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 RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2020

FINANCIAL HIGHLIGHTS

For the year ended 31 December 2020, the operations and business of the Company and its subsidiaries have recorded the following changes when compared with those for the year ended 31 December 2019.

- Revenue for the year ended 31 December 2020 amounted to approximately RMB80,999,000, representing a decrease of approximately 13.0% from approximately RMB93,147,000 for the year ended 31 December 2019.

- Profit attributable to owners of the Company for the year ended 31 December 2020 amounted to approximately RMB1,104,000, representing a decrease of approximately 91.4% from the profit attributable to owners of the Company for the year ended 31 December 2019 of approximately RMB12,811,000.

- Basic earnings per share for the year ended 31 December 2020 was approximately RMB0.22 cents (for the year ended 31 December 2019: basic earnings per share was approximately RMB2.52 cents).

- The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (final dividend for the year ended 31 December 2019: Nil).

The board (the "Board") of directors (the "Directors") of Vixtel Technologies Holdings Limited (the "Company") announced the consolidated financial results of the Company and its subsidiaries (collectively, the "Group" or "We") for the year ended 31 December 2020 together with the audited comparative figures for the year ended 31 December 2019 as follow:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Notes	**2020** *RMB'000*	2019 *RMB'000*
REVENUE	*4*	**80,999**	93,147
Cost of sales		**(37,409)**	(40,074)
Gross profit		**43,590**	53,073
Other income and gains	*4*	**5,148**	10,698
Selling and distribution expenses		**(9,435)**	(8,934)
Research and development costs	*5*	**(21,681)**	(22,644)
Administrative expenses		**(15,192)**	(15,525)
Impairment losses on financial and contract assets, net	*5*	**(55)**	(889)
Other expenses		**(973)**	(76)
Finance costs	*6*	**(291)**	(150)
PROFIT BEFORE TAX	*5*	**1,111**	15,553
Income tax expense	*8*	**(12)**	(2,742)
PROFIT FOR THE YEAR		**1,099**	12,811
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**1,099**	12,811
Attributable to:			
Owners of the parent		**1,104**	12,811
Non-controlling interests		**(5)**	–
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	*10*		
Basic and diluted		**RMB0.22 cents**	RMB2.52 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	Notes	**2020** **RMB'000**	2019 *RMB'000*
NON-CURRENT ASSETS			
Property and equipment		**431**	482
Right-of-use assets		**2,439**	2,684
Other intangible assets		**12,800**	9,208
Contract assets		**2,108**	1,959
Total non-current assets		**17,778**	14,333
CURRENT ASSETS			
Inventories		**1,353**	1,858
Trade and bills receivables	*11*	**16,142**	18,202
Contract assets	*12*	**89,661**	90,510
Prepayments, other receivables and other assets		**3,755**	4,878
Pledged deposit		**7,000**	–
Cash and cash equivalents		**85,912**	80,873
Total current assets		**203,823**	196,321
CURRENT LIABILITIES			
Trade payables	*13*	**5,257**	6,517
Other payables and accruals		**19,889**	18,787
Interest-bearing bank borrowings		**10,000**	–
Lease liabilities		**1,886**	1,658
Tax payable		**1,052**	1,329
Total current liabilities		**38,084**	28,291
NET CURRENT ASSETS		**165,739**	168,030
TOTAL ASSETS LESS CURRENT LIABILITIES		**183,517**	182,363
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,314**	2,714
Lease liabilities		**528**	1,073
Total non-current liabilities		**2,842**	3,787
Net assets		**180,675**	178,576
EQUITY			
Issued capital		**4,514**	4,514
Reserves		**175,113**	174,062
		179,627	178,576
Non-controlling interests		**1,048**	–
Total equity		**180,675**	178,576

1. CORPORATE INFORMATION

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

The Company has successfully transferred listing from GEM to the Main Board (the "Main Board") of the Stock Exchange on 29 November 2018 (the "Listing Date").

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

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 when otherwise indicated.

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.

Amendment to HKFRS 16	*Covid-19-Related Rent Concessions* (early adopted)
Amendments to HKAS 1 and HKAS 8	*Definition of Material*

Amendments to HKFRS 3 and the revised HKFRSs are described as below. Amendments to HKFRS 9, HKAS 39, and HKFRS 7 are not relevant to the preparation of the Group's financial statements.

(a) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively. The amendments did not have any impact on the financial position and performance of the Group.

(b) 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, or both. The amendments did not have any significant impact on the financial position and performance of the Group.

3. OPERATING SEGMENT INFORMATION

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

Under HKFRS 8 *Operating Segments*, it is required that operating segments 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

(a) Revenue from external customers

	2020	2019
	RMB'000	*RMB'000*
Hong Kong	**730**	1,075
Mainland China	**80,269**	92,072
	80,999	93,147

The revenue information of continuing operations above is based on the locations of the customers.

(b) Non-current assets

During the year, all non-current assets/capital expenditure of the Group were located/incurred in the PRC.

Information about major customers

Revenue from continuing operations of approximately RMB66,172,000 (2019: RMB79,370,000) was derived from sales by integrated APM system solutions and technical services to a single state-owned telecommunication operator group, including sales to a group of entities which are known to be under common control with that group.

4. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020	2019
	RMB'000	*RMB'000*
Revenue from contracts with customers		
Integrated APM system solutions	**36,563**	54,649
Software development services	**19,422**	16,079
Technical services	**19,107**	18,238
Sales of embedded hardware and standard APM software	**5,907**	4,181
	80,999	93,147

Revenue from contracts with customers

(a) Disaggregated revenue information

	2020	2019
	RMB'000	*RMB'000*
Types of customers		
State-owned telecommunication operator groups	**67,207**	85,172
Other customers	**13,792**	7,975
Total revenue from contracts with customers	**80,999**	93,147

	2020	2019
	RMB'000	*RMB'000*
Timing of revenue recognition		
Goods transferred at a point in time	**5,907**	4,181
Services transferred over time	**75,092**	88,966
Total revenue from contracts with customers	**80,999**	93,147

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:

	2020	2019
	RMB'000	*RMB'000*
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:		
Technical services	**215**	225

(b) *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 one contract where payment in advance was 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.

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

	2020	2019
	RMB'000	*RMB'000*
Within one year	**25,975**	20,048
After one year	**131**	914
	26,106	20,962

The amount of transaction prices allocated to remaining performance obligations which are expected to be recognised as revenue after one year relate to integrated APM system solutions, software development services and technical services, of which the performance obligations are to be satisfied within two years. All the other amounts of transaction prices allocated to the remaining performance obligations are expected to be recognised as revenue within one year. The amounts disclosed above do not include variable consideration which is constrained.

	2020	2019
	RMB'000	*RMB'000*
Other income		
Bank interest income	**70**	349
Interest income arising from revenue contracts	**17**	12
Fair value gains on financial assets at fair value through profit or loss	**1,074**	630
Government grants – related to income*	**3,987**	9,274
Foreign exchange differences	**–**	433
	5,148	10,698

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

5. PROFIT BEFORE TAX

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

	2020 *RMB'000*	2019 *RMB'000*
Cost of inventories sold	**2,868**	1,559
Cost of services rendered	**34,541**	38,515
Depreciation of property and equipment	**444**	766
Depreciation of right-of-use assets	**1,744**	1,498
Amortisation of other intangible assets	**2,381**	1,414
Research and development costs:		
Deferred expenditure amortised	**2,340**	1,353
Current year expenditure	**21,681**	22,644
	24,021	23,997
Lease payments not included in the measurement of lease liabilities	**168**	690
Auditor's remuneration	**1,060**	1,100
Employee benefit expense (excluding directors' and chief executive's remuneration):		
Wages and salaries	**43,404**	33,479
Pension scheme contributions (defined contribution scheme)	**328**	2,381
	43,732	35,860
Foreign exchange differences, net	**930**	(433)
Impairment of financial and contract assets, net:		
Impairment of trade and bills receivables, net	**362**	(59)
Impairment of contract assets, net	**(307)**	948
	55	889
Other interest income from financial assets at fair value through profit or loss	**(1,074)**	(630)
Bank interest income	**(70)**	(349)

6. FINANCE COSTS

An analysis of finance costs from continuing operations is as follows:

	2020 *RMB'000*	2019 *RMB'000*
Interest on bank loans	**186**	–
Interest on lease liabilities	**105**	150
	291	150

7. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

	2020	2019
	RMB'000	*RMB'000*
Fees	**468**	515
Other emoluments:		
Salaries, allowances and benefits in kind	**3,480**	4,169
Pension scheme contributions	**162**	183
	3,642	4,352
	4,110	4,867

8. 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, Vixtel Software Limited, Depuda (Wuxi) Technologies Limited and Vixtel Yunwang Technologies Limited are 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 must be renewed every three years and Vixtel Technologies Limited must 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 15 October 2019.

	2020	2019
	RMB'000	*RMB'000*
Current – Mainland China	**412**	2,010
Deferred	**(400)**	732
Total tax charge for the year	**12**	2,742

9. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (final dividend for the year ended 31 December 2019: Nil).

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

The calculation of the basic earnings per share amount for the year is based on the profit for the year attributable to ordinary equity holders of the parent, and the weighted average number of ordinary shares of 508,000,000 (2019: 508,000,000) in issue during the year.

The Group had no potentially diluted ordinary shares in issue during the years ended 31 December 2020 and 2019.

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

	2020	2019
Earnings		
Profit attributable to ordinary equity holders of the parent (RMB'000)	**1,104**	12,811
Shares		
Weighted average number of ordinary shares in issue during the year	**508,000,000**	508,000,000
Basic and diluted earnings per share	**RMB0.22 cents**	RMB2.52 cents

11. TRADE, RETENTION AND BILLS RECEIVABLES

	2020 ***RMB'000***	2019 *RMB'000*
Trade receivables	**16,584**	17,447
Bills receivable	**–**	835
	16,584	18,282
Impairment	**(442)**	(80)
Trade and bills receivables	**16,142**	18,202

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

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 when 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 one 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 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 receivables as at the end of the reporting period, based on the billing date and net of loss allowance, is as follows:

	2020	2019
	RMB'000	*RMB'000*
Within 90 days	**8,491**	6,377
91 to 180 days	**5,121**	7,184
181 days to 1 year	**963**	2,352
Over 1 year	**1,567**	2,289
	16,142	18,202

The movements in the loss allowance for impairment of trade and bill receivables are as follows:

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**80**	139
Impairment losses, net *(note 5)*	**362**	(59)
At the end of year	**442**	80

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 receivables using a loss rate approach:

As at 31 December 2020	Trade receivables arising from state-owned telecommunications operator groups	Trade receivables arising from other customers	Default receivable	Total
Expected credit loss rate	0.06%	0.97%	100.00%	
Gross carrying amount (RMB'000)	13,790	2,383	411	16,584
Expected credit losses (RMB'000)	8	23	411	442

As at 31 December 2019	Trade receivables arising from state-owned telecommunications operator groups	Trade receivables arising from other customers	Total
Expected credit loss rate	0.06%	4.20%	
Gross carrying amount (RMB'000)	16,619	1,663	18,282
Expected credit losses (RMB'000)	10	70	80

12. CONTRACT ASSETS

	31 December 2020 ***RMB'000***	31 December 2019 *RMB'000*	1 January 2019 *RMB'000*
Contract assets arising from:			
Integrated APM system solutions	**64,054**	69,635	75,053
Software development services	**22,521**	19,532	19,889
Sales of embedded hardware and standard APM software	**4,848**	4,616	–
Technical services	**1,415**	62	–
Total contract assets	**92,838**	93,845	94,942
Impairment	**(1,069)**	(1,376)	(428)
	91,769	92,469	94,514
Analysed into:			
Current portion	**89,661**	90,510	94,514
Non-current portion	**2,108**	1,959	–

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 decrease in contract assets in 2020 was the result of the decrease in integrated APM system solutions and software development services at the end of the year. During the year ended 31 December 2020, RMB307,000 was reversed on contract assets, as RMB948,000 was regconised as an allowance for expected credit losses at the year ended 31 December 2019. The Group's trading terms and credit policy with customers are disclosed in note 11.

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

	2020	2019
	RMB'000	*RMB'000*
Within one year	**89,661**	90,510
After one year	**2,108**	1,959
Total contract assets	**91,769**	92,469

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

	2020	2019
	RMB'000	*RMB'000*
At beginning of year	**1,376**	428
Impairment losses, net *(note 5)*	**(307)**	948
At the end of year	**1,069**	1,376

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 for 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 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:

	2020 *RMB'000*			
	Contract assets arising from state-owned telecommunications operator groups	**Contract assets arising from other customers**	**Default receivable**	**Total**
Expected credit loss rate	**0.3%**	**1.63%**	**100.00%**	
Gross carrying amount (RMB'000)	**77,273**	**14,972**	**593**	**92,838**
Expected credit losses (RMB'000)	**232**	**244**	**593**	**1,069**

	2019 *RMB'000*			
	Contract assets arising from state-owned telecommunications operator groups	Contract assets arising from other customers	Default receivable	Total
Expected credit loss rate	0.30%	1.10%	63.28%	
Gross carrying amount (RMB'000)	79,810	12,455	1,580	93,845
Expected credit losses (RMB'000)	239	137	1,000	1,376

13. 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:

	2020 *RMB'000*	2019 *RMB'000*
Within 90 days	**4,078**	5,477
91 to 180 days	**443**	460
181 days to 1 year	**301**	498
Over 1 year	**435**	82
	5,257	6,517

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

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.

As adversely affected by the outbreak of the Coronavirus Disease 2019 ("COVID-19") in early 2020, the Group's positive business growth ceased abruptly and the following 5-month "social mobility freezing" was even unprecedented. The long-term pause of social activities incurred therefrom, due to outbreak of COVID-19, was beyond everyone's expectation, thus software system providers like the Group, which are mainly oriented to large enterprises, were significantly influenced by such "social mobility freezing". There are two major factors:

First of all, due to the long-term suspension or serious delay of relevant departments of the customers, the signing of new contracts in 2020 and the acceptance and payment for signed contracts in 2019 cannot proceed according to normal procedures. This has seriously affected the financial performance of the Group.

In addition, as the Group is mainly engaged in delivery of complete sets of software systems, our business consultants are required to conduct on-site delivery and technical training for customers. Due to the restrictions on personnel flow, our technicians cannot go on business trips to carry out work on our customers' sites, thereby leading to the delay of project delivery and acceptance.

The severity and long-term impact of the outbreak of COVID-19 were beyond everyone's estimation, and the Group was aware of the fact that it was impossible to eliminate its impact in the short term. However, with the joint efforts of the management and staff, we still endeavored to restore our business operation and became the few companies that can persist in serving customers in the epidemic. Benefited from the advanced architecture of the Group's software system, as well as efforts of the research and development ("R&D") and marketing departments, plus the stable customer base, we were able to transfer a considerable part of our business systems to the cloud in a short period of time, thus promoting the delivery of projects without being present at the user's site.

During the initial outbreak of COVID-19, faced with an unprecedented drop in revenue, we once thought that the Group would suffer the first loss in 15 years since its establishment. However, according to our actual results in 2020, we still achieved relatively stable performance and avoided loss without layoff and business shrinking.

For the year ended 31 December 2020, the Group's cash and cash equivalents, together with available credit facilities and expected cash flow from operations, were sufficient to satisfy the current operational requirements and the capital expenditures of the Group.

In 2020, the Group attached great importance to the development of software tools and system solutions that meet enterprises' needs for digital transformation, including:

1) Information security management;

2) Digital experience; and

3) Smart operation and maintenance based on AI ("AIOPS")

The Group's information security management, especially that for multimedia business, has made enormous progress in 2020. In 2020, the Group has obtained many security qualifications and access qualifications from the Ministry of Public Security and the Ministry of Industry and Information Technology, so we can fully participate in information security business.

In terms of digital experience, by intensively carrying out the "One Belt, One Road" initiative of Chinese government and the large-scale globalization activities, the Company's user experience system deployed worldwide has been initially completed, which can provide customers with the digital experience monitoring capabilities covering all cities in China and major countries in the world. As the internationalization process of China is accelerating, this business is expected to be widely favored.

AIOPS is the key development direction of APM in the future. The Group has initially completed the product layout of AIOPS and signed relevant business contracts with many users. AI technology is still under rapid development, so talent competition is very fierce. Apart from continuously enhancing the AI R&D capabilities in Beijing R&D Center, the Company is also planning to establish a new AI R&D team in Hong Kong to take full advantage of the international talents in Hong Kong.

OUTLOOK

Looking forward to 2021, we believe that the business of the Group will follow the favorable momentum in the second half of 2020, and improvement of our business performance is foreseeable. In 2021, digital home business and 5G business will become the two pillars for the Company's business development, which will provide reliable support for the Company's business performance. The investment in information systems for Beijing 2022 Olympic Winter Games and Hangzhou Asian Games is expected to become a growth point for the Group's results.

In 2020, we have witnessed the accelerated implementation of 5G applications. Although delayed due to the epidemic, the 5G-related digitalization process is still firmly advancing as driven by both user demand and government investment. The proportion of new business generated therefrom is gradually increasing. We believe that 5G-related businesses will become the Group's major source of income in 2021, which will prove that the Company's long-term and sustaining investment in 5G businesses will gain satisfactory returns.

In the field of digital home, the Group will continue to develop the performance management system centered on videos and covering the whole digital home. Through the construction of a unified digital home performance management platform, the unified performance management of TV, mobile phones and PC can be realized on one platform, thus further enhancing the user experience of digital home. As seen from the business development of operators in the past two years, the proportion of income from digital home business has been rising, and the Average Revenue Per User ("ARPU") value of digital home users has even undergone a historic change in many places, which has exceeded the ARPU value of mobile phone users. This is the core impetus for telecom operators to continue expanding digital home business and gigabit optical network. As an industry leader in terms of smart operation and maintenance of digital home, the Group estimates that the revenue of this portion will maintain a stable or ascending trend.

In 2022, Beijing Olympic Winter Games and Hangzhou Asian Games will both be held in China. A large number of the latest digital technologies and new media technologies will be put into use for the first time, such as VR, V2X, edge computing, etc. These forward-looking and cutting-edge technologies will require powerful performance guarantee. Therefore, the Group will seize this opportunity to deeply explore how the Group's products can play a role in large-scale sports events. The Group will actively establish partnership with operators, relevant organizing committees and government departments and become a service provider of APM business. We expect that remarkable revenues can be gained from businesses associated with the two games in 2021.

FINANCIAL REVIEW

Revenue

The Group's revenue for the year ended 31 December 2020 amounted to approximately RMB81.0 million, representing a decrease of approximately RMB12.1 million or 13.0% as compared with that for the year ended 31 December 2019 (2019: approximately RMB93.1 million). The decrease was mainly attributable to the combined effect of: (i) the decrease in revenue generated from provision of integrated APM system solutions of approximately RMB18.0 million; (ii) the increase in revenue generated from provision of software development services of approximately RMB3.3 million; (iii) the increase in revenue generated from provision of technical services of approximately RMB0.9 million; and (iv) the increase in revenue generated from sales of embedded hardware and standard APM software of approximately RMB1.7 million.

The following analysis sets forth a breakdown of the Group's revenue by service type for the years ended 31 December 2019 and 2020 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 reduction in the revenue generated from integrated APM system solutions of approximately 33.0% from approximately RMB54.6 million for the year ended 31 December 2019 to approximately RMB36.6 million for the year ended 31 December 2020. The decrease was mainly due to the adverse impact of the outbreak of COVID-19, leading to a decrease in the new orders placed with the Group as certain customers reduced their budgets and delayed their procurement plans; a decrease in the Group's revenue as the reasons of the delay in work resumption and hence defer certain project acceptance plans of the major customers.

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 by approximately 20.8% from approximately RMB16.1 million for the year ended 31 December 2019 to approximately RMB19.4 million for the year ended 31 December 2020. 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 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 4.8% from approximately RMB18.2 million for the year ended 31 December 2019 to approximately RMB19.1 million for the year ended 31 December 2020.

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 increased by approximately 41.3% from approximately RMB4.2 million for the year ended 31 December 2019 to approximately RMB5.9 million for the year ended 31 December 2020. Such increase was primarily due to the fact that our existing customers require increased deployment of hardware agents for the Internet application performance monitoring and management with full coverage.

Cost of sales

The Group's cost of sales has decreased by approximately 6.7% from approximately RMB40.1 million for the year ended 31 December 2019 to approximately RMB37.4 million for the year ended 31 December 2020, such decrease was primarily due to the decrease in sales contract and revenue reduced the cost of sales.

Gross profit and gross profit margin

The Group's gross profit has decreased by approximately 17.9% from approximately RMB53.1 million for the year ended 31 December 2019 to approximately RMB43.6 million for the year ended 31 December 2020, mainly due to the decrease in the business volume of integrated APM system solutions. The gross profit margin of the Group has decreased from approximately 57.0% for the year ended 31 December 2019 to approximately 53.8% for the year ended 31 December 2020. The decrease was mainly due to the impact of the COVID-19 pandemic, thereafter extended the delivery cycle of some projects and increased the related delivery costs.

Other income and gains

The Group recorded other income and gains of approximately RMB10.7 million and approximately RMB5.1 million for the years ended 31 December 2019 and 2020, respectively. Such decrease was mainly due to the decrease in the government subsidy income.

Selling and distribution expenses

The Group's selling and distribution expenses has increased by approximately 5.6% from approximately RMB8.9 million for the year ended 31 December 2019 to approximately RMB9.4 million for the year ended 31 December 2020. Such increase was primarily due to our enhanced efforts in marketing our 5G APM services and products to enhance broader customers' awareness.

Research and development costs

The Group's research and development costs has decreased by approximately 4.3% from approximately RMB22.6 million for the year ended 31 December 2019 to approximately RMB21.7 million for the year ended 31 December 2020.

Administrative expenses

The Group's administrative expenses has decreased by approximately 2.1% from approximately RMB15.5 million for the year ended 31 December 2019 to approximately RMB15.2 million for the year ended 31 December 2020.

Profit before tax

The Group's profit before tax has decreased by approximately 92.9% from approximately RMB15.6 million for the year ended 31 December 2019 to approximately RMB1.1 million for the year ended 31 December 2020.

Income tax expenses

The Group's income tax expenses have decreased by approximately 99.6% from approximately RMB2.7 million for the year ended 31 December 2019 to approximately RMB0.01 million for the year ended 31 December 2020, which was mainly due to the decrease in profit before tax and reversal of deferred tax liabilities.

Net profit for the year

As a result of the foregoing reasons, the Group's net profit has decreased by approximately 91.4% from approximately RMB12.8 million for the year ended 31 December 2019 to approximately RMB1.1 million for the year ended 31 December 2020. The Group's net profit margin decreased from approximately 13.8% for the year ended 31 December 2019 to approximately 1.4% for the year ended 31 December 2020, which was mainly due to the decrease in the operating revenue and government grants of the Group.

LIQUIDITY AND FINANCIAL RESOURCES

For the year ended 31 December 2020, the Group's cash and cash equivalents, together with available credit facilities and expected cash flow from operations, were sufficient to satisfy the current operational requirements and the capital expenditures of the Group.

The Group's net current assets decreased from approximately RMB168.0 million as at 31 December 2019 to approximately RMB165.7 million as at 31 December 2020. Our cash and cash equivalents were approximately RMB85.9 million as at 31 December 2020 (as at 31 December 2019: approximately RMB80.9 million).

As at 31 December 2020, the Group's short-term bank loan was RMB10.0 million (31 December 2019: Nil).

As at 31 December 2020, the gearing ratio of the Group was 5.5% (31 December 2019: Nil). 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 2020. 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

As at 31 December 2020, the Company's issued share capital was HK$5,080,000 and the number of its issued ordinary shares ("Shares") was 508,000,000 of HK$0.01 each. As at the date of this annual report, the share capital of the Company only comprises ordinary shares.

MATERIAL COMMITMENTS OR CONTINGENT LIABILITIES

As at 31 December 2020, the Group had no material commitments and contingent liabilities (2019: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS AND CAPITAL ASSETS

Save as disclosed in the prospectus of the Company dated 30 November 2016, 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 2020, 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 2020, 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 2020, the Group had no charges on the Group's assets.

EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As of 31 December 2020, the Group had 235 employees (2019: 196). The staff costs including Directors' emoluments were approximately RMB44.7 million for the year ended 31 December 2020 (2019: approximately RMB41.6 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 also adopted a share award scheme (the "Share Award Scheme") on 10 January 2020 (i) to recognize and motivate the contributions of the eligible persons; (ii) to provide them with incentives in order to retain such persons for continual operation and development of the Group; and (iii) to recruit suitable personnel in the interest of further development of the Group. For further information, please refer to the announcement of the Company dated 10 January 2020.

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.

USE OF PROCEEDS

On 12 June 2018, 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 2019, the remainder of HK$8.6 million from such proceeds was not used, the remainder was used in 2020 as a general working capital for the Company to provide APM products and service solutions for telecommunication operators and large enterprises. As of 31 December 2020, among such proceeds from the Placing, HK$22.4 million was used by the Group, which has been fully utilized.

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 2020. As at 31 December 2020, there were no outstanding redeemable securities of the Company.

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 2020.

EVENTS AFTER THE REPORTING PERIOD

There is no significant event of the Group after 31 December 2020 and up to the date of this annoucenment.

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 the Rules Governing the Listing of Securities on 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 2020, the Group has complied with all the code provisions of the Code as set out in Appendix 14 to the Listing Rules and was not aware of any non-compliance relating thereto during the year ended 31 December 2020.

DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (final dividend for the year ended 31 December 2019: Nil).

CLOSURE OF THE REGISTER OF MEMBERS

The forthcoming annual general meeting (the "AGM") is scheduled to be held on Friday, 11 June 2021. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 8 June 2021 to Friday, 11 June 2021, both days inclusive, during which period no transfer of Shares 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 7 June 2021.

DIRECTORS' SECURITIES TRANSACTIONS

The Group has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" (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.

During the year ended 31 December 2020, the Group has made specific enquiry to all Directors, who have confirmed that, each of them was in compliance with the Model Code.

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 Group's consolidated financial results for the year ended 31 December 2020 have been reviewed by the Audit Committee and the management of the Company, which were of the view that the preparation of such financial results has complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures have been made.

By order of the Board
Vixtel Technologies Holdings Limited
Guan Haiqing
Chairman and executive Director

Hong Kong, 26 March 2021

As at the date of this announcement, the executive Directors are Mr. Guan Haiqing, Mr. Sie Tak Kwan and Mr. Yue Yong; 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.