Interim Report 2019

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

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CORPORATE INFORMATION

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)*

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

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PRINCIPAL BANKER

Industrial and Commercial Bank of China Beijing Zhongguancun Subbranch

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STOCK CODE

1782

For the six months ended 30 June 2019, the operations and business of Vixtel Technologies Holdings Limited (the "**Company**") and its subsidiaries (collectively, the "**Group**") have recorded the following changes when compared with those for the six months ended 30 June 2018.

- Revenue for the six months ended 30 June 2019 amounted to approximately RMB40,380,000, representing a decrease of approximately 29.6% from approximately RMB57,343,000 for the six months ended 30 June 2018.

- Profit attributable to owners of the Company for the six months ended 30 June 2019 amounted to approximately RMB6,255,000, representing a decrease of approximately 39.1% from the profit attributable to owners of the Company for the six months ended 30 June 2018 of approximately RMB10,278,000.

- Basic earnings per share for the six months ended 30 June 2019 was approximately RMB1.23 cents (for the six months ended 30 June 2018: basic earnings per share was approximately RMB2.10 cents).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

The Group is a market leader in China's Application Performance Management ("**APM**") industry and 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 results of the Group for the six months ended 30 June 2019 (the "**Period**") fell short of expectations. With the significant challenges and opportunities in the telecom industry, telecom operators, which are the Group's major customers, were affected by various factors that the placement of orders was delayed until the second half of the year. Relevant influence arose from the following three major factors:

Firstly, the telecom industry in which customers of the Group operated was obviously cyclical in terms of investment planning, and will be more cyclical when important industry policies are published. Specifically, during the Period, due to the early issue of 5G licences, which exceeded market expectations, as well as the fierce competition in 5G businesses, operators mainly invested in infrastructure construction in the first half of 2019, which squeezed the purchase budget of other business systems, resulting in the delay in placing of most orders with the Company until the second half of the year.

Secondly, the structure of the entire telecom network was experiencing significant changes, resulting in a change in purchase practices in the telecom industry. During the Period, 5G and IPv6 deployment were rapidly carried out under national policy guidance, while there was an irresistible trend of Internet-based development, cloudification and virtualization of telecommunication networks. As the telecom infrastructure was experiencing great changes, telecom operators were more cautious in purchasing software systems to better adapt to the new network architecture, thus delaying the placing of orders in relation to APM products.

However, such delay was not uncommon in the Group's operating history. When the Ministry of Industry and Information Technology of China issued 4G licences to operators in 2013, the Group also experienced a similar situation. Since then, with advanced technology and high-quality services, the Group has won the trust of customers and achieved a significant increase in the order volume.

Finally, the current uncertain overall economic situation and the slowdown in the income and profit growth of operators have also contributed to the pressure on the Group's businesses.

Despite the above factors, in the first half of 2019, the Group developed a number of products including 5G-oriented edge computing, public cloud and Internet of Things big data applications, and obtained a series of important early-stage orders, which fully demonstrated that the Group had leading technical strength in these rapidly-developing new business fields. In addition, there were good results for the Company's OTT and IPTV video security detection products in the first half of 2019, and the relevant revenue was expected to increase significantly.

For the six months ended 30 June 2019, the revenue of the Group amounted to approximately RMB40.4 million (for the six months ended 2018: RMB57.3 million), and the profits amounted to RMB6.3 million (for the six months ended 2018: RMB10.3 million).

OUTLOOK

Looking forward to the second half of 2019, the Group foresees the emergence of the following positive factors in the APM industry, which will help improve its performance:

Getting ready for 5G-related APM products

Firstly, the Company is ready for APM products in 5G businesses and is poised for seizing huge market opportunities. The Company boasts its leading technologies in 5G products and good reputation, with early participation in 5G industry development through the cooperation with operators' research organization in 2018. At present, the cooperation with customers in 5G has been rolled out with a promising prospect.

Good development momentum of 5G industry chain

Secondly, the rapid development of 5G businesses benefits the entire industrial chain, greatly expanding the scope of application of telecom networks, and giving full play to its vital role in mainstream IT industries such as edge computing, cloud computing, Internet of Things, etc. This has opened up a wider market for the Company's products and brought about a continuous positive impact on the subsequent business development.

Growth in the security business volume

With the development of Internet video businesses, video security and video supervision will become hot topics, which is expected to bring about a strong demand for AI-related products. For this reason, the Company will continuously enhance the market development of video security products and seize huge business opportunities. Meanwhile, in line with the market demand, the Company will establish an AI research center to support its future technological development.

On the whole, the results for the first half of 2019 declined due to cyclical reasons. The Group has continuously obtained new orders, which will be reflected in the results of the second half of 2019. In addition, 5G, representing an innovation in the entire telecom industry, will bring about great changes to the entire industry, as well as continuous growth momentum for the Company's development in 5G edge computing, cloud computing and big data. The Group's management is still full of confidence in the future results and development of the Group.

FINANCIAL REVIEW

Revenue

The Group's revenue for the six months ended 30 June 2019 amounted to approximately RMB40.4 million, representing a decrease of approximately RMB16.9 million or 29.6% as compared with that of approximately RMB57.3 million recorded for the six months ended 30 June 2018. The decrease was mainly attributable to the combined effect of: (1) the decrease in revenue generated from the provision of integrated APM system solutions of approximately RMB20.4 million; (2) the increase in revenue generated from the provision of software development services of approximately RMB6.3 million; (3) the increase in revenue generated from the provision of technical services of approximately RMB1.9 million; and (4) the decrease in revenue generated from sales of embedded hardware and standard APM software of approximately RMB4.7 million.

The following analysis sets forth a breakdown of the Group's revenue by service type for the six months ended 30 June 2018 and 2019, 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 decrease in the revenue generated from the provision of integrated APM system solutions of approximately 51.9% from approximately RMB39.3 million for the six months ended 30 June 2018 to approximately RMB18.9 million for the six months ended 30 June 2019. This was primarily due to the fact that under uncertain economic conditions, customers reduced their capital purchases and instead upgraded and expanded their existing APM systems through purchasing services to cover new users and network applications.

Software development services

This segment provides software development services which typically involve in 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 increased by approximately 150.0% from approximately RMB4.2 million for the six months ended 30 June 2018 to approximately RMB10.5 million for the six months ended 30 June 2019. This was primarily 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 the increasing user group.

Technical services

This segment provides advisory services including operational support, system maintenance, network analysis and optimization for our APM products, and research study of specific topics on application and network performance. Our revenue derived from the provision of technical services increased by approximately 25.7% from approximately RMB7.4 million for the six months ended 30 June 2018 to approximately RMB9.3 million for the six months ended 30 June 2019. Such increase was primarily attributable to the increase in the demand from customers for our in-depth Internet APM analysis and consulting services to enhance the applications performance over their mobile Internet and broadband networks.

Sales of embedded hardware and standard APM software

We have from time to time sold embedded hardware and standard APM software to customers who do not require tailor-making services. Our revenue generated from the sales of embedded hardware and standard APM software decreased by approximately 72.3% from approximately RMB6.5 million for the six months ended 30 June 2018 to approximately RMB1.8 million for the six months ended 30 June 2019, which was mainly attributable to a decrease in the demand for embedded hardware and standard APM software, resulting from the fact that more existing customers 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 the increasing user group of customized software development services.

Cost of sales

The Group's cost of sales decreased by approximately 29.9% from approximately RMB23.1 million for the six months ended 30 June 2018 to approximately RMB16.2 million for the six months ended 30 June 2019, which was basically in line with the decrease in our revenue. The decrease was due to the reduction in hardware purchases and the use of implementers as a result of the decline in the number of integrated APM system solution contracts.

Gross profit and gross profit margin

The Group's gross profit decreased by approximately 29.2% from approximately RMB34.2 million for the six months ended 30 June 2018 to approximately RMB24.2 million for the six months ended 30 June 2019, mainly due to the decrease in the business volume for sales of integrated APM system solutions, and embedded hardware and standard APM software. The Group's gross profit margin was recorded at approximately 59.7% and approximately 59.9% for the six months ended 30 June 2018 and 2019, respectively. The gross profit margin for the two periods remained basically the same.

Other income and gains

The Group recorded other income and gains of approximately RMB5.2 million and approximately RMB5.8 million for the six months ended 30 June 2018 and 2019, respectively. The increase was primarily due to the increase in government grants received.

Selling and distribution expenses

The Group's selling and distribution expenses decreased by approximately 15.2% from approximately RMB4.6 million for the six months ended 30 June 2018 to approximately RMB3.9 million for the six months ended 30 June 2019, which was mainly due to the enhanced management of the selling and distribution expense budgets and reduction in relevant costs by the Company.

Research and development expenses

The Group's research and development ("**R&D**") expenses decreased by approximately 9.4% from approximately RMB12.7 million for the six months ended 30 June 2018 to approximately RMB11.5 million for the six months ended 30 June 2019, which was mainly due to the enhanced control of R&D expenses by the Company.

Administrative expenses

The Group's administrative expenses decreased by approximately 29.6% from approximately RMB9.8 million for the six months ended 30 June 2018 to approximately RMB6.9 million for the six months ended 30 June 2019, which was mainly due to that the Company did not incure the expenses transfer of listing of the Company's share from GEM to the Main Board during the six months ended 30 June 2019.

Profit before tax

Due to the foregoing reasons, the Group's profit before tax decreased by approximately 38.2% from approximately RMB12.3 million for the six months ended 30 June 2018 to approximately RMB7.6 million for the six months ended 30 June 2019.

Income tax expenses

The Group's income tax expenses decreased by approximately 35.0% from approximately RMB2.0 million for the six months ended 30 June 2018 to approximately RMB1.3 million for the six months ended 30 June 2019, which was mainly due to the decrease in profit before tax.

Net profit

Due to the foregoing reasons, the Group's net profit decreased by approximately 39.1% from approximately RMB10.3 million for the six months ended 30 June 2018 to approximately RMB6.3 million for the six months ended 30 June 2019, which was mainly due to the decrease in the operating revenue of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

For the six months ended 30 June 2019, 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 RMB166.2 million as at 31 December 2018 to approximately RMB166.8 million as at 30 June 2019. Our cash and cash equivalents were approximately RMB64.9 million as at 30 June 2019 (as at 31 December 2018: approximately RMB70.7 million).

As at 30 June 2019, 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 six months ended 30 June 2019. In this respect, the Group is not exposed to any significant foreign currency exchange risk. The management will continue to closely monitor foreign exchange risk to ensure that appropriate measures are implemented in a timely and effective manner.

CAPITAL STRUCTURE

The shares of the Company (the "**Shares**") were listed on GEM of the Stock Exchange ("**GEM**") on 15 December 2016 (the "**Listing Date**").

On 12 June 2018, 21,255,000 subscription Shares 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 was 508,000,000 of HK$0.01 each.

On 29 November 2018 (the "**Date of Transfer**"), the listing of Shares has been successfully transferred from GEM to the Main Board.

As at 30 June 2019, 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 interim report, the share capital of the Company only comprises ordinary shares.

COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2019, the Group had no material commitments or contingent liabilities (2018: Nil).

DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 30 June 2019 (for the six months ended 30 June 2018: HK0.6 cents per ordinary share).

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 Period, the Group did not have any material acquisitions or disposals of subsidiaries and affiliated companies.

SIGNIFICANT INVESTMENTS AND ACQUISITION OF CAPITAL ASSETS

For the Period, the Group did not hold any significant investments nor made any significant acquisition of capital assets.

CHARGE ON ASSETS

For the Period, the Group had no charges on the Group's assets.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 30 June 2019, the Group had a total of 203 employees. The staff costs including Directors' emoluments were approximately RMB18.6 million for the six months ended 30 June 2019 (for the six months ended 30 June 2018: approximately RMB24.8 million).

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

The shareholders of 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 of the Company (the "**Directors**") updated with the latest information of duties and obligations of a director of a company whose shares are listed on a stock exchange and the general regulatory and environment 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.

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 report, the Group expects that the planned use of proceeds from the Listing will remain unchanged. Most of the unutilized net proceeds have been deposited into a bank account maintained by the Group.

As of 30 June 2019, the net proceeds from the Listing have been applied and utilized as follows:

Use of net proceeds	**Planned amount as presented in the prospectus** (HK$ million)	**Approximate percentage of total net proceeds**	**Actual utilized amount as of 30 June 2019** (HK$ million)	**Unutilized net proceeds as of 30 June 2019** (HK$ million)
Further solidify our leadership in China's APM market	17.52	30%	17.52	–
Continue to strengthen in-house R&D capabilities	23.36	40%	23.36	–
Leverage growth opportunities in China and strategically expand into certain overseas markets	11.68	20%	11.68	–
Fund general corporate purposes	5.84	10%	5.84	–
Total	58.40	100%	58.40	–

The use of proceeds brought forward from 31 December 2018 is HK$9.75 million. The remaining proceeds have been utilised in the manner as described in the Prospectus during the Period.

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, the remainder of HK$17.0 million from such proceeds was not used. As of 30 June 2019, among such proceeds from the Placing, HK$9.5 million was used by the Group, while the remainder of HK$12.9 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 18 months.

COMPARISON OF BUSINESS OBJECTIVES WITH ACTUAL BUSINESS PROGRESS

Business strategy	**Business objectives for the Period**	**Actual business progress during the Period**
Further consolidate our leading position in China's APM market	Improve the functionalities and add new features for our existing products	The smart home Internet of Things performance management system of the Company has been connected to more than ten million smart home gateways, with continuous optimization of its functions and addition of new functions to ensure the user experience of smart home and income increase. Different analysis APPs have been established on the big data analysis system, which will further create an open application development community for the system. SaaS system has become a sales tool for the Company to extend its reach to users, which will enhance its usability and attract SME paying users.
	Enter into additional sales agreements for all types of services with major customers through cross-selling and continued marketing efforts	Continued to sign contracts with customers for digital video operation businesses projects and established an independent department to promote data operation this year.

Business strategy	Business objectives for the Period	Actual business progress during the Period
	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	During the Period, we participated in the telecom industry exhibition to enhance customers' awareness of our products and services. The Group planned to continue to participate in marketing events in relevant industries.
Continue to strengthen in-house R&D capabilities	Recruit additional talented R&D personnel	Continued to recruit R&D engineers with relevant experience to strengthen our in-house R&D capabilities.
	Develop new products and contents	5G-oriented network application performance management solutions were developed, which are currently at the stage of trial use by customers. Completed the development of video end-to-end performance monitoring systems to provide all-around assurance for the video business quality and security for customers. A video operation analysis platform was developed to provide digital marketing and marketing analysis services for video content providers.
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	Continuously carried out sales and promotion work for overseas projects, and have successively received relevant orders.
	Promote our new products and services across China	Continuously strengthened the acquisition of partners and the exploration of new market opportunities, and jointly promote new products and services.

SHARE OPTION SCHEME

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

Details of the Share Option Scheme are as follows:

1.	Purpose of the Share Option Scheme	The purpose of the Share Option Scheme is to enable the Company to grant options to Eligible Persons as incentives or rewards for their contribution to the Group.
2.	Who may join	Any eligible employee (full time or part-time), executive Director, non-executive Director and independent non-executive Director, advisor and consultant of the Group.
3.	Total number of shares available for issue under the Share Option Scheme	48,674,500 Shares (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	Options granted may be accepted by the Eligible Person within 28 days from the date of the grant of options.
7.	Option period	A period which may expire no later than 10 years from the date of the offer of to be determined and notified by Directors to the grantee thereof.
8.	Rights are personal to grantee	An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber, or create any interest in favour of any third party over or in relation to any option.

Since the adoption of the Share Option Scheme and up to the date of this report, no share option has been granted pursuant to the Share Option Scheme. On 30 June 2019 and as of the date of this report, the Company does not have any outstanding share options, warranties, derivatives or securities that are convertible into or exchangeable for shares.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2019, 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 (the "**Model Code**") to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

LONG POSITIONS IN SHARES

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

Notes:

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

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

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

4. Shares in which Mr. Guan Haiqing is interested consist of (i) 72,365,000 Shares held by Copious Link Investments Limited, a company wholly-owned by him, in which Mr. Guan Haiqing is deemed to be interested under the SFO; and (ii) 237,675,000 Shares in which Mr. Guan Haiqing is deemed to be interested as a result of being a party acting-in-concert with Mr. Sie Tak Kwan, Mr. Yue Yong and Mr. Liang Judong.

5. Shares in which Mr. Liang Judong is interested consist of (i) 31,005,000 Shares held by Hugemind Investments Limited, a company wholly-owned by him, in which Mr. Liang Judong is deemed to be interested under the SFO; and (ii) 279,035,000 Shares in which Mr. Liang Judong is deemed to be interested as a result of being a party acting-in-concert with Mr. Sie Tak Kwan, Mr. Yue Yong and Mr. Guan Haiqing.

Save as disclosed above, as at 30 June 2019, none of the Directors and chief executive of the Company had an interest or short position in the Shares, underlying Shares or 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 30 June 2019, shareholders of the Company (the "**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 30 June 2019, the Company had 508,000,000 Shares in issue.

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

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

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

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

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

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

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

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

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

Save as disclosed above, as at 30 June 2019, 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 pursuant to 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 six months ended 30 June 2019 and up to the date of this 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).

COMPETING INTERESTS

During the six months ended 30 June 2019, none of the Directors or the controlling Shareholders or their respective associates (as defined in the Listing Rules) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group or has any conflicts of interest which has or may have with the Group.

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDERS

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

Each Controlling Shareholder has confirmed to the Company of his/its compliance with the Deed of Non-Competition for the six months ended 30 June 2019. The independent non-executive Directors have also reviewed the status of compliance and confirmed that all the undertakings under the Deed of Non-Competition have been complied by each of the Controlling Shareholders for the six months ended 30 June 2019.

CORPORATE GOVERNANCE

The Company has complied with all the code provisions of the Corporate Governance Code as set out in Appendix 14 to the Listing Rules and was not aware of any non-compliance relating thereto during the Period.

THE MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules 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 Period, each of them were in compliance with the Model Code.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the Period.

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 has reviewed the Group's financial results for the six months ended 30 June 2019 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.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event of the Group during the period subsequent to 30 June 2019 and up to the date of this report.

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

Hong Kong, 23 August 2019

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

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

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June **2019** **(Unaudited)** **RMB'000**	 2018 (Unaudited) RMB'000
REVENUE	*5*	**40,380**	57,343
Cost of sales		**(16,184)**	(23,135)
Gross profit		**24,196**	34,208
Other income and gains	*5*	**5,751**	5,212
Selling and distribution expenses		**(3,910)**	(4,617)
Research and development expenses		**(11,512)**	(12,665)
Administrative expenses		**(6,935)**	(9,807)
Impairment losses on financial and contract assets, net		**40**	–
Other expenses		**(40)**	(19)
PROFIT BEFORE TAX	*6*	**7,590**	12,312
Income tax expenses	*7*	**(1,335)**	(2,034)
PROFIT FOR THE PERIOD		**6,255**	10,278
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**6,255**	10,278
Attributable to:			
Owners of the parent		**6,255**	10,278
EARNINGS PER SHARE ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT	*8*		
Basic and diluted			
– For profit for the period		**RMB1.23 cents**	RMB2.10 cents

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

30 June 2019

	Notes	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
NON-CURRENT ASSETS			
Property and equipment	*9*	**792**	1,138
Other intangible assets		**6,411**	5,779
Right-of-use asset		**533**	–
Total non-current assets		**7,736**	6,917
CURRENT ASSETS			
Inventories	*10*	**2,638**	726
Trade, retention and bills receivables	*11*	**35,894**	35,172
Contract assets	*13*	**79,382**	94,514
Prepayments, other receivables and other assets	*12*	**9,040**	2,040
Cash and cash equivalents	*14*	**64,850**	70,669
Total current assets		**191,804**	203,121
CURRENT LIABILITIES			
Trade payables	*15*	**8,506**	9,488
Dividends payable		**3,180**	–
Other payables and accruals	*16*	**11,815**	24,475
Tax payable		**1,514**	2,980
Total current liabilities		**25,015**	36,943
NET CURRENT ASSETS		**166,789**	166,178
TOTAL ASSETS LESS CURRENT LIABILITIES		**174,525**	173,095
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**1,982**	1,982
Lease liability		**523**	–
Total non-current liabilities		**2,505**	1,982
Net assets		**172,020**	171,113
EQUITY			
Issued capital	*17*	**4,514**	4,514
Reserves		**167,506**	166,599
Total equity		**172,020**	171,113

Yue Yong
Director

Sie Tak Kwan
Director

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

30 June 2019

	Attributable to owners of the parent					
	Issued capital	**Share premium**	**Capital reserve**	**Statutory surplus reserve**	**Retained profits**	**Total**
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Note 18					
At 1 January 2018	4,341	71,194	30,674	6,503	19,963	132,675
Adjustment of retained profits pursuant to HKFRS 15	–	–	–	–	1,561	1,561
Profit for the period	–	–	–	–	10,278	10,278
Total comprehensive income for the period	–	–	–	–	10,278	10,278
Issue of shares	173	18,104	–	–	–	18,277
Final dividend for 2017	–	(4,709)	–	–	–	(4,709)
Transfer from retained profits	–	–	–	1,491	(1,491)	–
At 30 June 2018 (Unaudited)	4,514	84,589	30,674	7,994	30,311	158,082
At 1 January 2019	4,514	81,929	30,674	9,993	44,003	171,113
Profit for the period	–	–	–	–	6,255	6,255
Total comprehensive income for the period	–	–	–	–	6,255	6,255
Final dividend for 2018	–	(5,348)	–	–	–	(5,348)
Transfer from retained profits	–	–	–	992	(992)	–
At 30 June 2019 (Unaudited)	**4,514**	**76,581**	**30,674**	**10,985**	**49,266**	**172,020**

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Notes	For the six months ended 30 June	
		2019	2018
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**7,590**	12,312
Adjustments for:			
Interest income		**(358)**	(41)
Depreciation	*6*	**395**	437
Amortization of other intangible assets	*6*	**666**	318
Net foreign exchange differences		**–**	(760)
		8,293	12,266
Decrease/(increase) in inventories		**(1,912)**	171
Decrease/(increase) in gross amount due from contract customers		**–**	65,681
Decrease/(increase) in contract assets		**15,133**	(79,382)
Increase in trade, retention and bills receivables		**(722)**	(10,813)
Increase in prepayments, deposits and other receivables		**(7,000)**	(3,275)
(Increase)/decrease in long term deposits		**–**	(28)
(Increase) in right-of-use asset		**(533)**	–
(Decrease)/increase in trade payables		**(982)**	(1,333)
Decrease in gross amount due to contract customers		**–**	(320)
Increase/(decrease) in advances from customers		**220**	405
Increase/(decrease) in other payables and accruals		**(12,880)**	997
Increase in lease liability		**523**	–
Cash generated from operations		**140**	(15,631)
Interest received		**358**	41
Income tax paid		**(2,802)**	(4,111)
Net cash flows used in operating activities		**(2,304)**	(19,701)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		**(49)**	(217)
Additions to other intangible assets		**(1,299)**	(1,191)
Net cash flows used in investing activities		**(1,348)**	(1,408)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

		For the six months ended 30 June	
	Notes	**2019**	2018
		(Unaudited)	(Unaudited)
		RMB'000	RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid		**(2,167)**	(4,709)
Payments of listing expenses		**–**	(1,129)
Proceeds from issue of shares		**–**	18,277
Net cash flows from/(used in) financing activities		**(2,167)**	12,439
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(5,819)**	(8,670)
Cash and cash equivalents at beginning of period		**70,669**	74,533
Effect of foreign exchange rate changes, net		**–**	760
CASH AND CASH EQUIVALENTS AT END OF PERIOD		**64,850**	66,623
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balance	*14*	**64,850**	66,623
Cash and cash equivalents as stated in the statement of cash flows		**64,850**	66,623

1. CORPORATE INFORMATION

Vixtel Technologies Holdings Limited (the "Company") was incorporated in the Cayman Islands on 11 November 2015 as an exempted company with limited liability under the Companies Law (2013 Revision) of the Cayman Islands. The address of the registered office of the Company is P.O. Box 1350, Clifton House 75 Fort Street, Grand Cayman KY1-1108, Cayman Islands. The shares of the Company were listed on GEM of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 15 December 2016 (the "Listing Date").

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

2. BASIS OF PRESENTATION

The interim condensed consolidated financial statements for the six months ended 30 June 2019 has been prepared in accordance with the Hong Kong Accounting Standards ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants, and the disclosure requirements of the Hong Kong Companies Ordinance.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statement, and should be read in conjunction with those of the annual report for the year ended 31 December 2018.

The unaudited consolidated results for the six months ended 30 June 2019 have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee.

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial information are consistent with those applied in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") effective as of 1 January 2019.

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the new HKFRS 16 mentioned below, the application of the above new and amendments to HKFRSs in the Period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

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

HKFRS 16 Leases

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 account for all leases under a single on-balance sheet model. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17. Therefore, HKFRS 16 did not have any financial impact on leases where the Group is the lessor.

The Group adopted HKFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019, and the comparative information for 2018 was not restated and continues to be reported under HKAS 17.

New definition of a lease

Under HKFRS 16, a contract is, or contains a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee – Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of buildings. Before the adoption of HKFRS 16, the Group classified each of its leases (as lessee) at the inception date as operating leases. The lease payments were recognized as expense in profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under prepayments and other payables, respectively. Upon adoption of HKFRS 16, the Group applied a single approach to recognize and measure right-of-use assets and lease liabilities for all leases.

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.

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

HKFRS 16 LEASES (continued)

Summary of new accounting policies

The accounting policy for leases as disclosed in the annual financial statements for the year ended 31 December 2018 is replaced with the following new accounting policies upon adoption of HKFRS 16 from 1 January 2019:

Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease. Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of the estimated useful life and the lease term.

Lease liabilities

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in-substance fixed lease payments or a change in assessment to purchase the underlying asset.

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

HKFRS 16 LEASES (continued)

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. It considers all relevant factors that create an economic incentive for it to exercise the renewal. After the lease commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within the control of the Group and affects its ability to exercise the option to renew.

The Group included the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

Amounts recognised in the interim condensed consolidated statement of financial position and profit or loss

The carrying amounts of the Group's right-of-use assets and lease liabilities (included within 'interest-bearing bank and other borrowings'), and the movement during the period are as follow:

	Right of use assets Plant and Machinery RMB'000	Lease liabilities RMB'000
As at 1 January 2019	–	–
Additions	635	635
Depreciation charge	(102)	–
Interest expense	–	9
Increase/(decrease) in fair value	–	–
Payments	–	(121)
As at 30 June 2019	533	523

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

Information about major customers

Revenue of approximately RMB26,272,000 for six months ended 30 June 2019 (six months ended 30 June 2018: RMB48,894,000) 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 RMB5,987,000 for six months ended 30 June 2019 (six months ended 30 June 2018: RMB10,258,000) was derived from sales to two provincial subsidiaries under common control by a state-owned telecommunication operator group and accounted for more than 10% of the total revenue.

5. REVENUE, OTHER INCOME AND GAINS

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

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Revenue		
Integrated APM system solutions	**18,879**	39,271
Software development services	**10,491**	4,169
Technical services	**9,260**	7,428
Sales of embedded hardware and standard APM software	**1,750**	6,475
	40,380	57,343
Other income and gains		
Bank interest income	**358**	41
Government grants – related to expense*	**5,373**	4,676
Exchange gain, net	**20**	495
	5,751	5,212

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

6. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Cost of inventories sold	**260**	2,632
Cost of services rendered	**11,390**	11,602
Employee benefit expenses (excluding directors' and chief executives' remuneration):		
Wages and salaries	**15,421**	20,804
Pension scheme contributions (defined contribution scheme)	**1,065**	1,807
	16,486	22,611
Research and development costs	**11,512**	12,665
Depreciation of property and equipment	**395**	437
Amortization of other intangible assets	**666**	318
Bank interest income	**(358)**	(41)
Foreign exchange difference, net	**(20)**	(495)

7. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and accordingly is not subject to income tax. No Hong Kong profits tax has been provided since no assessable profit arose in Hong Kong during the period.

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

7. INCOME TAX (continued)

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

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
	RMB'000	RMB'000
Current – PRC	**1,335**	2,034
Total tax charges for the period	**1,335**	2,034

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

The calculation of the basic earnings per share for the period is based on the profit for the period attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 508,000,000 (six months ended 30 June 2018: 508,000,000) in issue during six months ended 30 June 2019.

There were no potentially dilutive ordinary shares in issue during the six months ended 30 June 2019 and 2018, and therefore the diluted earnings per share amount is equivalent to the basic earnings per share.

	For the six months ended 30 June	
	2019	2018
	(Unaudited)	(Unaudited)
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**6,255**	10,278
Shares		
Weighted average number of ordinary shares in issue	**508,000,000**	489,106,667
Basic and diluted earnings per share	**RMB1.23 cents**	RMB2.10 cents

9. PROPERTY AND EQUIPMENT

During the six months ended 30 June 2019, the Group acquired assets with a cost of RMB49,000 (six months ended 30 June 2018: RMB217,000) on additions to property and equipment.

No assets were disposed of by the Group during the six months ended 30 June 2019 (six months ended 30 June 2018: nil).

10. INVENTORIES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Raw materials	**2,638**	726

11. TRADE, RETENTION AND BILLS RECEIVABLES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade receivables	**34,710**	34,590
Retention receivables	**928**	721
Bills receivable	**358**	–
	35,996	35,311
Impairment	**(102)**	(139)
Trade, retention and bills receivables	**35,894**	35,172

11. TRADE, RETENTION AND BILLS RECEIVABLES (continued)

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

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

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Within 90 days	**23,332**	19,189
90 to 180 days	**6,789**	6,634
180 days to 1 year	**4,068**	7,006
Over 1 year	**1,705**	2,343
	35,894	35,172

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLE

	30 June 2019	31 December 2018
	(Unaudited)	(Audited)
	RMB'000	RMB'000
Current portion		
Prepayments	**2,672**	508
Rental deposits	**483**	513
Advances to employees	**1,461**	111
Bidding deposits	**600**	908
Other	**3,824**	–
	9,040	2,040

13. CONTRACT ASSETS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Contract assets arising from:		
Integrated APM system solutions	**56,869**	75,053
Software development services	**22,939**	19,889
	79,808	94,942
Impairment	**(426)**	(428)
	79,382	94,514

14. CASH AND BANK BALANCES

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Cash and bank balances	**64,850**	70,669
Denominated in:		
RMB	**37,970**	36,000
HK$	**26,880**	34,669

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.

15. TRADE PAYABLES

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within 90 days	2,933	8,053
90 to 180 days	3,238	181
180 days to 1 year	2,215	1,059
Over 1 year	120	195
Total	8,506	9,488

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

16. OTHER PAYABLES AND ACCRUALS

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Salary and welfare payables	4,719	7,045
Other tax payables	5,087	12,095
Other payables	1,145	4,691
Contract liabilities	864	644
	11,815	24,475

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

17. ISSUED CAPITAL

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Issued and fully paid:		
508,000,000 (2018: 508,000,000) ordinary shares of HK$0.01 each	4,514	4,514

18. COMMITMENTS

Operating lease commitments as lessee

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

	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Within one year	1,544	1,789
In the second to fifth years, inclusive	169	124
	1,713	1,913

19. RELATED PARTY TRANSACTIONS

(a) There was no related party transaction between the Group and its related party during the period ended 30 June 2019 and 30 June 2018.

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

	For the six months ended 30 June	
	2019 (Unaudited) RMB'000	2018 (Unaudited) RMB'000
Fee	52	71
Other emoluments:		
Salaries, allowances and benefits in kind	3,089	3,035
Pension scheme contributions	283	267
	3,372	3,302
	3,424	3,373

20. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets – loans and receivables	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade, retention and bills receivables	35,894	35,172
Financial assets included in prepayments, deposits and other receivables	6,368	1,532
Cash and cash equivalents	64,850	70,669
	107,112	107,373

Financial liabilities at amortised cost	30 June 2019 (Unaudited) RMB'000	31 December 2018 (Audited) RMB'000
Trade payables	8,506	9,488
Financial liabilities included in other payables and accruals	1,145	4,691
	9,651	14,179

21. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

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

22. APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 23 August 2019.