix 15 to the GEM Listing Rules prior to the Transfer of Listing. Following which, the Group has complied with all applicable code provisions as set out in the Code.

DIRECTORS' SECURITIES TRANSACTIONS

The Company adopted a code of conduct regarding securities transactions by Directors (the "Code of Conduct") on terms in accordance with the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules from 1 January 2018 to the date prior to the Transfer of Listing.

Upon the Company's transfer of listing from GEM to the Main Board on 29 November 2018, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code") as the code of conduct for dealing in securities of the Company by the Directors.

The Company has made specific enquiry to all Directors, who have confirmed that, during the year ended 31 December 2018, each of them were in compliance with the Code of Conduct from 1 January 2018 to the date prior to the Transfer of Listing and the Model Code with effect from the Transfer of Listing.

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 16 to 18 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 D.3.1 to the Code, monitors the implementation of these policies and strategies and the management of the Company and to review the Company's compliance with the Code and disclosure in the Corporate Governance Report. Daily business operations and administrative functions of the Group are delegated to the executive Directors and the senior management of the Company.

Board Meetings and Attendance Record of Directors

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

During the year ended 31 December 2018, the Company has convened six Board meetings. The individual attendance records of each Director at the meetings of the Board are set out below:

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

Directors' Appointment, Re-election and Removal

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

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

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

Pursuant to the Articles, 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 3.10(1) of the 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 3.10(2) of the Listing Rules. In accordance with Rule 3.13 of the Listing Rules, the Company has received from each of its independent non-executive Directors the written confirmation of his independence. The Company, based on such confirmations, considers Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi to be independent.

Chairman and Chief Executive Officer

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

Company Secretary

Mr. Cheung Kai Cheong Willie has been appointed as the company secretary of the Company (the "Company Secretary") on 9 February 2018. He is the manager of SWCS Corporate Services Group (Hong Kong) Limited (formerly known as SW Corporate Services Group Limited). His primary corporate contact person at the Company is Mr. Sie Tak Kwan, the executive Director of the Company. During the year, Mr. Cheung Kai Cheong Willie has taken not less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules.

Compliance Officer

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 2018, all Directors namely, Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing, Mr. Liang Judong, Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi have participated in the training regarding director responsibilities and duties to ensure that he has appropriate understanding of his responsibilities and obligations under the 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 revised by the Board with effect from 29 November 2018 in compliance with Rules 3.21 and 3.22 of the 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 3.10(2) and 3.21 of the Listing Rules. None of the members of the Audit Committee are former partners of the Company's existing external auditors.

The Audit Committee had reviewed the Group's financial results for the year ended 31 December 2018 with the management and is of the view that such results complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

The main duties of the Audit Committee include the following:

(a) to assist the Board by providing an independent view on the effectiveness of the financial reporting process, internal control and risk management system of the Group;

(b) to review the financial information and disclosures;

(c) to oversee the audit process; and

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

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

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

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

Minutes of the Audit Committee meeting is kept by the Company Secretary. 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 revised by the Board with effect from 29 November 2018 in compliance with code provisions of the Code. The Remuneration Committee currently comprises three independent non-executive Directors, namely Professor Lam Kin Man, Mr. Cheung Hon Fai and Mr. Shen Qi, and one executive Director, namely Mr. Sie Tak Kwan. The chairman of the Remuneration Committee is Professor Lam Kin Man.

The main duties of the Remuneration Committee include the following:

(a) to review and make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group;

(b) to review and make recommendations to the Board on the establishment of a formal and transparent procedure for developing policy in relation to remuneration;

(c) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(d) to consider and approve the grant of share options to eligible participants pursuant to the share option scheme.

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

	Number of Attendance of meetings/Number of meetings
Professor Lam Kin Man *(Chairman)*	1/1
Mr. Cheung Hon Fai	1/1
Mr. Shen Qi	1/1
Mr. Sie Tak Kwan	1/1

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 21 November 2016, with written terms of reference revised by the Board with effect from 29 November 2018 in compliance with the Listing Rules and the Code. The Nomination Committee comprises three independent non-executive Directors, namely Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi and one executive Director, namely Mr. Sie Tak Kwan. The chairman of the Nomination Committee is Mr. Cheung Hon Fai.

The main duties of the Nomination Committee include the following:

(a) to review the structure, size and composition of the Board annually;

(b) to identify individuals suitably qualified to become Board members;

(c) to assess the independence of independent non-executive Directors; and

(d) to make recommendations to the Board on the relevant matters relating to the appointment or re-appointment of Directors.

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

	Number of Attendance of meetings/Number of meetings
Mr. Cheung Hon Fai *(Chairman)*	1/1
Professor Lam Kin Man	1/1
Mr. Shen Qi	1/1
Mr. Sie Tak Kwan	1/1

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.

Nomination Policy

1 Objective

1.1 The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election as the Directors at general meetings or appoint as Directors to fill casual vacancies.

1.2 The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

2 Selection Criteria

2.1 The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.

- Reputation for integrity;
- Accomplishment and experience;
- Commitment in respect of available time and relevant interest;
- Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; and
- In the case of independent non-executive Directors, the independence of the candidate.

These factors are for reference only, and not meant to be exhaustive and decisive. The Nomination Committee has the discretion to nominate any person, as it considers appropriate.

2.2 Subject to the provisions of the Articles, retiring Directors are eligible for nomination by the Board to stand for re-election at a general meeting.

2.3 Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as a Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a Director.

2.4 The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

3 Nomination Procedures

3.1 The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from the Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board members.

3.2 For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

3.3 Until the issue of the Shareholders circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

3.4 In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from shareholders, a circular will be sent to the Shareholders. The circular will set out the lodgment period for shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to shareholders.

3.5 A Shareholder can serve a notice to the Company Secretary within the lodgment period of its intention to propose a resolution to elect a certain person as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so proposed will be sent to all shareholders for information by a supplementary circular.

3.6 A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary.

3.7 The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

4 Confidentiality

4.1 Unless required by law or any regulatory authority, under no circumstances shall a member of the Nomination Committee or a staff member of the Company disclose any information to or entertain any enquiries from the public with regard to any nomination or candidature before the circular to shareholders, as the case may be, is issued. Following the issue of the circular, the Nomination Committee or Company Secretary or other staff member of the Company approved by the Nomination Committee may answer enquiries from the regulatory authorities or the public but confidential information regarding nominations and candidates should not be disclosed.

Remuneration policy for Directors and Senior Management

Particulars of the Directors' remuneration for the year ended 31 December 2018 are set out in note 8 to the consolidated financial statements of this annual report.

Pursuant to code provision B.1.5 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 2018 by band is as follows:

Remuneration Band (in HK$)	Number of individuals
Nil to 500,000	4
500,001 to 1,000,000	3

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 2018 is set out below:

Items of auditor's services	Amount
	RMB'000
Audit services:	
Annual audit service	1,200
Total	1,200

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 2018, 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 2018, the Board was not aware of any material misstatement or uncertainties that might be relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of auditor regarding their reporting responsibility for the financial statements is set out in the section headed "Independent Auditor's Report" on pages 41 to 47 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

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

The management of the Company 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 2018 and the review is completed as at the date of this annual report.

For the year ended 31 December 2018, 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 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 Listing Rules and the "Guideline on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong;

- the Group has implemented its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcement and its website; and

- the Group has strictly prohibited any unauthorized use of confidential or inside information.

INVESTOR RELATIONS

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

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

Address:	40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong
Tel:	+86 10 6298 2318
Fax:	+86 10 6298 1015
Email:	ir@vixtel.com

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

SHAREHOLDER RIGHTS

Right to convene extraordinary general meeting

Pursuant to the Articles, 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, 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 40th Floor, Sunlight Tower, No. 248 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 Articles on 21 November 2016 to comply with the listing requirements in Hong Kong. A resolution has been proposed for approval of the Shareholders at the AGM to amend the Articles to reflect the Transfer of Listing and remove the requirement for Shareholders' approval for declaration of dividends out of the share premium account of the Company. A circular containing the details relating thereto will be dispatched to the Shareholders in due course.

Ernst & Young
22/F, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

安永會計師事務所
香港中環添美道1號
中信大廈22樓

Tel 電話: +852 2846 9888
Fax 傳真: +852 2868 4432
ey.com

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 48 to 109, which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018, 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.

KEY AUDIT MATTERS (continued)

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
Revenue recognition	
Revenue from integrated APM system solutions and software development services contracts is recognised over time based on the progress towards complete satisfaction of the services, and therefore requires management judgements and estimates. The progress of completion is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed overheads. Revenue arising from contracts for integrated APM system solutions and software development services accounted for about 76% of the Group's total revenue. The contract assets derived from these revenue contracts accounted for about 45% of the Group's total assets as at 31 December 2018. Significant management judgements are involved in the estimation of the total contract cost including the assessment of the remaining contingencies that a project is or could be facing until completion. References are made to the financial statements in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", note 5 "Revenue, other income and gains" and note 18 "Contract assets" for the relevant disclosures.	Our audit procedures included, among others, the following: – Tested the controls designed and implemented by the Group over its process to record contract costs, contract revenue and the calculation of the progress; – Evaluated the significant estimates made by management by examining project documentation including the project budget, together with related supporting such as quotations from suppliers and subcontractors, planned labour resources allocation, etc, and discussing the status of selected projects with management, finance, and technical staff of the Group; – Assessed the reliability of management's estimates by comparing the gross profit margin with similar completed projects; – Discussed the rationality of any modification of estimated contract costs with management and checked the related documents such as new quotation from suppliers and the change requests approved by management; – Performed tests of details on costs incurred, including checking invoices and timesheet to ensure that the costs are directly attributable to the contracts tested; – Performed confirmation procedures for the invoiced contract amount and the total contract amount; – Performed substantive analytical procedures; and – Performed cut-off procedures at the period-end date to determine whether transactions are recorded in the proper period and to the proper accounts.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Collectability of trade receivables and contract assets	
Trade receivables and contract assets accounted for about 17% and 45% of total assets in the consolidated statement of financial position as at 31 December 2018, respectively. The Group adopted HKFRS 9 *Financial Instruments*, effective from 1 January 2018. As a result, a forward-looking expected loss impairment model was applied by the Group. This involves judgements as the expected credit losses reflects information about past events, current conditions and forecasts of future conditions, as well as the time value of money. Due to the significance of trade receivables and contract assets, and the related estimation uncertainty, this is considered a key audit matter. References are made to the financial statements in note 3 "Significant accounting judgements and estimates", note 16 "Trade, retention and bills receivables", and note 18 "Contract assets" for the relevant disclosures.	Our audit procedures included, among others, the following: – Tested on a sample basis the aging of trade receivables and contract assets at the end of year; – Test checked receipts after year-end to determine any remaining exposure as at 31 December 2018; – Assessed whether the calculation of expected credit loss was in accordance with HKFRS 9; – Evaluated loss-rate statistics of the trade receivables and contract assets by checking to published credit rating of customers by credit agents; – Evaluated the forward-looking data used in the impairment models by considering the customers' expected payment pattern along with macroeconomic information; – Assessed whether the time value of money was considered in the expected credit loss impairment model and checked the mathematical accuracy of the calculations; and – Assessed the adequacy of the Group's disclosures in relation to trade receivables and contract assets included in the financial statements.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matters
Capitalisation of development costs	
The specific criteria that need to be met for capitalisation of development costs involves significant management judgements and estimates, such as technical feasibility, intention and ability to complete the development, ability to use or sell the asset, generation of future economic benefits and ability to measure the costs reliably. References are made to the financial statements in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", and note 13 "Other intangible assets" for the relevant disclosures.	Our audit procedures included, among others the followings: – Tested the controls designed and implemented by the Group over its process to capitalise development costs; – Evaluated the nature of development costs incurred that are capitalised into intangible assets; – Assessed the reasonableness of the capitalisation by reviewing the related documents such as the project plan, the feasibility report, make analysis report and approval from management; – Discussed the key assumptions used and estimates made in capitalising development costs with management; – Considered whether the capitalised projects can generate future economic benefits by examining the relevant sales contracts signed with the customers and estimated contract costs.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 M. L. Chau.

Ernst & Young
Certified Public Accountants
Hong Kong
15 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

31 December 2018

	Notes	**2018**	2017
		RMB'000	RMB'000
REVENUE	*5*	**115,107**	109,103
Cost of sales		**(45,024)**	(43,023)
Gross profit		**70,083**	66,080
Other income and gains	*5*	**9,308**	6,201
Selling and distribution expenses		**(8,602)**	(7,864)
Research and development expenses		**(18,713)**	(14,808)
Administrative expenses		**(19,896)**	(15,736)
Impairment losses on financial and contract assets [, net]	*6*	**(140)**	–
Other expenses		**(65)**	(2,914)
PROFIT BEFORE TAX	*6*	**31,975**	30,959
Income tax expense	*9*	**(4,082)**	(8,784)
PROFIT FOR THE YEAR		**27,893**	22,175
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**27,893**	22,175
Attributable to:			
Owners of the parent		**27,893**	22,175
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*11*		
Basic and diluted		**RMB5.61 cents**	RMB4.56 cents

	Notes	**2018 RMB'000**	2017 RMB'000
NON-CURRENT ASSETS			
Property and equipment	*12*	**1,138**	1,645
Other intangible assets	*13*	**5,779**	2,995
Long term deposits		**–**	28
Total non-current assets		**6,917**	4,668
CURRENT ASSETS			
Inventories	*14*	**726**	1,691
Construction contracts	*15*	**–**	65,681
Trade, retention and bills receivables	*16*	**35,172**	23,116
Contract assets	*18*	**94,514**	–
Prepayments, other receivables and other assets	*17*	**2,040**	2,051
Cash and cash equivalents	*19*	**70,669**	74,533
Total current assets		**203,121**	167,072
CURRENT LIABILITIES			
Trade payables	*20*	**9,488**	10,616
Gross amount due to contract customers	*15*	**–**	320
Other payables and accruals	*21*	**24,475**	21,289
Tax payable		**2,980**	3,984
Total current liabilities		**36,943**	36,209
NET CURRENT ASSETS		**166,178**	130,863
TOTAL ASSETS LESS CURRENT LIABILITIES		**173,095**	135,531
NON-CURRENT LIABILITIES			
Deferred tax liabilities	*22*	**1,982**	2,856
Total non-current liabilities		**1,982**	2,856
Net assets		**171,113**	132,675
EQUITY			
Issued capital	*23*	**4,514**	4,341
Reserves	*24*	**166,599**	128,334
Total equity		**171,113**	132,675

Yue Yong
Director

Sie Tak Kwan
Director

		Attributable to owners of the parent					
	Notes	**Issued capital**	**Share premium account**	**Capital reserve**	**Statutory surplus reserve**	**Retained profits**	**Total**
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
		Note 23	Note 23	Note 24(a)	Note 24(b)		
At 1 January 2017		4,341	71,194	30,674	3,339	3,505	113,053
Profit for the year		–	–	–	–	22,175	22,175
Total comprehensive income for the year		–	–	–	–	22,175	22,175
Transfer from retained profits		–	–	–	3,164	(3,164)	–
Interim 2017 dividend	*10*	–	–	–	–	(2,553)	(2,553)
At 31 December 2017		4,341	71,194*	30,674*	6,503*	19,963*	132,675
Effect of adoption of HKFRS 9	*2.2*	–	–	–	–	(363)	(363)
At 1 January 2018 (restated)		**4,341**	**71,194**	**30,674**	**6,503**	**19,600**	**132,312**
Profit for the year		**–**	**–**	**–**	**–**	**27,893**	**27,893**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**27,893**	**27,893**
Transfer from retained profits		**–**	**–**	**–**	**3,490**	**(3,490)**	**–**
Issue of shares		**173**	**18,105**	**–**	**–**	**–**	**18,278**
Final 2017 dividend declared	*10*	**–**	**(4,709)**	**–**	**–**	**–**	**(4,709)**
Interim 2018 dividend	*10*	**–**	**(2,661)**	**–**	**–**	**–**	**(2,661)**
At 31 December 2018		**4,514**	**81,929***	**30,674***	**9,993***	**44,003***	**171,113**

* These reserve account comprise the consolidated reserves of RMB166,599,000 (2017: RMB128,334,000) in the consolidated statement of financial position.

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**31,975**	30,959
Adjustments for:			
Interest income	*5*	**(239)**	(174)
Depreciation	*12*	**836**	713
Amortisation of other intangible assets	*13*	**695**	68
Net foreign exchange differences		**1,595**	(2,132)
		34,862	29,434
Decrease in inventories		**965**	1,176
Increase in gross amount due from contract customers and contract assets		**(29,166)**	(33,641)
Increase in trade, retention and bills receivables		**(12,150)**	(25)
Decrease/(increase) in prepayments and other receivables		**11**	(316)
Decrease in long term deposits		**28**	196
(Decrease)/increase in trade payables		**(1,128)**	2,691
Increase/(decrease) in advances from customers		**(441)**	(502)
Increase/(decrease) in gross amount due to contract customers and contract liability		**324**	(8)
Increase/(decrease) in other payables and accruals		**2,983**	(1,775)
Cash used in operations		**(3,712)**	(2,770)
Interest received		**239**	174
Income tax paid		**(5,896)**	(6,993)
Net cash flows used in operating activities		**(9,369)**	(9,589)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		**(329)**	(1,472)
Additions to other intangible assets		**(3,479)**	(3,063)
Net cash flows used in investing activities		**(3,808)**	(4,535)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividend paid		**(7,370)**	(2,553)
Proceeds from issue of shares	*23*	**18,278**	–
Net cash flows (used in)/from financing activities		**10,908**	(2,553)

Continued/...

	Note	2018 RMB'000	2017 RMB'000
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(2,269)**	(16,677)
Cash and cash equivalents at beginning of year		**74,533**	89,078
Effect of foreign exchange rate changes, net		**(1,595)**	2,132
CASH AND CASH EQUIVALENTS AT END OF YEAR		**70,669**	74,533
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance	*19*	**70,669**	74,533
Cash and cash equivalents as stated in the statement of cash flows		**70,669**	74,533

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 GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2016.

On 13 February 2018, an application was made by the Company to the Stock Exchange for the transfer of listing from the GEM to the Main Board ("MB") of the Stock Exchange. The approval-in-principle for the transfer of listing has been granted by the Stock Exchange on 21 November 2018 for the shares of the Company to be listed on the Main Board and de-listed from the GEM.

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

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

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

2.1 BASIS OF PRESENTATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

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

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

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

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

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 2	*Classification and Measurement of Share-based Payment Transactions*
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*

Other than as explained below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

The nature and the impact of the new and revised HKFRSs are described below:

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

The Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	HKAS 39 measurement				HKFRS 9 measurement	
	Category	Amount	ECL	Other	Amount	Category
		RMB'000	RMB'000	RMB'000	RMB'000	
Financial assets						
Trade, retention and bills receivables	L&R[1]	23,116	(94)	–	23,022	AC
Financial assets included in prepayments and other receivables	L&R	1,397	–	–	1,397	AC
Cash and cash equivalents	L&R	74,533	–	–	74,533	AC
Financial assets included in other non-current assets	L&R	28	–	–	28	AC
Other assets						
Contract assets		65,681	(333)	–	65,348	
Total assets		171,740	(427)	–	171,313	
Financial liabilities						
Trade payables	AC[2]	10,616	–	–	10,616	AC
Financial liabilities included in other payables and accruals	AC	4,635	–	–	4,635	AC
Other liabilities						
Deferred tax liabilities		2,856	–	(64)	2,792	
Total liabilities		39,065	–	(64)	39,001	

1 L&R: Loans and receivables

2 AC: Financial assets or financial liabilities at amortised cost

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 16 and 18 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 RMB'000	Re-measurement RMB'000	ECL allowances under HKFRS 9 at 1 January 2018 RMB'000
Trade, retention and bills receivables	–	(94)	(94)
Contract assets	–	(333)	(333)
	–	(427)	(427)

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits RMB'000
Retained profits	
Balance as at 31 December 2017 under HKAS 39	19,963
Recognition of expected credit losses for contract assets under HKFRS 9	(333)
Recognition of expected credit losses for trade receivables under HKFRS 9	(94)
Deferred tax in relation to the above	64
Balance as at 1 January 2018 under HKFRS 9	19,600

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 5 and 18 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 are described below:

(i) Integrated APM system solutions and software development services

Before the adoption of HKFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as construction contracts in the statement of financial position before the services were billed to customers. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group's right to consideration is conditional. Accordingly, the Group reclassified RMB65,681,000 from construction contracts to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in construction contracts of RMB94,514,000 and an increase in contract assets of RMB94,514,000.

Before the adoption of HKFRS 15, the Group recognised the excess of where progress billings over contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to contract customers. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals. Therefore, upon adoption of HKFRS 15, the Group reclassified RMB320,000 from gross amount due to contract customers to contract liabilities as at 1 January 2018. As at 31 December 2018, no such balance was noted.

(ii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in advance as other payables. Under HKFRS 15, the amount is classified as contract liabilities which is included in other payables and accruals. Therefore, upon adoption of HKFRS 15, the Group reclassified RMB441,000 from other payables to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, RMB644,000 was reclassified from other payables to contract liabilities in relation to the consideration received from customers in advance for the technical services.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
HKFRS 16	*Leases*[1]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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

HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases – Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained profits at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group considers that there is no material impact on the results and the financial position of the Group at 1 January 2019.

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

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combination and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised 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 recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other intangible assets (other than goodwill)

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

Computer software

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

Research and development costs

All research costs are charged to the consolidated statement of profit or loss and other comprehensive income as incurred.

Expenditure incurred on projects to develop new products is capitalised 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, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

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

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 consolidated statement of profit or loss and other comprehensive income on the straight-line basis over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the asset is derecognised, modified or impaired.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

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 amortised cost using the effective interest rate method less any allowance for impairment. Amortised 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 amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

- the rights to receive cash flows from the asset have expired; or

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (continued)

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 (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 – Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs.

Stage 2 – Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs.

Stage 3 – Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has used a loss rate approach and develops loss-rate statistics on the basis of the amount expected to be written off over the life of the financial assets by reference to the credit rating of the customers, and then adjust these loss trends for current conditions and expectations about the future.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

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

Financial assets carried at amortised cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the consolidated statement of profit or loss and other comprehensive income. 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 realised or has been transferred to the Group.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

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

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Loans and borrowings

After initial recognition, interest-bearing bank borrowing are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in the consolidated statement of profit or loss and other comprehensive income when the liabilities are derecognised as well as through the effective interest rate amortisation 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 amortisation is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

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

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable 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 statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss and other comprehensive income 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 consolidated statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

(a) ***Sales of embedded hardware and standard APM software***

Revenue from the sales of embedded hardware and standard APM software is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the hardware and software.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

(b) Integrated APM system solutions and software development services

Revenue from integrated APM system solutions and software development services is recognised over time, using an input method to measure progress towards complete satisfaction of the service, because the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced. The input method recognises revenue based on the proportion of the actual costs incurred relative to the estimated total costs for satisfaction of the services.

Claims to customers are amounts that the Group seeks to collect from the customers as reimbursement of costs and margins for scope of works not included in the original construction contract. Claims are accounted for as variable consideration and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved. The Group uses the expected value method to estimate the amounts of claims because this method best predicts the amount of variable consideration to which the Group will be entitled.

(c) Technical services

Revenue from the technical services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

Interest income is recognised 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 asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable before 1 January 2018)

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

(a) from construction contracts, on the percentage of completion basis, as further explained in the accounting policy for “Construction contracts (applicable before 1 January 2018)” below;

(b) from the rendering of services, on the straight-line basis over the contract term;

(c) from the sale of goods (i.e., standard embedded hardware and standard APM software), when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial assets.

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Construction contracts (applicable before 1 January 2018)

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits

Pension scheme

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

Dividends

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

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

Foreign currencies

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

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

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Withholding tax arising from the distribution of dividends

The Group's determination as to whether to accrue for withholding taxes arising from the distributions of dividends from a subsidiary in Mainland China is subject to significant management judgement on the timing of the payment of the dividends that would be distributed in the foreseeable future. The estimation process is highly based on assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the group, and it is not probable that such subsidiary will distribute dividends in the foreseeable 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.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a loss rate approach to calculate ECLs for trade receivables and contract assets. The loss rates are based on groupings of various customer segments that have similar loss patterns (i.e., by customer type and rating).

The Group develops loss-rate statistics on the basis of the amount expected to be written off over the life of the financial assets by reference to the credit rating of the customers, and then adjust these loss trends for current conditions and expectations about the future. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the telecommunications sector, the determined loss-rate are adjusted. At each reporting date, the loss-rate statistics are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among the loss-rate statistics, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's expected default data and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 16 and 18 to the financial statements, respectively.

Revenue recognition

The Group recognises revenue from integrated APM system solutions and software development services based on the actual direct costs incurred to satisfy the performance obligation relative to the total expected costs incurred to satisfy the performance obligations of an individual contract. Total expected costs and their corresponding contract revenue require estimations from management based on understanding of the performance of the contract and quotations from suppliers and subcontractors, and the Group's historical experience. Due to the nature of the activity undertaken in the service contracts, the date at which the activity is entered into and the date at which the activity is completed usually fall into different accounting periods. Hence, the Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses. Where the actual contract revenue is less than expected or actual contract costs are more than expected, a provision for onerous contract may arise.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Revenue recognition (continued)

The Group estimates variable consideration to customers using an expected value approach on a contract by contract basis. Management made an assessment of the amount expected to receive and the probability of success for each case base on historical experience with similar contract. Variable consideration is included in revenue only to the extent that is highly probable that the amount will not be subject to significant reversal when the uncertainty is resolved.

In addition, when the Group determines the transaction price, the Group considers factors such as whether there is any financing component. The Group considers whether the payment schedule is commensurate with the Group's performance and whether the delayed payment is for financing purposes.

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. As at 31 December 2018, the carrying amount of deferred development costs included in intangible assets was RMB5,677,000 (31 December 2017: RMB2,831,000).

Amortisation of intangible assets

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

4. OPERATING SEGMENT INFORMATION

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

Under HKFRS 8 *Operating Segments*, it is required that operating segments to be identified on the basis of internal reporting about components of the Group that are regularly reviewed by the chief operating decision-maker in order to allocate 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 were located/incurred in the PRC. Accordingly, no geographical segment information is presented.

4. OPERATING SEGMENT INFORMATION (continued)

Information about major customers

Revenue of approximately RMB98,371,000 for the year (2017: RMB94,024,000) 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 RMB13,414,000 during the year (2017: RMB21,732,000) 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

An analysis of revenue is as follows:

	2018 RMB'000	2017 RMB'000
Revenue from contracts with customers		
Integrated APM system solutions	**71,741**	74,749
Software development services	**16,364**	10,223
Technical services	**17,294**	12,796
Sales of embedded hardware and standard APM software	**9,708**	11,335
	115,107	109,103

Revenue from contracts with customers

(i) Disaggregated revenue information

	2018 RMB'000
Type of customers	
State-owned telecommunication operator groups	**104,352**
Other customers	**10,755**
Total revenue from contracts with customers	**115,107**

	2018 RMB'000
Timing of revenue recognition	
Goods transferred at a point in time	**9,708**
Services transferred over time	**105,399**
Total revenue from contracts with customers	**115,107**

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	
Technical services	**441**
	441

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Integrated APM system solutions and software development services

The performance obligation is satisfied over time as services are rendered and payment is generally due within 30 days to 60 days upon issuance of invoice and receipt of certain forms of acceptance. A certain percentage of payment is retained by customers until the end of the retention period.

Technical services

The performance obligation is satisfied over time as services are rendered and the credit period granted to the customers is normally due upon completion of the service. Technical services contracts are for periods of one year or less, or are billed based on the time incurred, except for a contract, where payment in advance is received.

Sales of embedded hardware and standard APM software

The performance obligation is satisfied upon acceptance of the hardware and software and payment is generally due within 30 to 60 days from acceptance by customers, except for new customers, where payment in advance is normally required.

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

The transaction prices allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 are as follows:

	2018 RMB'000
Within one year	24,895
More than one year	5,332
	30,227

The remaining performance obligations expected to be recognised in more than one year relate to integrated APM system solutions, software development services and technical services that are to be satisfied within two years. All the other remaining performance obligations are expected to be recognised within one year.

	2018 RMB'000	2017 RMB'000
Other income		
Bank interest income	239	174
Government grants – related to income*	7,131	6,027
Foreign exchange differences	1,934	–
Others	4	–
	9,308	6,201

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

6. PROFIT BEFORE TAX

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

	Notes	2018 RMB'000	2017 RMB'000
Cost of inventories sold		**4,030**	3,960
Cost of services rendered		**40,994**	39,063
Employee benefit expense (excluding directors' and chief executives' remuneration):			
Wages and salaries		**34,929**	21,279
Pension scheme contributions (defined contribution scheme)		**3,230**	2,642
		38,159	23,921
Foreign exchange differences, net		**(1,934)**	2,836
Research and development costs		**18,713**	14,808
Amortisation of other intangible assets*	*13*	**695**	68
Depreciation of property and equipment	*12*	**836**	713
Minimum lease payments under operating leases:			
– properties		**2,127**	1,455
Auditor's remuneration		**1,200**	1,450
Bank interest income		**(239)**	(174)
Impairment of financial and contract assets, net:			
Impairment of trade and retention receivables, net	*16*	**45**	–
Impairment of contract assets, net	*18*	**95**	–
		140	–

* The amortisation of deferred development costs for the year is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company consists of 7 Directors, including three executive Directors, one non-executive director and three independent non-executive directors, all of whom were appointed in the board meeting on 28 July 2016. According to the articles of association, at the end of the one-year term, one-third of the directors need to be reappointed. As a result, Mr. Yue Yong, Mr. Liang Judong and Mr. Cheung Hon Fai were reappointed on 23 March 2018.

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:

	2018 **RMB'000**	2017 RMB'000
Fees	**487**	449
Other emoluments:		
Salaries, allowances and benefits in kind	**3,453**	3,252
Pension scheme contributions	**173**	146
	3,626	3,398
	4,113	3,847

(a) Independent non-executive directors

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

	2018 **RMB'000**	2017 RMB'000
Mr. Cheung Hon Fai	**157**	112
Professor Lam Kin Man	**110**	112
Mr. Shen Qi	**110**	112
	377	336

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

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

2018	**Fees RMB'000**	**Salaries, allowances and benefits in kind RMB'000**	**Pension scheme contributions RMB'000**	**Total remuneration RMB'000**
Executive directors:				
Mr. Yue Yong	**–**	**1,149**	**57**	**1,206**
Mr. Guan Haiqing	**–**	**1,155**	**59**	**1,214**
	–	**2,304**	**116**	**2,420**
Executive director and the chief executive:				
Mr. Sie Tak Kwan	**–**	**1,149**	**57**	**1,206**
Non-executive director:				
Mr. Liang Judong	**110**	**–**	**–**	**110**
	110	**3,453**	**173**	**3,736**

2017	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Yue Yong	–	1,084	49	1,133
Mr. Guan Haiqing	–	1,084	48	1,132
	–	2,168	97	2,265
Executive director and the chief executive:				
Mr. Sie Tak Kwan	–	1,084	49	1,133
Non-executive director:				
Mr. Liang Judong	113	–	–	113
	113	3,252	146	3,511

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

8. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included 3 directors (2017: 3), details of whose remuneration are set out in note 7 above. Details of the remuneration of the remaining 2 (2017: 2) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits in kind	**1,272**	1,032
Pension scheme contributions	**105**	78
	1,377	1,110

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

	2018	2017
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.

9. INCOME TAX

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

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

Pursuant to the PRC Corporate 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. A preferential tax treatment is available to Vixtel Technologies Limited, which was recognised as a High and New Technology Enterprise in 2010 in Mainland China and a lower corporate income tax of 15% has been applied since then. The certificate of High and New Technology Enterprise has to be renewed every three years and Vixtel Technologies Limited has to re-apply for it every six years. Vixtel Technologies Limited has re-applied for and obtained the certificate of High and New Technology Enterprise on 1 December 2016.

	2018	2017
	RMB'000	RMB'000
Current – Mainland China	**4,892**	5,928
Deferred (note 22)	**(810)**	2,856
Total tax charge for the year	**4,082**	8,784

9. INCOME TAX (continued)

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

	2018		2017	
	RMB'000	**%**	RMB'000	%
Profit before tax	**31,975**		30,959	
Tax at the statutory tax rate	**7,994**	**25**	7,739	25
Lower tax rate for a specific entity in the PRC	**(3,247)**	**(10)**	(3,951)	(13)
Effect of withholding tax at 5% on the expected distributable profits of the Group's PRC subsidiary (note 22)	**(1,428)**	**(4)**	2,856	9
Expenses not deductible for tax	**2,204**	**7**	3,677	12
Additional deductible allowance for research and development costs	**(1,441)**	**(5)**	(1,537)	(5)
Tax charge at the Group's effective rate	**4,082**	**13**	8,784	28

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 Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors.

For the Group, the applicable rate is 5% under the "Arrangement between the Mainland of China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income". The Group is therefore liable for withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

As Vixtel Networks Limited and Sino Impact Company Holding Limited obtained the Certificates of Resident Status to serve as a proof of the Hong Kong resident status for calendar year 2017 from Hong Kong Special Administrative Region on 27 December 2018, which the Group reversed the relevant deferred tax liability of RMB1,428,000 on dividends declared in the previous year, and yet to be remitted by Vixtel Technologies Limited at 31 December 2018.

No withholding tax had been provided for the earnings retained by Vixtel Technologies Limited and not yet remitted to the shareholders. Based on management judgement and assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the Group, the fund of Vixtel Technologies Limited will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that Vixtel Technologies Limited will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in Vixtel Technologies Limited for which deferred tax liabilities have not been recognised totalled approximately RMB51,012,000 at 31 December 2018 (2017: RMB19,964,000).

10. DIVIDENDS

	2018 RMB'000	2017 RMB'000
Interim – HK0.60 cents (2017: HK0.60 cents) per ordinary share	**2,661**	2,553
Proposed final – HK1.2 cents (2017: HK1.2 cents) per ordinary share	**5,341**	4,883
	8,002	7,436

The interim 2017 dividend of HK0.60 cents per ordinary share was paid on 18 September 2017. The final 2017 dividend of HK1.2 cents per ordinary share was paid on 25 April 2018. The interim 2018 dividend of HK0.60 cents per ordinary share was paid on 17 September 2018. The proposed final dividend for the year 2018 is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. 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 owners of the parent, and the weighted average number of ordinary shares of 497,372,500 (2017: 486,745,000) in issue during the year.

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2018 and 2017.

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

	2018	2017
Earnings		
Profit attributable to owners of the parent (RMB'000)	**27,893**	22,175
Shares		
Weighted average number of ordinary shares in issue during the year	**497,372,500**	486,745,000
Basic and diluted earnings per share	**RMB5.61 cents**	RMB4.56 cents

12. PROPERTY AND EQUIPMENT

	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2018					
At 31 December 2017 and at 1 January 2018:					
Cost	317	229	2,382	385	3,313
Accumulated depreciation	(285)	(218)	(821)	(344)	(1,668)
Net carrying amount	32	11	1,561	41	1,645
At 1 January 2018, net of accumulated depreciation	32	11	1,561	41	1,645
Additions	–	–	190	139	329
Depreciation provided during the year (note 6)	(32)	(4)	(719)	(81)	(836)
At 31 December 2018, net of accumulated depreciation	–	7	1,032	99	1,138
At 31 December 2018:					
Cost	317	229	2,572	524	3,642
Accumulated depreciation	(317)	(222)	(1,540)	(425)	(2,504)
Net carrying amount	–	7	1,032	99	1,138

12. PROPERTY AND EQUIPMENT (continued)

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

13. OTHER INTANGIBLE ASSETS

	Computer software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2018			
Cost at 1 January 2018, net of accumulated amortisation	**164**	**2,831**	**2,995**
Additions – internal development	**–**	**3,479**	**3,479**
Amortisation provided during the year	**(62)**	**(633)**	**(695)**
At 31 December 2018	**102**	**5,677**	**5,779**
At 31 December 2018			
Cost	**184**	**6,358**	**6,542**
Accumulated amortisation	**(82)**	**(681)**	**(763)**
Net carrying amount	**102**	**5,677**	**5,779**

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

Deferred development costs primarily represent the internally developed software to be used in certain new products offered in connection with providing integrated APM system solutions. These costs are capitalised when they satisfy the criteria as defined by HKAS 38 *Intangible Assets*. Such deferred development costs are amortised over their useful lives.

14. INVENTORIES

	2018 RMB'000	2017 RMB'000
Finished goods	–	665
Raw materials	726	1,026
	726	1,691

15. CONSTRUCTION CONTRACTS

	2018 RMB'000	2017 RMB'000
Gross amount due from contract customers	–	65,681
Gross amount due to contract customers	–	(320)
	–	65,361
Contract costs incurred plus recognised profits less recognised losses to date	–	114,882
Less: Progress billings	–	(49,521)
	–	65,361

16. TRADE, RETENTION AND BILLS RECEIVABLES

	2018 RMB'000	2017 RMB'000
Trade receivables	34,590	21,565
Retention receivables	721	818
Bills receivable	–	733
	35,311	23,116
Impairment	(139)	–
Trade, retention and bills receivables	35,172	23,116

Trade receivables represented the outstanding contracted values for integrated APM system solutions, software development services, sales of embedded hardware and standard APM software and technical services receivable from the customers.

16. TRADE, RETENTION AND BILLS RECEIVABLES (continued)

The Group's trading terms with its customers are mainly on credit. For integrated APM system solutions and software development services, 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 contracts. The forms of acceptance evidence the satisfaction from the customers of the progress of completion. For sales of embedded hardware and standard APM software, the credit period granted to the customers is normally 30 to 60 days upon the goods were accepted by the customers, except for new customers, where payment in advance is normally required. For technical services, the credit period granted to the customers is normally due upon completion of the service, except for a contract, where payment in advance is received.

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 number of the largest state-owned telecommunication operators in the PRC and a large number of their independently-operated provincial subsidiaries, there is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and retention receivables as at the end of the reporting period, based on the billing date and net of loss allowance, is as follows:

	2018	2017
	RMB'000	RMB'000
Within 90 days	**19,189**	14,474
91 to 180 days	**6,634**	6,120
181 to 1 year	**7,006**	904
Over 1 year	**2,343**	885
	35,172	22,383

The movement in the loss allowance for impairment of trade and retention receivables are as follows:

	2018	2017
	RMB'000	RMB'000
At beginning of year	**–**	–
Effect of adoption of HKFRS 9	**94**	–
At beginning of year (restated)	**94**	–
Impairment losses, net (note 6)	**45**	–
At end of year	**139**	–

16. TRADE, RETENTION AND BILLS RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a loss rate approach to measure expected credit losses. The loss rates are based on groupings of various customer segments with similar loss patterns (i.e., customer type and rating). The Group develops loss-rate statistics on the basis of the amount expected to be written off over the life of the financial assets by reference to the credit rating of the customers and also adjusted these loss trends for current conditions and expectations about the future. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of future recovery.

Set out below is the information about the credit risk exposure on the Group's trade and retention receivables using a loss rate approach:

As at 31 December 2018	**Trade and retention receivables arising from state-owned telecommunication operator groups**	**Trade and retention receivables arising from other customers**	**Total**
Expected credit loss rate	**0.06%**	**1.57%**	
Gross carrying amount (RMB'000)	**27,489**	**7,822**	**35,311**
Expected credit loss (RMB'000)	**16**	**123**	**139**

Impairment under HKAS 39 for the year ended 31 December 2017

An ageing analysis of the trade, retention and bills receivables as at 31 December 2017 that were past due but not individually nor collectively considered to be impaired under HKAS 39 is as follows:

	2017 RMB'000
Neither past due nor impaired	13,150
Less than 6 months past due	9,733
6 to 12 months past due	233
	23,116

Receivables that were neither past due nor 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.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the Group. Based on past experience, the directors of the Company were of the opinion that no provision for impairment under HKAS 39 was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered fully recoverable.

17. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Non-current portion		
Rental deposits	–	28
Current portion		
Prepayments	508	654
Rental deposits	513	395
Advances to employees	111	6
Bidding deposits	908	960
Other	–	36
	2,040	2,079

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

18. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets arising from:			
Integrated APM system solutions	75,053	48,546	–
Software development services	19,889	17,135	–
	94,942	65,681	–
Impairment	(428)	(333)	–
	94,514	65,348	–

Contract assets are initially recognised for revenue earned from integrated APM system solutions and software development services as the receipt of consideration is conditional on the successful acceptance by the customers. Upon completion of the contracts and acceptance by the customer, the amounts recognised as contract assets are reclassified to trade receivables. The increase in contract assets in 2018 was the result of the increase in integrated APM system solutions and software development services at the end of the year. During the year ended 31 December 2018, RMB95,000 was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 5 to the financial statements.

18. CONTRACT ASSETS (continued)

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	2018 RMB'000
Within one year	78,769
More than one year	15,745
Total contract assets	94,514

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB'000
At beginning of year	–
Effect of adoption of HKFRS 9	333
At beginning of year (restated)	333
Impairment losses, net (note 6)	95
At end of year	428

An impairment analysis is performed at each reporting date using a loss rate approach to measure expected credit losses. The loss rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases, and the groupings of various customer segments with similar loss patterns (i.e., customer type and rating). These loss trends determined by referencing to credit rating data are then adjusted for current conditions and expectations about the future. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

Set out below is the information about the credit risk exposure on the Group's contract assets using a loss rate approach:

As at 31 December 2018	Contract assets arising from state-owned telecommunication operator groups	Contract assets arising from other customers	Total
Expected credit loss rate	0.3%	2.6%	
Gross carrying amount (RMB'000)	88,758	6,184	94,942
Expected credit loss (RMB'000)	266	162	428

19. CASH AND CASH EQUIVALENTS

	2018 **RMB'000**	2017 RMB'000
Cash and bank balances	**70,669**	74,533
Denominated in:		
RMB	**36,000**	44,139
HK$	**34,669**	30,394

At the end of the reporting period, the cash and bank balances of the Group were denominated in RMB and HK$. The RMB is not freely convertible into other currencies, however, under the Mainland China's 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 authorised to conduct foreign exchange business.

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

20. TRADE PAYABLES

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

	2018 **RMB'000**	2017 RMB'000
Within 90 days	**8,053**	6,940
91 to 180 days	**181**	1,312
181 to 1 year	**1,059**	1,111
Over 1 year	**195**	1,253
Total	**9,488**	10,616

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

21. OTHER PAYABLES AND ACCRUALS

	Notes	2018 RMB'000	2017 RMB'000
Salary and welfare payable		**7,045**	6,237
Receipt in advance		**–**	441
Contract liability	*(a)*	**644**	–
Other tax payable		**12,095**	9,976
Other payables	*(b)*	**4,691**	4,635
		24,475	21,289

(a) Details of the contract liability as at 31 December 2018 and 1 January 2018 are as follows:

	31 December 2018 RMB'000	1 January 2018 RMB'000
Contract liability arising from contracts with customers		
Technical services	**644**	441
Integrated APM system solutions	**–**	320
Total contract liability	**644**	761

The contract liability includes short-term advances received for technical services and amount prepaid by the customer for performance obligation related to integrated APM system solutions. The decrease in the contract liability in 2018 was mainly due to the decrease in amount prepaid by the customer for performance obligation to transfer to services at the end of the year.

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

22. DEFERRED TAX

Deferred tax liabilities

	2018		
	Withholding taxes on the earnings anticipated to be remitted by subsidiaries RMB'000	**Development costs RMB'000**	**Total RMB'000**
At 1 January 2018	**2,856**	**–**	**2,856**
Deferred tax charged/(credited) to the statement of profit or loss and other comprehensive income during the year (note 9)	**(1,428)**	**639**	**(789)**
At 31 December 2018	**1,428**	**639**	**2,067**

	2017		
	Withholding taxes on the earnings anticipated to be remitted by subsidiaries RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2017	–	–	–
Deferred tax charged to the statement of profit or loss and other comprehensive income during the year (note 9)	2,856	–	2,856
At 31 December 2017	2,856	–	2,856

As at 31 December 2018, the Group reversed the relevant deferred tax liabilities of RMB1,428,000 on earnings anticipated to be remitted by a subsidiary in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB51,743,000 (2017: RMB19,964,000) expected to be retained by the PRC subsidiary and not to be remitted to a foreign investor in the foreseeable future based on several factors, including projected future market and economic conditions and future financing requirement of the Group.

22. DEFERRED TAX (continued)

Deferred tax assets

	Impairment of trade receivables and contract assets	
	2018	2017
	RMB'000	RMB'000
At 1 January	**–**	–
Effect of adoption of HKFRS 9	**64**	–
At 1 January 2018 (restated)	**64**	–
Deferred tax credited to the statement of profit or loss and other comprehensive income during the year (note 9)	**21**	–
Gross deferred tax assets at 31 December	**85**	–

23. ISSUED CAPITAL

	2018 RMB'000	2017 RMB'000
Authorised:		
20,000,000,000 (2017: 20,000,000,000) ordinary shares of HK$0.01 each	**178,630**	178,630
Issued and fully paid:		
508,000,000 (2017: 486,745,000) ordinary shares of HK$0.01 each	**4,514**	4,341

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

	Notes	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2017, 31 December 2017 and 1 January 2018		486,745,000	4,341	71,194	75,535
Issue of shares	*(a)*	21,255,000	173	18,105	18,278
Final 2017 dividend declared	*(b)*	–	–	(4,709)	(4,709)
Interim 2018 dividend	*(c)*	–	–	(2,661)	(2,661)
At 31 December 2018		**508,000,000**	**4,514**	**81,929**	**86,443**

Notes:

(a) On 6 June 2018, the Company issued 21,255,000 shares of HK$1.08 each which were listed on the GEM. After deducting the share issue expenses of RMB490,000 (original amount of HK$599,000), the Company raised net proceeds of approximately RMB18,278,000 (original amount of HK$22,356,000). The excess of the net proceeds over the issued capital of RMB173,000 amounting to RMB18,105,000, was credited to share premium account.

(b) Pursuant to the shareholders' resolution passed in March 2018, the final 2017 dividend of HK1.2 cents per share amounting to RMB4,709,000 was paid entirely out of the share premium account pursuant to the articles of association and in accordance with the Cayman Companies Law.

(c) Pursuant to the shareholders' resolution passed in August 2018, the interim 2018 dividend of HK0.6 cents per share amounting to RMB2,661,000 was paid entirely out of the share premium account pursuant to the articles of association and in accordance with the Cayman Companies Law.

24. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 50 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 capitalisation is not less than 25% of the registered capital.

25. OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain of its office properties and office equipment under operating lease arrangements. Leases for properties are negotiated for terms ranging from 1 to 2 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**1,789**	1,210
In the second to fifth years, inclusive	**124**	1,147
	1,913	2,357

26. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2018 RMB'000	2017 RMB'000
Fee	**110**	113
Other emoluments:		
Salaries, allowances and benefits in kind	**6,444**	5,744
Pension scheme contributions	**420**	340
	6,864	6,084
	6,974	6,197

Further details of the emoluments of directors and the chief executive are included in note 7 to the financial statements.

27. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets at amortised costs	2018 RMB'000	2017 RMB'000
Trade, retention and bills receivables	**35,172**	23,116
Financial assets included in prepayments, other receivables and other assets	**1,532**	1,397
Cash and cash equivalents	**70,669**	74,533
Long term deposits	**–**	28
	107,373	99,074

Financial liabilities at amortised costs	2018 RMB'000	2017 RMB'000
Trade payables	**9,488**	10,616
Financial liabilities included in other payables and accruals	**4,691**	4,635
	14,179	15,251

28. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise cash and cash equivalents. The Group has various other financial assets and liabilities such as trade, retention and bills receivables, contract assets, other receivables, trade payables and other payables and accruals, which arise directly from its operations.

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

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Contract assets*	–	–	–	94,942	94,942
Trade and retention receivables*	–	–	–	35,311	35,311
Financial assets included in prepayments, other receivables and other assets					
– Normal**	1,532	–	–	–	1,532
Cash and cash equivalents					
– Not yet past due	70,669	–	–	–	70,669
	72,201	–	–	130,253	202,454

* For trade and retention receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the loss rate approach is disclosed in notes 16 and 18 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure as at 31 December 2017

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. As detailed in note 4 to the 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 2018			
	On demand	**Less than 3 months**	**3 to less than 12 months**	**Total**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**
Trade payables	**2,987**	**4,383**	**2,118**	**9,488**
Financial instruments included in other payables and accruals	**4,691**	**–**	**–**	**4,691**
	7,678	**4,383**	**2,118**	**14,179**

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

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

The directors of the Company review the asset-liability ratio, which is total liabilities divided by total assets, 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 ratio.

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

	2018 **RMB'000**	2017 RMB'000
Total assets	**210,038**	171,740
Total liabilities	**38,925**	39,065
Asset-liability ratio	**19%**	23%

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2018 RMB'000	2017 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	–*	–*
Property and equipment	9	5
Total non-current assets	9	5
CURRENT ASSETS		
Due from subsidiaries	113,464	86,179
Prepayments, other receivables and other assets	197	125
Cash and cash equivalents	3,266	25,227
Total current assets	116,927	111,531
CURRENT LIABILITIES		
Due to subsidiaries	4,321	5,127
Other payables and accruals	209	200
Total current liabilities	4,530	5,327
NET CURRENT ASSETS	112,397	106,204
Total assets less current liabilities	112,406	106,209
Net assets	112,406	106,209
EQUITY		
Issued capital	4,514	4,341
Reserves	107,892	101,868
Total equity	112,406	106,209

* The amount of the investment in a subsidiary is less than RMB1,000.

30. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2017	4,341	71,194	30,674	(15,755)	90,454
Profit for the year	–	–	–	18,308	18,308
Total comprehensive income for the year	–	–	–	18,308	18,308
Interim 2017 dividend	–	–	–	(2,553)	(2,553)
At 31 December 2017 and 1 January 2018	4,341	71,194	30,674	–	106,209
Loss for the year	–	–	–	(4,711)	(4,711)
Total comprehensive loss for the year	–	–	–	(4,711)	(4,711)
Issue of shares	173	18,105	–	–	18,278
Final 2017 dividend declared	–	(4,709)	–	–	(4,709)
Interim 2018 dividend	–	(2,661)	–	–	(2,661)
At 31 December 2018	**4,514**	**81,929**	**30,674**	**(4,711)**	**112,406**

31. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 15 March 2019.

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				
	2018	2017	2016	2015	2014
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
REVENUE	**115,107**	109,103	74,255	51,529	40,991
Cost of sales	**(45,024)**	(43,023)	(30,287)	(20,328)	(17,275)
Gross profit	**70,083**	66,080	43,968	31,201	23,716
Other income and gains	**9,308**	6,201	5,263	4,485	1,037
Selling and distribution expenses	**(8,602)**	(7,864)	(5,401)	(5,486)	(4,334)
Research and development expenses	**(18,713)**	(14,808)	(9,179)	(3,953)	(4,725)
Administrative expenses	**(19,896)**	(15,736)	(21,530)	(4,507)	(3,787)
Impairment losses on financial and contract assets, net	**(140)**	–	–	–	–
Other expenses	**(65)**	(2,914)	(30)	(12)	(8)
Financial costs	**–**	–	–	(170)	(243)
PROFIT BEFORE TAX	**31,975**	30,959	13,091	21,558	11,656
Income tax expense	**(4,082)**	(8,784)	(2,870)	(3,227)	(1,885)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**27,893**	22,175	10,221	18,331	9,771
Attributable to: Owners of the parent	**27,893**	22,175	10,221	18,331	9,771
ASSETS AND LIABILITIES					
Total assets	**210,038**	171,740	149,923	62,714	39,529
Total liabilities	**38,925**	39,065	36,870	25,352	20,563
Total equity	**171,113**	132,675	113,053	37,362	18,966