



VIXTEL TECHNOLOGIES HOLDINGS LIMITED

飛思達科技控股有限公司

Stock code : 1782



2020
ANNUAL REPORT



5G

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BOARD OF DIRECTORS

Executive Directors

Mr. Guan Haiqing (*Chairman, with effect from 22 June 2020*)

Mr. Sie Tak Kwan (*Chief Executive Officer*)

Mr. Yue Yong (*Chief Technology Officer*)

(*Chairman, resigned with effect from 22 June 2020*)

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 (*FCCA, FCCA*)

AUTHORISED REPRESENTATIVES

Mr. Sie Tak Kwan

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

AUDIT COMMITTEE

Mr. Cheung Hon Fai (*Chairman*)

Professor Lam Kin Man

Mr. Shen Qi

REMUNERATION COMMITTEE

Professor Lam Kin Man (*Chairman*)

Mr. Cheung Hon Fai

Mr. Shen Qi

Mr. Sie Tak Kwan

NOMINATION COMMITTEE

Mr. Cheung Hon Fai (*Chairman*)

Professor Lam Kin Man

Mr. Shen Qi

Mr. Sie Tak Kwan

INDEPENDENT AUDITOR

Ernst & Young

REGISTERED OFFICE

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Grand Cayman KY1-1108

Cayman Islands

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China

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Ocorian Trust (Cayman) Limited

Windward 3, Regatta Office Park

PO Box 1350

Grand Cayman KY1-1108

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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

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183 Queen's Road East

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LEGAL ADVISER

F. Zimmern & Co.

PRINCIPAL BANKER

Industrial and Commercial Bank of China

Beijing Zhongguancun Subbranch

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STOCK CODE

1782

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Directors") of Vixtel Technologies Holdings Limited (the "Company"), I presented the audited consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2020 (the "Year").

REVIEW AND PROSPECTS

2020 was the most unexpected and challenging year in my career of more than 20 years. As adversely affected by the outbreak of the Coronavirus Disease 2019 ("COVID-19") pandemic 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 the outbreak of COVID-19 pandemic was beyond everyone's expectation, thus software system providers like Vixtel, 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 pandemic 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 Company's software system, as well as efforts of the research and development 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 pandemic, faced with an unprecedented drop in revenue, we once thought that the Group would suffer the first loss in 15 years since its incorporation. However, according to our actual results in 2020, we still achieved relatively stable performance and avoided loss without layoff and business shrinking.

According to the financial report, the Group's revenue was RMB81.0 million, the annual profit was RMB1.1 million, and the ending balance of cash and cash equivalents was RMB85.9 million in 2020.

Numerically speaking, our business performance was not as good as that in 2019, but we are still optimistic about the future business development of the Group, mainly attributable to:

First of all, the Company's revenue in 2020 was actually obtained after the business activities had been interrupted for several months. If compared under normal business environment without considering the impact of the outbreak of COVID-19 pandemic, our business growth and revenue would actually be better than those in 2019.

Secondly, with the rapid recovery and development of China's overall economy, it proves that the large-scale economic stimulus policy of the Chinese government is very effective. Benefited from the industrial upgrading and smart and digital development in China, our business is breaking through the traditional domain for operators and is developing in the direction of enterprises, science parks and smart cities. As public information shows, 2021 will be a year of intensive financial investment by the Chinese government. For the Beijing 2022 Olympic Winter Games and Hangzhou Asian Games, a large number of investments will be attracted in the fields of communication system and Internet system. Moreover, a great quantity of 5G innovative businesses, such as VR/AR, V2X, digital twin and 4K live broadcasting, will be massively deployed in 2021. Application performance management and support are required for these businesses. This will significantly promote the development of the Group's business.

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

Vixel Technologies Holdings Limited

Guan Haiqing

Chairman and Executive Director

Hong Kong, 26 March 2021

FINANCIAL HIGHLIGHTS

	2020	2019	CHANGE
	RMB'000	RMB'000	%
Revenue	80,999	93,147	-13.0%
Gross profit amount	43,590	53,073	-17.9%
Gross profit margin (%)	53.8%	57.0%	-5.5%
Profit for the year	1,099	12,811	-91.4%
Net profit margin (%)	1.4%	13.8%	-90.2%
Profit attributable to owners	1,104	12,811	-91.4%
Margin of profit attributable to owners (%)	1.4%	13.8%	-90.1%
Total equity	180,675	178,576	1.2%

BUSINESS REVIEW AND OUTLOOK

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

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.

In 2020, the Company 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
- 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 Company 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 Company’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 Company’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 Company 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 Company 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 Company will seize this opportunity to deeply explore how the Company’s products can play a role in large-scale sports events. The Company 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 pandemic, 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 equipped 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 ("R&D") 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 AND 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 "Prospectus"), the Group did not have other substantial future plans for material investments and capital assets.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND AFFILIATED COMPANIES

For the year ended 31 December 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.

PRINCIPAL RISKS AND UNCERTAINTIES

- A substantial amount of our revenue is derived from the contracts entered into with the subsidiaries of China's largest telecom group and any decrease or loss of business from them could adversely and substantially affect our business, results of operations and financial conditions.

Leveraging on the Group's position as a leading provider of APM products and services in China's telecommunications industry, the Group is now expanding business to China's second and third largest telecom groups and the broadcasting and television industry. Given that the network architectures and technologies of China's telecom groups are quite similar, the Company's products and services can meet their needs. The Group has also promote our new SaaS cloud platform products to small and medium-sized enterprise customers. The Group is also actively promoting the diversification of customers which will effectively reduce the risk.

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

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

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

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

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

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

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

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

KEY FINANCIAL AND BUSINESS PERFORMANCE INDICATORS

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

The Group's return on equity decreased from 7.2% for the year ended 31 December 2019 to 0.6% for the year ended 31 December 2020. The decrease was primarily due to the decrease in net profit of the Group.

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.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Guan Haiqing (“Mr. Guan”), aged 46, is the Chairman of the Board (the “Chairman”) (with effect from 22 June 2020) and an executive Director of the Company and is primarily responsible for the overall management and corporate policy making of the Group’s business operations. Mr. Guan is also our Chief Sales Officer and is responsible for overseeing the sales and marketing activities of the Group. Mr. Guan graduated from Shanghai Jiao Tong University (上海交通大學) with a bachelor’s degree in automation in July 1995. Mr. Guan has over 20 years of sales and marketing experience in high technology software solution enterprises. Prior to joining the Group, Mr. Guan has worked in the capacity of research and development engineer and a testing engineer in Shanghai Bell Alcatel Mobile Communication System Company Limited (上海貝爾阿爾卡特移動通信系統有限公司) from April 1996 to April 2000 and the sales manager of Agilent Technologies Group (安捷倫科技集團) from June 2000 to April 2010. Mr. Guan then worked in the sales department of JDSU Photoelectric Technology (Beijing) Co., Ltd (捷迪訊光電技術(北京)有限公司) from August 2010 to June 2013. Prior to joining the Group, Mr. Guan worked as a senior sales manager at JDSU Communication Technology (Shenzhen) Co., Ltd (Shanghai Branch) (捷迪訊通訊技術(深圳)有限公司(上海分公司)).

Mr. Sie Tak Kwan (“Mr. Sie”), aged 44, is an executive Director and the Chief Executive Officer of the Company. He is primarily responsible for the overall planning, management and strategic development of and overseeing the operations of the Group’s business. Mr. Sie has over 19 years of experience in high-technology software solution industry. Mr. Sie graduated from the Hong Kong Polytechnic University with a bachelor’s degree in electronic engineering in November 2000. He further obtained a master’s degree of science in communication engineering from the University of Hong Kong in December 2003. Mr. Sie joined the Group as a supervisor in December 2010. Prior to joining the Group, Mr. Sie has worked as an application engineer and the Asia Business Development Manager of the Electronic Measurements Group at Agilent Technologies Hong Kong Limited (安捷倫科技香港有限公司) successively.

Mr. Yue Yong (“Mr. Yue”), aged 48, is the Chairman (until 22 June 2020) and an executive Director. Mr. Yue has been the Chief Technology Officer of the Group since 18 January 2016 and is primarily responsible for overseeing the engineering and technical operations as well as research and development of the Group. Mr. Yue obtained a bachelor’s degree in information engineering and a master’s degree in engineering from Xidian University (西安電子科技大學) in July 1994 and March 1997 respectively. Mr. Yue joined our Group as the technical director in September 2006 and has over 21 years of experience in the Internet and software industry. Prior to joining the Group, Mr. Yue worked as an application engineer in the Agilent Technologies Group (安捷倫科技集團).

NON-EXECUTIVE DIRECTOR

Mr. Liang Judong (“Mr. Liang”), aged 51, is a non-executive Director of the Company and is responsible for providing advice on the strategic development of the Group. Mr. Liang obtained a bachelor’s degree in industrial electronics and automation from the South China University of Technology (華南理工大學) in July 1991. Mr. Liang worked as a sales manager of the Group from January 2012 to March 2016 and has over 22 years of sales and marketing experience. Prior to joining the Group, Mr. Liang joined Agilent Technologies Group (安捷倫科技集團) as a senior sales engineer from December 1997 to April 2009.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Cheung Hon Fai (“Mr. Cheung”), aged 47, is an independent non-executive Director of the Company. Mr. Cheung obtained a bachelor’s degree in accountancy from the Hong Kong Polytechnic University in November 1996 and a postgraduate diploma in enterprise risk management from the School of Professional and Continuing Education of the University of Hong Kong in May 2011 and a Master of Science in Risk Management from the Glasgow Caledonian University in July 2020. Mr. Cheung is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants. Mr. Cheung has over 23 years of experience in accounting and finance. He is a Certified Public Accountant in Hong Kong and is currently the Senior Finance Manager of Baleno Holdings Limited.

Professor Lam Kin Man (“Professor Lam”), aged 58, is an independent non-executive Director of the Company. Professor Lam obtained a master’s degree of science in communication engineering from the Imperial College of Science and Technology of the University of London in December 1987. He further obtained a doctorate degree of philosophy from the University of Sydney in October 1996. Since July 2010, Professor Lam has served as a professor of the Electronic and Information Engineering Department in the Hong Kong Polytechnic University. Currently, he is the Vice President-Publications of the Board of Governors of the Asia-Pacific Signal and Information Processing Association.

Mr. Shen Qi (“Mr. Shen”), aged 46, is an independent non-executive Director of the Company. Mr. Shen graduated from the China Jiliang University (中國計量大學) (formerly known as 中國計量學院) with a bachelor’s degree in information engineering in July 1997 and obtained another bachelor’s degree in economics law from the Jilin University (吉林大學) in July 1998. He is a qualified lawyer and has been practicing law in the PRC since May 1999. Mr. Shen had worked as a lawyer at Shanghai Xinmin Law Firm (上海市新閔律師事務所) from April 2003 to May 2013 and was promoted as a partner of the firm in 2008. Currently, Mr. Shen is a partner of Shanghai Qi Dao Law Firm (上海祺道律師事務所).

COMPANY SECRETARY

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

SENIOR MANAGEMENT

Ms. Sie Chun Yu (“Ms. Sie”), aged 48, joined the Group as our financial controller on 4 July 2016. Ms. Sie is primarily responsible for the overall management of the finance and accounting operations and providing financial strategic planning, budgeting and forecast to the Group. Ms. Sie is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a Certified Public Accountant of the CPA Australia Ltd. She obtained a bachelor’s degree in business administration in accounting from the Hong Kong Baptist University in November 1995 and a master’s degree in corporate finance from the Hong Kong Polytechnic University in December 2006. Ms. Sie has over 23 years of experience in the field of audit and financial management. Prior to joining the Group, she was a financial controller of EE Hobbies Australia Pty Ltd.

Mr. Ming Yang (“Mr. Ming”), aged 49, was appointed as Operation Director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 22 April 2019 and is primarily responsible for the operation management of it. Mr. Ming graduated from XiDian University (西安電子科技大學) in 1994 with a bachelor’s degree of image transmission and processing and obtained a master’s degree of Business Administration from Capital University of Economics and Business (首都經貿大學) in 2010. Mr. Ming has more than 10 years of experience in Motorola (China) Electronics Co., Ltd of service product development and BD business fields, and more than 9 years of experience in Huawei Technology Co., Ltd., with various positions of Project Delivery and Management, Service Solution Development and Quality Operation. Prior to joining the Group in 2019, he served as a Quality Operation Department Director in Huawei Technology Co., Ltd (華為技術有限公司) Angola Representative Office.

Mr. Liu Zewei (“Mr. Liu”), aged 38, was appointed as the head of the product marketing department of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 20 May 2019. He is primarily responsible for product planning and new product research. Mr. Liu joined our Group on 27 December 2007 as the director of the research and development department of our Group. Mr. Liu obtained a bachelor’s degree in computer science and technology from the Shanxi University (山西大學) in July 2004. He has over 13 years of experience in the research and development of software systems. Prior to joining the Group, Mr. Liu worked as an engineer with Shenzhen Smartcom Business Co., Ltd (慧通商務(深圳)有限公司) from December 2005 to September 2007.

Mr. Yuan Feixiong (“Mr. Yuan”), aged 36, was appointed as the research director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for leading the research and development department. Mr. Yuan graduated from the College of Computer and Communication of Hunan University (湖南大學計算機與通信學院) (now known as the College of Computer Science and Electronic Engineering, Hunan University (湖南大學資訊科學與工程學院)) in 2006 with a bachelor’s degree in Communication Engineering. Mr. Yuan has more than 13 years of experience in research and development of communications software. Prior to joining the Group in 2016, he served as a senior research and development engineer in LeCloud Computing Co., Ltd (樂視雲計算有限公司).

Ms. Jia Yanli (“Ms. Jia”), aged 39, was appointed as the senior financial manager of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 14 Nov 2019 and is responsible for the management of accounting and financial operations of the subsidiaries of the Group. Ms. Jia is a China Certified Public Accountant, China Certified Public Valuer and Certified Internal Auditor. Ms. Jia has over 17 years of experience in the field of audit and financial management. Ms. Jia has worked at Reanda Certified Public Accountants Firm and Ruihua Certified Public Accountants Firm. She also worked as the Financial Supervisor at Datang Telecom Technology Co.,Ltd. Prior to joining the Group, she worked as the Financial Director at Beijing Surf Network Technology Co., Ltd.

Mr. Ma Xuejia (“Mr. Ma”), aged 38, was appointed as the technical services director of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 1 July 2017 and is mainly responsible for the management and coordination of technical departments of the Group. Mr. Ma was previously responsible for the pre-sale management and technical support of the Group’s products. Prior to joining the Group in 2009, he worked in Guangdong Eshore Technology Co., Ltd., a wholly owned subsidiary of China Telecom, as a System Integration Engineer.

Mr. Zou Ping (“Mr. Zou”), aged 42, was appointed as the vice president of innovation products sales team of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the sales of innovation products and services in china of our Group. In 2000, Mr. Zou graduated from the College of Resources and Environment of East China Normal University of Shanghai (上海華東師範大學) and received a bachelor’s degree in geography education. Mr. Zou received his master’s degree in geographic information system (GIS) from the same university in 2005. Prior to joining the Group in 2011, he worked as a research and development engineer in Shanghai LBS Information Technology Co., Ltd (上海數字位圖信息科技有限公司).

Mr. Long Jianjun (“Mr. Long”), aged 49, was appointed as the vice president of sales team in South China of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the sales of products and services in South China. Mr. Long graduated from the Department of electronics and electrical technology of Xiangtan University (湘潭大學) in 1995. Mr. Long has 19 years experience in sales management in telecom industry. Prior to joining the Group in 2013, he served as the sales director of Changsha Yestuned Monitoring Technology Co., Ltd. (長沙市業通達監控技術有限公司) and was responsible for sales and management of telecom industry in China.

Mr. Xu Shijia (“Mr. Xu”), aged 39, was appointed as the vice president of sales team in East China of the wholly owned subsidiary of the Group, Vixtel Technologies Limited on 16 December 2016 and is primarily responsible for the sales of products and services in East China of the Group. Mr. Xu graduated from East China Institute of Technology (東華理工學院) in 2005 with a bachelor’s degree in Communication Engineering. Mr. Xu has more than 10 years of experience in sales of network communication solutions. Prior to joining the Group in 2010, he served as an instrumentation sales in shanghai An Qi Technology CO., LTD.

REPORT OF DIRECTORS

The Directors is pleased to present this annual report and the audited consolidated financial statements of the Group for the year ended 31 December 2020 to the Shareholders.

PRINCIPAL ACTIVITIES

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

BUSINESS REVIEW

Part of the business review as required under Schedule 5 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) is included in the sections headed “Chairman’s statement” in this annual report from pages 3 to 4, and “Management Discussion and Analysis” in this annual report from pages 6 to 13, and such discussion forms part of this directors’ report.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2020 and the consolidated statement of profit or loss and other comprehensive income of the Group as at that date are set out in the consolidated financial statements on page 51 of this annual report.

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.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the year ended 31 December 2020 is set out in the financial summary on page 116 of this annual report. This summary does not form part of the audited consolidated financial statements.

PROPERTY AND EQUIPMENT

Details of movements in the property and equipment of the Group during the year ended 31 December 2020 are set out in note 13 to the consolidated financial statements.

ISSUED CAPITAL

Details of movements in the share capital of the Company during the year ended 31 December 2020 are set out in note 25 to the consolidated financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any securities of the Company during the year ended 31 December 2020. As at 31 December 2020, there were no outstanding redeemable securities of the Company.

RESERVES

Details of movements in the reserves of the Group are set out in note 26 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Pursuant to the Companies Law of the Cayman Islands, Chapter 22 (Law 3 of 1961, as consolidated and revised), other than share premium, no other distributable reserve is available for distribution to Shareholders by the Company as at 31 December 2020.

MAJOR CUSTOMERS AND SUPPLIERS

Sales to the Group's five largest customers accounted for approximately 36.4% (2019: approximately 32.2%) of the total turnover for the year ended 31 December 2020 and sales to the largest customer for the same period amounted to approximately 10.2% (2019: approximately 9.4%).

Purchases from the Group's five largest suppliers accounted for approximately 57.3% (2019: approximately 51.1%) of the total purchases during the year ended 31 December 2020 and purchases from the largest supplier during the same period amounted to approximately 33.2% (2019: approximately 36.8%).

To the best knowledge of the Directors, none of the Directors, or any of their associates or any Shareholders (own more than 5% of the Company's issued share capital) had any beneficial interest in the share capital of any of the five largest customers or suppliers of the Group in 2020.

DIRECTORS

The Directors of the Company who held office during the year ended 31 December 2020 and up to the date of this annual report were as follows:

Executive Directors

Mr. Guan Haiqing (*Chairman*)

Mr. Sie Tak Kwan (*Chief Executive Officer*)

Mr. Yue Yong (*Chief Technology Officer*)

Non-executive Director

Mr. Liang Judong

Independent non-executive Directors

Mr. Cheung Hon Fai

Professor Lam Kin Man

Mr. Shen Qi

Pursuant to Article 108 of the Articles, at each annual general meeting, one-third of the Directors for the time being or, if their number is not a multiple of three (3), the number nearest to but not less than one-third shall retire from office by rotation provided that every Director, including those appointed for a specific term, shall be subject to retirement at least once every three years. Therefore, Mr. Sie Tak Kwan, Mr. Cheung Hon Fai and Mr. Shen Qi will retire from office by rotation and, being eligible, shall offer themselves for re-election at the forthcoming AGM.

BOARD OF DIRECTORS AND SENIOR MANAGEMENT

Biographic details of the Directors and senior management of the Group are set out from page 14 to page 17 of this annual report.

DIRECTOR'S SERVICE CONTRACTS/LETTERS OF APPOINTMENT

Each of the executive Directors, non-executive Director and independent non-executive Directors has entered into a service contract or a letter of appointment (as the case may be) with the Company for a term of three (3) years commencing from 15 December 2019 which may only be terminated in accordance with the provision of the service contract or letter of appointment (as the case may be).

Save as disclosed above, none of the Directors has entered into any service contracts with the Company which is not determinable by the Group within one year without payment of compensation other than the statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor its connected person(s) had material interest, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year ended 31 December 2020.

COMPETING INTERESTS

During the year ended 31 December 2020, none of the Directors or the Controlling Shareholders (defined hereunder) or their respective associates (as defined in the Rules Governing the Listing of the Securities on the Stock Exchange (the “Listing Rules”)) had an interest in any business which competes or may compete, either directly or indirectly, with the business of the Group nor any conflicts of interest which has or may have with the Group.

DEED OF NON-COMPETITION BY CONTROLLING SHAREHOLDERS

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

On 15 November 2019, Ms. Ma Chunru (“Ms. Ma”) has executed a supplemental deed (the “Supplemental Deed”) to the Deed of Concert Parties dated 11 August 2016 (as amended and supplemented by a supplemental deed dated 10 November 2016) (collectively, the “Deed of Concert Parties”) with Mr. Sie Tak Kwan (“Mr. Sie”), Mr. Yue Yong (“Mr. Yue”), Mr. Guan Haiqing (“Mr. Guan”) and Mr. Liang Judong (“Mr. Liang”). Pursuant to the Supplemental Deed, Ms. Ma agrees and undertakes to act in concert with Mr. Sie, Mr. Yue, Mr. Guan and Mr. Liang in the operations, management and all significant matters relating to the Company and its subsidiaries. Accordingly, with effect from 15 November 2019, Mr. Sie, Mr. Yue, Mr. Guan, Ms. Ma and Mr. Liang are parties in concert and each of them is deemed to be interested in the shares of the Company indirectly held by the others pursuant to the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the “SFO”). Mr. Sie remains as the leader of the concert parties group.

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

EMOLUMENT POLICY

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

REMUNERATION OF DIRECTORS AND FIVE INDIVIDUALS WITH HIGHEST EMOLUMENTS

Details of the emoluments of the Directors and five highest paid individuals are set out in notes 8 to 9 to the consolidated financial statements, respectively.

MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company was entered into or was subsisting during the year ended 31 December 2020.

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 | <p>The Subscription price shall be a price determined by the Board, but in any case shall not be less than the highest of:</p> <ul style="list-style-type: none"> (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of the grant, which must be a trading day; (ii) the average closing price per share as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of the grant; and (iii) the nominal value of a share on such date of grant. |
| 5. | Maximum entitlement of each participant | The total number of Shares issued and to be issued upon exercise of options granted in any 12-month period to a participant under this Share Option Scheme and other schemes must not exceed 1% of the Shares in issue. |
| 6. | Time of acceptance | An offer of the grant of option may be accepted by the eligible person within 28 days from the date of the offer of grant of options. |
| 7. | Option period | A period which may not expire later than 10 years from the date of the offer of to be determined and notified by Directors to the grantee thereof. |
| 8. | Rights are personal to grantee | An option shall be personal to the grantee and shall not be transferable or assignable and no grantee shall in any way sell, transfer, charge, mortgage, encumber, or create any interest in favour of any third party over or in relation to any option. |
| 9. | Duration of the Share Option Scheme | The Share Option shall be valid and effective for a period of 10 years commencing on 21 November 2016 and has not expired as at the date of this annual report. |

Since the adoption of the Share Option Scheme and up to the date of this annual report, no share options have been granted pursuant to the Share Option Scheme. On 31 December 2020 and as of the date of this annual report, the Company does not have any outstanding share options, warranties, derivatives or securities that are convertible into or exchangeable for shares.

SHARE AWARD SCHEME

The Company adopted a Share Award Scheme on 10 January 2020.

Details of the Share Award Scheme are as follows:

1. Purpose of the Share Award Scheme The purposes are (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.
2. Who may join Any Director(s) (including, without limitation, any executive, non-executive or independent non-executive Directors), senior manager(s) and employee(s) of the Group.
3. Duration Unless terminated earlier by the Board in accordance with the Share Award Scheme rules, the Scheme shall be valid and effective for a term of ten years commencing on the adoption date.
4. Vesting The Board may at its absolute discretion either:
 - (i) direct and procure the trustee to release the award shares to the selected participants by transferring the number of award shares to the selected participants;
 - (ii) or to the extent where it is in the reasonable opinion of the Board not practicable (on the basis stated in the award letter) for the selected participants to receive the award shares and provided that the trading of the shares has not been suspended, direct and procure the trustee to sell the number of award shares within any time as stipulated in the Share Award Scheme rules and pay the selected participants the proceeds arising from such sale.
5. Lapse/Forfeiture If a selected participant is unable to meet the vesting conditions as set out in the award letter issued to such selected participant, the relevant award shares shall lapse.
6. Transferability Any award granted under the Share Award Scheme but not yet vested shall not be assignable or transferable and no selected participant shall in any way sell, transfer, charge, mortgage, encumber or create any interest in favour of any other person over or in relation to any Share Award, or enter into any agreement to do so.

7. Scheme Limit
- The total number of Shares to be awarded under the Share Award Scheme shall not exceed 10% of the total number of issued Shares from time to time.
- The maximum number of award shares which may be granted to a selected participant but unvested under the Share Award Scheme shall not exceed 1% of the total number of issued shares from time to time.
8. Termination
- The Share Award Scheme shall terminate on the earlier of: (i) the tenth anniversary of the adoption date; and (ii) such date of early termination as determined by the Board provided that such termination shall not affect any subsisting rights of any selected participant under the Share Award Scheme.

Since the adoption of the Share Award Scheme and up to the date of this annual report, no share award has been granted pursuant to the Share Award Scheme.

EQUITY-LINKED AGREEMENTS

Other than the Share Option Scheme and Share Award Scheme of the Company as described above, no equity-linked agreements that will or may result in the Company issuing Shares or that require the Company to enter into any agreements that will or may result in the Company issuing Shares were entered into by the Company during the year ended 31 December 2020 or subsisted at the end of that period.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2020, the interests or short positions of the Directors and chief executives of the Company in the Shares, underlying Shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (the "SFO")), which are required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) have to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") were as follows:

Long Positions in Shares

Name of Directors	Capacity/nature of interests	Number of Shares held	Approximate percentage of shareholding
Mr. Yue Yong (<i>Notes 1 and 2</i>)	Interest in a controlled corporation; interest held jointly with another person	310,040,000.00	61.03%
Mr. Sie Tak Kwan (<i>Notes 1 and 3</i>)	Interest in a controlled corporation; interest held jointly with another person	310,040,000.00	61.03%
Mr. Guan Haiqing (<i>Notes 1 and 4</i>)	Interest in a controlled corporation; interest held jointly with another person	310,040,000.00	61.03%
Mr. Liang Judong (<i>Notes 1 and 5</i>)	Interest in a controlled corporation; interest held jointly with another person	310,040,000.00	61.03%

Notes:

1. Pursuant to the Deed of Concert Parties, Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing, Mr. Liang Judong and Ms. Ma, a substantial shareholder of the Company ("Ms. Ma") confirm, agree and acknowledge, among other things, that they are parties acting in concert in respect of the Group since 15 November 2019. As such, pursuant to the Deed of Concert Parties, each of Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing, Mr. Liang Judong and Ms. Ma 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) 55,070,000 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) 254,970,000 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, Mr. Liang Judong and Ms. Ma.
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, Mr. Liang Judong and Ms. Ma.
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, Mr. Liang Judong and Ms. Ma.
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, Mr. Guan Haiqing and Ms. Ma.

Save as disclosed above, as at 31 December 2020, none of the Directors and chief executive of the Company had an interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which was required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or was required to be recorded pursuant to section 352 of the SFO, or required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 31 December 2020, 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	55,070,000	10.84%
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%
Silver Coral Developments Limited (Note 10)	Beneficial owner	48,265,000	9.50%
Ms. Ma Chunru (Notes 10 and 11)	Interest in a controlled corporation; interest held jointly with another person	310,040,000	61.03%
Sino Impact Limited	Beneficial owner	54,710,000	10.77%
Mr. Kwan Shan (Note 12)	Interest in a controlled corporation; Interest of spouse	54,710,000	10.77%
Ms. Tam Suk Fan Sindy (Note 12)	Interest in a controlled corporation; Interest of spouse	54,710,000	10.77%

Notes:

- As at 31 December 2020, the Company had 508,000,000 Shares in issue.
- 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.
- 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.
- 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.
- 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.
- 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.
- 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. Silver Coral Developments Limited is wholly-owned by Ms. Ma Chunru. Under the SFO, Ms. Ma Chunru is deemed to be interested in the Shares held by Silver Coral Developments Limited.
11. Shares in which Ms. Ma Chunru is interested consist of (i) 48,265,000 Shares held by Silver Coral Developments Limited, a company wholly-owned by her, in which Ms. Ma Chunru is deemed to be interested under the SFO; and (ii) 261,775,000 Shares in which Ms. Ma Chunru is deemed to be interested as a result of being a party acting-in-concert with Mr. Yue Yong, Mr. Sie Tak Kwan, Mr. Guan Haiqing, and Mr. Liang Judong, pursuant to the Deed of Concert Parties.
12. Mr. Kwan Shan and Ms. Tam Suk Fan Sindy, each holds 50% of Sino Impact Limited, which directly holds 54,710,000 Shares. By virtue of the SFO, Mr. Kwan Shan and Ms. Tam Suk Fan Sindy are deemed to be interested in the 54,710,000 Shares in which Sino Impact Limited is interested.

Save as disclosed above, as at 31 December 2020, the Company has not been notified by any persons (other than the Directors or chief executive of the Company) who held an interest or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Option Scheme", "Share Award Scheme" and "Directors' And Chief Executive's Interests in Shares" above, at the time during the year ended 31 December 2020 and up to the date of this annual report, have the Directors and chief executive of the Company and their respective close associates (as defined in the Listing Rules) had any interest in, or had been granted or exercised any rights to subscribe for shares or underlying shares of the Company and/or its associated corporations (within the meaning of the SFO).

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE

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

SUFFICIENCY OF PUBLIC FLOAT

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

RELATIONSHIPS WITH STAKEHOLDERS

Employees

Talent has always been regarded as one of the most important and precious assets of the Group. The Group is committed to providing talented people with safe and comfortable working environment. The Group has also set up a sound management system, which provides reasonable salary and social welfare to attract and retain outstanding personnel with rich knowledge and experience to join us. In addition, the Group also provides regular training for technical staff. During the year ended 31 December 2020, there were no material labour disputes between the Group and the employees, and the Group has maintained good relations with its employees.

Customers

The Group has maintained long-term and stable business relationships with large and reputable customers, including subsidiaries of China's largest telecom group. The Group has established our business relationship with the subsidiaries of China's largest telecom group for more than 13 years, since 2007. To optimize the quality of its products, the Group constantly collects feedback from its customers. During the year ended 31 December 2020, the Group did not have any material disputes with its customers and has maintained good relationship with them.

Suppliers

The Group procures hardware and installation engineering services from various suppliers to minimize the risk of disruption of our operations. In particular, the Group has maintained 9 years of business relationship with its largest supplier. During the year ended 31 December 2020, the Group did not have any material disputes with its suppliers and has maintained good relationship with them.

Dividend Policy

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

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group's business does not involve any natural resources emissions. However, the Group is committed to implement policies and measures to minimise the Group's operational impact on the environment. During the year ended 31 December 2020, the Group adopted the following policies to improve the environmental quality:

- The use of electricity in office must comply with the principles of power saving, high efficiency and low consumption.
- Lights and electronic appliances in workplace must be turned off when not in use.
- Every member of the staff and management must turn off the power of computers, photocopiers, facsimile machines and other electronic equipment when they are off duty or on leave.
- Adjusting the heat supply system to low settings during the winter period and strictly implementing the rule that "the office air conditioning temperature setting shall not be lower than 26°C in summer and not higher than 16°C in winter".
- Strengthening the management of office resources consumption, making full use of e-government functions, reducing the amount of paper printing and promoting the reuse of double-sided papers, envelopes and duplicating papers.
- Improving material utilization and promoting the recycling of waste and renewable resources.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with relevant requirements which could lead to adverse impact on the business operation and financial position of the Group. The Board is responsible for ensuring that the Group is in compliance with the relevant laws and regulations. The laws and regulations which have a significant impact on the Group include, among others, copyright Law of the PRC, the Regulations on Computer Software Protection the Patent Law of the PRC, the Trademark Law of the PRC and the provisions on protection of personal Information of Telecommunication and Internet User. To the best knowledge of the Board, the Group has complied with relevant laws and regulations during the year ended 31 December 2020.

PERMITTED INDEMNITY PROVISION

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

RELATED PARTY TRANSACTION

Significant related party transactions entered into by the Group during the year ended 31 December 2020 are disclosed in note 30 to the consolidated financial statements. The related party transactions did not fall within the definition of "connected transaction" or "continuing connected transaction" in Chapter 14A of the Listing Rules.

EVENTS AFTER THE REPORTING PERIOD

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

CORPORATE AND SOCIAL RESPONSIBILITY

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

AUDITOR

Ernst & Young was appointed by the Directors as the auditor of the Company and there was no change in the auditor of the Company in the past three financial years. The consolidated financial statements of the Group for the year ended 31 December 2020 have been audited by Ernst & Young whose term of office will expire upon the forthcoming AGM. A resolution to re-appoint Ernst & Young as auditor of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

Guan Haiqing

Chairman and Executive Director

Hong Kong, 26 March 2021

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 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.

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.

BOARD OF DIRECTORS

Composition of the Board of Directors

Up to the date of this annual report, the Board comprises three executive Directors, one non-executive Director and three independent non-executive Directors, details of which are set out below:

Executive Directors

Mr. Guan Haiqing (*Chairman, with effect from 22 June 2020*)

Mr. Sie Tak Kwan (*Chief Executive Officer*)

Mr. Yue Yong (*Chief Technology Officer*) (*Chairman, resigned with effect from 22 June 2020*)

Non-executive Director

Mr. Liang Judong

Independent non-executive Directors

Mr. Cheung Hon Fai

Professor Lam Kin Man

Mr. Shen Qi

From the Listing Date up to the date of this annual report, save for the resignation of Mr. Yue Yong as the chairman of the Board on 22 June 2020 and the appointment of Mr. Guan Haiqing as the chairman of the Board on 22 June 2020, there was no change in the composition of the Board.

Mr. Sie Tak Kwan is the younger brother of Ms. Sie Chun Yu, the financial controller of the Company. Save as disclosed herein, no Board member has any relationship with the other Board members and the chief executive officer of the Company.

The biographic details of each of the Directors are set out in the section headed "Biographical Details of Directors and Senior Management" from pages 14 to 17 of this annual report.

Functions of the Board

The primary duty of the Board is to ensure the viability of the Company and to ensure that it is managed in the best interests of the Shareholders while taking into account the interests of other stakeholders. Apart from its statutory responsibilities, the Board also considers and approves the overall business plans and strategies of the Group, develops and implements the corporate governance functions in accordance with code provisions D.3.1 to the Code, monitors the implementation of these policies and strategies and the management of the Company and to review the Company's compliance with the Code and disclosure in the Corporate Governance Report. Daily business operations and administrative functions of the Group are delegated to the executive Directors and the senior management of the Company.

Board Meetings and Attendance Record of Directors

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

During the year ended 31 December 2020, the Company has convened five Board meetings and has convened one general meeting. The individual attendance records of each Director at the general meeting and the meetings of the Board are set out below:

	Number of Attendance of the general meeting/ Number of the general meeting	Number of Attendance of Board meetings/ Number of Board meetings
Executive Directors		
Mr. Guan Haiqing	1/1	5/5
Mr. Sie Tak Kwan	1/1	5/5
Mr. Yue Yong	1/1	5/5
Non-executive Director		
Mr. Liang Judong	1/1	5/5
Independent non-executive Directors		
Mr. Cheung Hon Fai	1/1	5/5
Professor Lam Kin Man	1/1	5/5
Mr. Shen Qi	1/1	5/5

Directors' Appointment, Re-election and Removal

Each of the executive Directors, namely Mr. Guan Haiqing, Mr. Sie Tak Kwan and Mr. Yue Yong, has entered into a service agreement with the Company on 21 November 2019 for a term of three years commencing from 15 December 2019, which may be terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

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

The non-executive Director, Mr. Liang Judong and each of the independent non-executive Directors has entered into a letter of appointment with the Company on 21 November 2019 for a term of three years commencing from 15 December 2019, which may be terminated by not less than three months' notice in writing served by either party on the other expiring at the end of the initial term or any time thereafter.

Pursuant to the Articles, the Directors shall hold office subject to retirement by rotation at the annual general meetings of the Company at least once every three years. In addition, any Director appointed by the Board to fill a casual vacancy shall hold office until the next following annual general meeting of the Company and shall then be eligible for re-election.

Independent non-executive Directors

The Company has three independent non-executive Directors to comply with 3.10(1) of the Listing Rules. Furthermore, among the three independent non-executive Directors, Mr. Cheung Hon Fai has appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules. In accordance with Rule 3.13 of the Listing Rules, the Company has received from each of its independent non-executive Directors the written confirmation of his independence. The Company, based on such confirmations, considers Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi to be independent.

Chairman and Chief Executive Officer

According to the code provision A.2.1 of the Code, the roles of the Chairman and Chief Executive Officer shall be separate and should not be performed by the same individual. During the Year, the role of the Chairman was performed by Mr. Yue Yong until 22 June 2020 and by Mr. Guan Haiqing with effect from 22 June 2020 and the role of the Chief Executive Officer was performed by Mr. Sie Tak Kwan. The code provision A.2.1 of the Code has therefore been complied with.

Company Secretary

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

Training for Directors and Continuing Professional Development

Each of the Directors should keep abreast of the responsibilities as a Director and of the conduct, business activities and developments of the Company.

According to the code provision A.6.5 of the Code, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the Board remains informed and relevant. For the year ended 31 December 2020, all Directors namely, Mr. Guan Haiqing, Mr. Sie Tak Kwan, Mr. Yue Yong, Mr. Liang Judong, Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi have participated in the training regarding director responsibilities and duties to ensure that he has appropriate understanding of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors where necessary.

Directors' and Officers' Liabilities

The Company has arranged appropriate insurance to cover the liabilities in respect of legal action against the Directors and officers of the Company that may arise out of the corporate activities. The insurance coverage is reviewed on an annual basis.

BOARD COMMITTEES

The Board established three committees, namely the audit, remuneration and nomination committees, to oversee particular aspects of the Group's affairs. Each of the three committees has its specific terms of reference relating to authority and duties.

All members of the audit committee and the majority of members of the remuneration and nomination committees are independent non-executive Directors.

The Board committees are provided with sufficient resources to perform their duties and, upon reasonable request, they are able to seek independent professional advice in appropriate circumstances at the Company's expense. The Board committees will report back to the Board on their decisions or recommendations.

Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 21 November 2016 with written terms of reference revised by the Board with effect from 29 November 2018 in compliance with Rules 3.21 and 3.22 of the Listing Rules and the code provision C.3.3 of the Code. The Audit Committee comprises three independent non-executive Directors, namely Mr. Cheung Hon Fai, Professor Lam Kin Man and Mr. Shen Qi. The chairman of the Audit Committee is Mr. Cheung Hon Fai, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules. None of the members of the Audit Committee are former partners of the Company's existing external auditors.

The Audit Committee had reviewed the Group's financial results for the six months ended 30 June 2020 and for the year ended 31 December 2020 with the management and is of the view that such results complied with the applicable accounting standards, the requirements under the Listing Rules and other applicable legal requirements, and that adequate disclosures had been made.

The main duties of the Audit Committee include the following:

- (a) to assist the Board by providing an independent view on the effectiveness of the financial reporting process, internal control and risk management system of the Group;
- (b) to review the financial information and disclosures;
- (c) to oversee the audit process; and
- (d) to perform other duties and responsibilities as assigned by the Board.

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

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

	Number of Attendance of meetings/ Number of meetings
Mr. Cheung Hon Fai (<i>Chairman</i>)	2/2
Professor Lam Kin Man	2/2
Mr. Shen Qi	2/2

Minutes of the Audit Committee meetings are kept by the Company Secretary. The draft and final version of the minutes of the meeting are sent to all committee members for comments and records respectively within a reasonable time after the meeting. There are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. Sufficient resources are provided by the Company for the Audit Committee to perform its duties.

Remuneration Committee

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

The main duties of the Remuneration Committee include the following:

- (a) to review and make recommendations to the Board on the overall remuneration policy and structure relating to all Directors and senior management of the Group;
- (b) to review and make recommendations to the Board on the establishment of a formal and transparent procedure for developing policy in relation to remuneration;
- (c) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives;
- (d) to consider and approve the grant of share options to eligible participants pursuant to the share option scheme; and
- (e) to evaluate the performance of the executive Directors and approve the terms of the executive Director's service contract.

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

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

Nomination Committee

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

The main duties of the Nomination Committee include the following:

- (a) to review the structure, size and composition of the Board annually;
- (b) to identify individuals suitably qualified to become Board members;
- (c) to assess the independence of independent non-executive Directors; and
- (d) to make recommendations to the Board on the relevant matters relating to the appointment or re-appointment of Directors.

The Nomination Committee is required to meet at least once a year. During the Year, two Nomination Committee meetings were held. Details of the attendance of the members of the Nomination Committee are set out below:

	Number of Attendance of meetings/ Number of meetings
Mr. Cheung Hon Fai (<i>Chairman</i>)	2/2
Professor Lam Kin Man	2/2
Mr. Shen Qi	2/2
Mr. Sie Tak Kwan	2/2

Board Diversity Policy

The Company adopted a board diversity policy and aims to achieve diversity on the Board through the consideration of a number of aspects, including but not limited to gender, age, cultural and ethnic background, professional qualification, skills, knowledge and length of service.

The Nomination Committee will review the board diversity policy as appropriate, to ensure the effectiveness of the board diversity policy. The Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

Our Directors are from diverse and complementary backgrounds. Their valuable experience and expertise are critical for the long-term growth of the Company. The current Board's composition under diversified perspectives is summarized as follows:

Name	Guan Haiqing	Sie Tak Kwan	Yue Yong	Liang Judong	Cheung Hon Fai	Lam Kin Man	Shen Qi
Gender	Male	Male	Male	Male	Male	Male	Male
Age	46	44	48	51	47	58	46
Academic Background	Bachelor of Automation	Bachelor of Electronic Engineering/ Master of Science in Communication Engineering	Bachelor of Information Engineering/ Master of Engineering	Bachelor of Industrial Electronics and Automation	Bachelor of Accountancy/ Master of Science in Risk Management	Master of Science in Communication Engineering/ Doctorate of Philosophy	Bachelor of Information engineering/ Bachelor of Economics Law
Skills, knowledge & professional experience	(a) Accounting & Finance	√			√	√	√
	(b) Corporate Responsibility/ Sustainability	√	√	√	√		
	(c) Executive management and leadership skills	√	√	√	√		
	(d) Financial Service		√			√	√
	(e) Human Resources		√			√	√
	(f) Information Technology	√	√	√	√		√
	(g) Investor Relations	√	√				
	(h) Legal					√	√
	(i) Risk Management	√	√	√		√	√
	(j) Strategic Planning	√	√	√			√
	(k) Marketing	√	√		√		

The Nomination Committee reviewed the composition of the Board under diversified perspectives and monitored the implementation of the Board Diversity Policy and considered that the said policy is effective. It is currently not required to set any measurable objectives for implementing the policy.

Nomination Policy

1 Objective

- 1.1 The Nomination Committee shall nominate suitable candidates to the Board for it to consider and make recommendations to Shareholders for election as the Directors at general meetings or appoint as Directors to fill casual vacancies.
- 1.2 The Nomination Committee may, as it considers appropriate, nominate a number of candidates more than the number of Directors to be appointed or re-appointed at a general meeting, or the number of casual vacancies to be filled.

2 Selection Criteria

- 2.1 The factors listed below would be used as reference by the Nomination Committee in assessing the suitability of a proposed candidate.
 - Reputation for integrity;
 - Accomplishment and experience;
 - Commitment in respect of available time and relevant interest;
 - Diversity in all its aspects, including but not limited to gender, age (18 years or above), cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service; and
 - In the case of independent non-executive Directors, the independence of the candidate.

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

- 2.2 Subject to the provisions of the Articles, retiring Directors are eligible for nomination by the Board to stand for re-election at a general meeting.
- 2.3 Proposed candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as a Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a Director.
- 2.4 The Nomination Committee may request candidates to provide additional information and documents, if considered necessary.

3 Nomination Procedures

- 3.1 The secretary of the Nomination Committee shall call a meeting of the Nomination Committee, and invite nominations of candidates from the Board members if any, for consideration by the Nomination Committee prior to its meeting. The Nomination Committee may also put forward candidates who are not nominated by the Board members.
- 3.2 For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.
- 3.3 Until the issue of the Shareholders circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.
- 3.4 In order to provide information of the candidates nominated by the Board to stand for election at a general meeting, and to invite nominations from Shareholders, a circular will be sent to the Shareholders. The circular will set out the lodgment period for Shareholders to make the nominations. The names, brief biographies (including qualifications and relevant experience), independence, proposed remuneration and any other information, as required pursuant to the applicable laws, rules and regulations, of the proposed candidates will be included in the circular to Shareholders.
- 3.5 A Shareholder can serve a notice to the Company Secretary within the lodgment period of its intention to propose a resolution to elect a certain person as a Director, without the Board's recommendation or the Nomination Committee's nomination, other than those candidates set out in the shareholder circular. The particulars of the candidates so proposed will be sent to all Shareholders for information by a supplementary circular.
- 3.6 A candidate is allowed to withdraw his candidature at any time before the general meeting by serving a notice in writing to the Company Secretary.
- 3.7 The Board shall have the final decision on all matters relating to its recommendation of candidates to stand for election at any general meeting.

4 Confidentiality

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

Remuneration policy for Directors and Senior Management

Particulars of the Directors' remuneration for the year ended 31 December 2020 are set out in note 8 to the consolidated financial statements of this annual report.

Pursuant to code provision B.1.5 of the Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are set out in the section headed "Biographical details of Directors and senior management" in this annual report for the year ended 31 December 2020 by band is as follows:

Remuneration Band (in HK\$)	Number of individuals
Nil to 500,000	6
500,001 to 1,000,000	3

ACCOUNTABILITY AND AUDIT

Auditors' Remuneration

The remuneration paid or payable to the Company's auditor, Ernst & Young, in respect of their audit services and non-auditing services for the year ended 31 December 2020 is set out below:

Items of auditor's services	Amount RMB'000
Audit services:	
Annual audit service	1,060
Total	1,060

Directors' and auditor's responsibilities for the consolidated financial statements

All Directors acknowledge their responsibilities to prepare the Group's consolidated financial statements for each financial year to give a true and fair view of the financial position of the Group and of its financial performance and cash flows for the Year. In preparing the consolidated financial statements for the year ended 31 December 2020, the Board has selected suitable accounting policies and applied them consistently, made and prepared the consolidated financial statements on a going concern basis. The Directors are responsible for taking all reasonable and necessary steps to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

As at 31 December 2020, the Board was not aware of any material misstatement or uncertainties that might be relating to events or conditions which may cast significant doubt upon the Group's ability to continue as a going concern.

The statement of auditor regarding their reporting responsibility for the financial statements is set out in the section headed "Independent Auditor's Report" on pages 44 to 50 of this annual report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board acknowledges its responsibility for and has conducted a review of the effectiveness of the Group's risk management and internal control systems during the Year. The risk management process includes risk identification, risk evaluation, risk management and risk control and review. It should be acknowledged that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The management of the Company is entrusted with duties to identify, analyze, evaluate, respond, monitor and communicate risks associated with any activity, function or process within its scope of responsibility and authority.

The Group has conducted a review of the implemented system and procedures, including areas covering financial, operational, legal compliance controls and risk management functions during the year. The systems are implemented to minimize the risk to which the Group is exposed and is used as a management tool for the day-to day operation of business. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Group does not have an internal audit function as the Board has reviewed the effectiveness of the internal control system of the Company and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. The situation will be reviewed from time to time.

The Group has engaged external auditor to conduct independent internal control review for the year ended 31 December 2020 and the review was completed as at the date of this annual report.

For the year ended 31 December 2020, the Board considered the Group's internal control system as adequate and effective and that the Company has complied with the code provisions on internal control of the Code.

Disclosure of inside information

The Group acknowledges its responsibilities under the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) and the Listing Rules that inside information should be announced immediately when it is the subject of a decision. The procedures and internal controls for the handling and disseminating inside information are as follows:

- the Group conducts its affairs with strict compliance with the disclosure requirement under the Listing Rules and the "Guideline on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong;
- the Group has implemented its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcement and its website; and
- the Group has strictly prohibited any unauthorized use of confidential or inside information.

INVESTOR RELATIONS

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

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

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

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

SHAREHOLDER RIGHTS

Right to convene extraordinary general meeting

Pursuant to the Articles, any Shareholder(s) holding at the date of the deposit of the requisition not less than one-tenth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall have the right to submit a written requisition requiring an extraordinary general meeting to be called by the Board. The written requisition (i) must state the purpose(s) of the extraordinary general meeting, and (ii) must be signed by the requisitioner(s) and deposited at the registered office of the Company for attention of the Company Secretary, and may consist of several documents in like form, each signed by one or more requisitioner(s). Such requisitions will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the requisition is proper and in order, the Company Secretary will ask the Board to convene an extraordinary general meeting by serving sufficient notice to all Shareholders. On the contrary, if the requisition has been verified as not in order, the requisitioner(s) will be advised of this outcome and accordingly, the extraordinary general meeting will not be convened as requested.

If the Board does not within 21 days from the date of the deposit of the requisition proceed duly to convene the extraordinary general meeting, the requisitioner(s) or any of them representing more than one-half of the total voting rights of all of them may convene an extraordinary general meeting, but any extraordinary general meeting so convened shall not be held after expiration of two months from the said date of deposit of the requisition. An extraordinary general meeting convened by the requisitioner(s) shall be convened in the same manner, as nearly as possible, as that in any extraordinary general meeting to be convened by the Board.

Right to put forward proposals at general meeting

To put forward proposals at a general meeting of the Company, a Shareholder should lodge a written notice of his/her proposal with his/her detailed contact information at the Company's principal place of business in Hong Kong.

The request will be verified with the Company's branch share registrar in Hong Kong and upon their confirmation that the request is proper and in order, the Board will be asked to include the proposal in the agenda for the general meeting.

Right to make enquiries to the Board

Shareholders may send their enquiries and concerns, in written form, to the Board by addressing them to the Company Secretary at 40th Floor, Dah Sing Financial Centre, No. 248 Queen's Road East, Wanchai, Hong Kong. Shareholders may also make enquiries to the Board at the general meeting of the Company. In addition, Shareholders can contact Tricor Investor Services Limited, the branch share registrar of the Company in Hong Kong, if they have any enquiries about their shareholdings and entitlements to dividend.

SHAREHOLDER COMMUNICATION POLICY

The Company has established a Shareholders Communication Policy to set out the Company's procedures in providing the Shareholders and the investment community with ready, equal and timely access to balanced and understandable information about the Company, in order to enable the Shareholders to exercise their rights in an informed manner and to allow the Shareholders and the investment community to engage actively with the Company.

CONSTITUTIONAL DOCUMENTS

The Board has passed a resolution on 15 March 2019 to propose amendments to the Articles to (i) reflect the corresponding changes after the transfer of listing of its shares from GEM to the Main Board on 29 November 2018; and (ii) delete the requirement for the Company to seek its Shareholders' approval prior to the declaration of dividends out of the share premium account.

The amended and restated Articles was adopted by a special resolution passed on 17 May 2019.

INDEPENDENT AUDITOR'S REPORT



Ernst & Young
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To the shareholders of Vixtel Technologies Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Vixtel Technologies Holdings Limited (the “Company”) and its subsidiaries (the “Group”) set out on pages 51 to 115, which comprise the consolidated statement of financial position as at 31 December 2020, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matters

Revenue recognition

Revenue from integrated application performance management ("APM") system solutions and software development services contracts is recognised over time based on the progress towards complete satisfaction of the services, and therefore requires management judgements and estimates.

The progress of completion is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract. Contract costs incurred comprise direct material costs, the costs of subcontracting, direct labour costs and an appropriate proportion of variable and fixed overheads.

Revenue arising from contracts for integrated APM system solutions and software development services accounted for approximately 69% of the Group's total revenue. The contract assets derived from these revenue contracts accounted for approximately 41% of the Group's total assets as at 31 December 2020.

Significant management judgements are involved in the estimation of the total contract cost including the assessment of the remaining contingencies that a project is or could be facing until completion.

Relevant disclosures are made in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", note 5 "Revenue, other income and gains" and note 19 "Contract assets" to the financial statements.

How our audit addressed the key audit matters

Our audit procedures included, among others, the following:

- Tested the controls designed and implemented by the Group over its process to record contract revenue, contract costs and the calculation of the progress;
- Evaluated the significant estimates made by management by examining project documentation including the project budget together with related supporting documents such as quotations from suppliers and subcontractors, planned labour resource allocation and discussing the status of selected projects with management, finance, and technical staff of the Group;
- Assessed the reliability of management's estimates by comparing the gross profit margin with previously completed projects which were of similar nature;
- Discussed the rationality of any modification of estimated contract costs with management and checked the related documents such as new quotations from suppliers and the change requests approved by management;
- Performed tests of details on costs incurred, including checking invoices and timesheets to ensure that the costs were directly attributable to the contracts tested;
- Performed confirmation procedures for the invoiced contract amount and the total contract amount;
- Performed substantive analytical procedures; and
- Performed cut-off procedures at the period-end date to determine whether transactions were recorded in the proper period and in the proper accounts.

KEY AUDIT MATTERS (continued)**Key audit matters***Collectability of trade receivables and contract assets*

Trade receivables and contract assets accounted for approximately 7% and 41% of total assets in the consolidated statement of financial position as at 31 December 2020, respectively.

The Group adopted a forward-looking model for the assessment of expected credit losses provision for trade receivables and contract assets.

This involves judgements as the expected credit losses reflect information about past events, current conditions and forecasts of future conditions, as well as the time value of money.

Due to the significance of trade receivables and contract assets, and the related estimation uncertainty, this is considered a key audit matter.

Relevant disclosures are made in note 3 "Significant accounting judgements and estimates", note 17 "Trade and bills receivables", and note 19 "Contract assets" to the financial statements.

How our audit addressed the key audit matters

Our audit procedures included, among others, the following:

- Tested on a sampling basis the ageing of trade receivables and contract assets at the end of the year;
- Test checked receipts after the year-end to determine any remaining exposure as at 31 December 2020;
- Assessed whether the expected credit losses was determined in accordance with HKFRS 9;
- Evaluated the loss-rate statistics of the trade receivables and contract assets by checking to published credit ratings of customers by credit agents;
- Evaluated the forward-looking data used in the impairment models by considering the customers' expected payment patterns along with macroeconomic information;
- Assessed whether the time value of money was considered in the expected credit losses impairment model and checked the mathematical accuracy of the calculations; and
- Assessed the adequacy of the Group's disclosures in relation to trade receivables and contract assets included in the financial statements.

KEY AUDIT MATTERS (continued)**Key audit matters***Capitalisation of development costs*

The specific criteria that need to be met for the capitalisation of development costs involve significant management judgements and estimates, such as technical feasibility, the intention and ability to complete the development, the ability to use or sell the assets, the ability to generate future economic benefits and the ability to measure the costs reliably.

Relevant disclosures are made in note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates", and note 15 "Other intangible assets" to the financial statements.

How our audit addressed the key audit matters

Our audit procedures included, among others, the following:

- Tested the controls designed and implemented by the Group over its process to capitalise development costs;
- Evaluated the nature of development costs incurred that are capitalised into intangible assets;
- Assessed the reasonableness of the capitalisation by reviewing the related documents such as the project plan, the feasibility report, market analysis report and approval from management;
- Discussed the key assumptions used and estimates made in the capitalisation of development costs with management; and
- Considered whether the capitalised projects could generate future economic benefits by examining the relevant sales contracts signed with the customers and the estimated contract costs.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is M.L. Chau.

Ernst & Young

Certified Public Accountants

Hong Kong

26 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
REVENUE	5	80,999	93,147
Cost of sales		(37,409)	(40,074)
Gross profit		43,590	53,073
Other income and gains	5	5,148	10,698
Selling and distribution expenses		9,435	(8,934)
Research and development costs	6	(21,681)	(22,644)
Administrative expenses		15,192	(15,525)
Impairment losses on financial and contract assets, net	6	55	(889)
Other expenses		(973)	(76)
Finance costs	7	291	(150)
PROFIT BEFORE TAX	6	1,111	15,553
Income tax expense	10	(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	12		
Basic and diluted		RMB0.22 cents	RMB2.52 cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS			
Property and equipment	<i>13</i>	431	482
Right-of-use assets	<i>14</i>	2,439	2,684
Other intangible assets	<i>15</i>	12,800	9,208
Contract assets	<i>19</i>	2,108	1,959
Total non-current assets		17,778	14,333
CURRENT ASSETS			
Inventories	<i>16</i>	1,353	1,858
Trade and bills receivables	<i>17</i>	16,142	18,202
Contract assets	<i>19</i>	89,661	90,510
Prepayments, other receivables and other assets	<i>18</i>	3,755	4,878
Pledged deposit	<i>20</i>	7,000	–
Cash and cash equivalents	<i>20</i>	85,912	80,873
Total current assets		203,823	196,321
CURRENT LIABILITIES			
Trade payables	<i>21</i>	5,257	6,517
Other payables and accruals	<i>22</i>	19,889	18,787
Interest-bearing bank borrowings	<i>23</i>	10,000	–
Lease liabilities	<i>14</i>	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

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	2,314	2,714
Lease liabilities	14	528	1,073
Total non-current liabilities		2,842	3,787
Net assets		180,675	178,576
EQUITY			
Issued capital	25	4,514	4,514
Reserves	26	175,113	174,062
		179,627	178,576
Non-controlling interests		1,048	–
Total equity		180,675	178,576

Yue Yong
Director

Sie Tak Kwan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Attributable to owners of the parent					Total	Non-controlling interests	Total equity
	Issued capital	Share premium account	Capital reserve	Statutory surplus reserve	Retained profits			
	RMB'000 (note 25)	RMB'000 (note 25)	RMB'000 (note 26(a))	RMB'000 (note 26(b))	RMB'000	RMB'000	RMB'000	
At 1 January 2019	4,514	81,929*	30,674*	9,993*	44,003*	171,113	-	171,113
Profit for the year	-	-	-	-	12,811	12,811	-	12,811
Total comprehensive income for the year	-	-	-	-	12,811	12,811	-	12,811
Transfer from retained profits	-	-	-	1,713	(1,713)	-	-	-
Final 2019 dividend declared	-	(5,348)	-	-	-	(5,348)	-	(5,348)
At 31 December 2019 and 1 January 2020	4,514	76,581*	30,674*	11,706*	55,101	178,576	-	178,576
Profit for the year	-	-	-	-	1,104	1,104	(5)	1,099
Total comprehensive income for the year	-	-	-	-	1,104	1,104	(5)	1,099
Transfer from retained profits	-	-	-	1,052	(1,052)	-	-	-
Capital contribution from a non-controlling shareholder of a subsidiary	-	-	-	-	-	-	1,000	1,000
Deemed disposal of interest to non-controlling shareholder	-	-	(53)	-	-	(53)	53	-
At 31 December 2020	4,514	76,581	30,621	12,758	55,153	179,627	1,048	180,675

* These reserve accounts comprise the consolidated reserves of RMB175,113,000 (2019: RMB174,062,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		1,111	15,553
Adjustments for:			
Finance costs	7	291	150
Bank Interest income	5	(70)	(349)
Depreciation of property and equipment	13	444	766
Depreciation of right-of-use assets	14	1,744	1,498
Amortisation of other intangible assets	15	2,381	1,414
Impairment of trade receivables, net	6	(307)	948
Impairment of contract assets, net	6	362	(59)
Fair value gains on financial assets at fair value through profit or loss	6	(1,074)	(630)
Net foreign exchange differences	5	930	(452)
		5,812	18,839
(Increase)/decrease in inventories		505	(1,133)
Decrease in contract assets		1,007	1,098
Decrease in trade and bill receivables		1,698	17,030
(Increase)/decrease in prepayments, other receivables and other assets		1,123	(2,838)
Decrease in trade payables		(1,260)	(2,971)
Increase/(decrease) in other payables and accruals		1,004	(5,840)
Cash generated from operations		9,889	24,185
Interest received		70	349
Income tax paid		(695)	(3,661)
Net cash flows from operating activities		9,264	20,783

continued/..

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	<i>Notes</i>	2020 RMB'000	2019 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of items of property and equipment		(393)	(110)
Additions to other intangible assets		(5,973)	(4,843)
Purchases of financial assets at fair value through profit or loss		(99,400)	(53,000)
Receipt of financial assets at fair value through profit or loss		100,474	53,630
Net cash flows used in investing activities		(5,292)	(4,323)
CASH FLOWS FROM FINANCING ACTIVITIES			
New bank loans	<i>23</i>	10,000	–
Interest paid		186	–
Capital contribution from non-controlling shareholders		1,000	–
Increase in pledged deposit	<i>20</i>	(7,000)	–
Dividend paid		–	(5,348)
Principal portion of lease payments	<i>27(c)</i>	(1,816)	(1,450)
Net cash flows from/(used in) financing activities		1,998	(6,798)
NET INCREASE IN CASH AND CASH EQUIVALENTS			
Cash and cash equivalents at beginning of year		80,873	70,669
Effect of foreign exchange rate changes, net		(930)	452
CASH AND CASH EQUIVALENTS AT END OF YEAR		85,912	80,873
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	<i>20</i>	92,912	80,873
Pledged time deposit for a short term bank loan	<i>20</i>	(7,000)	–
Cash and cash equivalents as stated in the statement of cash flows		85,912	80,873

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.

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

Company name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity interests attributable to the Company		Principal activities
			Direct	Indirect	
Vixtel Systems Limited	British Virgin Islands	US\$1	100	–	Investment holding
Vixtel Networks Limited	Hong Kong	HK\$10,000	–	100	Investment holding
Sino Impact Company Holding Limited	Hong Kong	HK\$10,000	–	100	Investment holding
Vixtel Technologies Limited*	PRC/Mainland China	RMB50,500,000	–	100	Provision of APM solutions
Vixtel Software Limited**	PRC/Mainland China	RMB10,500,000***	–	100	Provision of APM solutions
Depuda (Wuxi) Technologies Limited**	PRC/Mainland China	RMB10,000,000***	–	87.5	Provision of APM solutions
Vixtel Yunwang (Beijing) Technologies Limited**	PRC/Mainland China	RMB100,000,000***	–	100	Provision of APM solutions

1. CORPORATE INFORMATION (continued)

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

- * Vixtel Technologies Limited is registered as a wholly-foreign-owned enterprise under PRC law.
- ** Vixtel Software Limited, Depuda (Wuxi) Technologies Limited and Vixtel Yunwang (Beijing) Technologies Limited are registered as limited liability companies under PRC law. The English names of these companies represent the best effort made by the management of the Company to directly translate the Chinese names as they do not register any official English names.
- *** As at 31 December 2020, the registered share capital of Vixtel Software Limited was RMB10,500,000 and the paid-in capital of Vixtel Software Limited was RMB100,000. As at 31 December 2020, the registered share capital of Depuda (Wuxi) Technologies Limited was RMB10,000,000 and the paid-in capital of Depuda (Wuxi) Technologies Limited was RMB8,000,000, with RMB1,000,000 from non-controlling shareholders. As at 31 December 2020, the registered share capital of Vixtel Yunwang (Beijing) Technologies Limited was RMB100,000,000 and the paid-in capital of Vixtel Yunwang (Beijing) Technologies Limited was RMB2,000,000.

2.1 BASIS OF PREPARATION

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.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended 31 December 2020. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendment to HKFRS 16	<i>COVID-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

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.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> ¹
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> ^{2,3}
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> ¹
Amendments to HKAS 37	<i>Onerous Contracts – Cost of Fulfilling a Contract</i> ¹
<i>Annual Improvements to HKFRSs 2018-2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 ¹

¹ Effective for annual periods beginning on or after 1 January 2022

² Effective for annual periods beginning on or after 1 January 2023

³ As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements – Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

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

Amendments to HKFRS 3 are intended to replace a reference to the previous *Framework for the Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to HKAS 1 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity's right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

Annual Improvements to HKFRSs 2018-2020 sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- HKFRS 9 *Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- HKFRS 16 *Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

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

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

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

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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

Impairment of non-financial assets

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

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

- (a) the party is a person or a close member of that person's family and that person
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

Property and equipment and depreciation

Property and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property and equipment and depreciation (continued)

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

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

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

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

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

Construction in progress represents a building under construction, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property and equipment when completed and ready for use.

Intangible assets (other than goodwill)

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

Patents and licences

Purchased patents and licences are stated at cost less any impairment losses and are amortised on the straight-line basis over their estimated useful lives of 10 to 15 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs

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

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five to seven years, commencing from the date when the products are put into commercial production.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) *Right-of-use assets*

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). 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. Where applicable, the cost of a right-of-use asset also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Office premises	1 to 2 years
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If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

Group as a lessee (continued)

(b) *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 lease. 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 its incremental borrowing rate at the lease commencement date because 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 the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

The Group's lease liabilities are included in interest-bearing bank and other borrowings.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of office premises (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option).

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Investments and other financial assets

Initial recognition and measurement

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest (“SPPI”) on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

The Group’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured at fair value through profit or loss.

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

Subsequent measurement

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

Financial assets at amortised cost (debt instruments)

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

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised when:

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets

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

General approach

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

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

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

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

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

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

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

Simplified approach

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

Financial liabilities

Initial recognition and measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Subsequent measurement

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

Financial liabilities at amortised cost (loans and borrowings)

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

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in the consolidated statement of profit or loss and other comprehensive income.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

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

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

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

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

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

Government grants

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

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to the consolidated statement of profit or loss and other comprehensive income over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to the consolidated statement of profit or loss and other comprehensive income by way of a reduced depreciation charge.

Revenue recognition

Revenue from contracts with customers

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

(a) Sales of embedded hardware and standard APM software

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

Contracts for bundled sales of embedded hardware and standard APM software, installation, technical and maintenance services (i.e., training and upgrade) are comprised of separate performance obligations because these promises are capable of being distinct and separately identifiable. Accordingly, the transaction price is allocated based on the relative stand-alone selling prices of each performance obligation.

(b) Integrated APM system solutions and software development services

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

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

(c) Technical services

Revenue from technical services is recognised over the scheduled period on a straight-line basis or based on the actual time/work incurred, because the customer simultaneously receives and consumes the benefits provided by the Group.

Other income

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

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract. (i.e., transfers control of the related goods or services to the customer).

Employee benefits

Pension scheme

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

Dividends

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

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

Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

Judgements

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

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

The Group has several lease contracts that include extension and termination options.

The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate the lease (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

The Group includes 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 (i.e., three to five years) and there will be a significant negative effect on production if a replacement is not readily available.

Withholding tax arising from the distribution of dividends

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

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

The COVID-19 pandemic is not expected to have any significant impact on the Group's financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

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

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

The assessment of the correlation among the loss-rate statistics, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's expected default data and forecast of economic conditions may also not be representative of a customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in notes 17 and 19 to the financial statements, respectively.

Revenue recognition

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

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

Leases – Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Development costs

Development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At the end of the reporting period, the Group reviews the carrying amounts of its intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. As at 31 December 2020, the carrying amount of deferred development costs included in intangible assets was RMB12,780,000 (31 December 2019: RMB9,248,000).

Amortisation of intangible assets

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

4. OPERATING SEGMENT INFORMATION

The Group is principally engaged in the provision of APM solutions in 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 RMB'000	2019 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.

4. OPERATING SEGMENT INFORMATION (continued)

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.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2020 RMB'000	2019 RMB'000
<i>Revenue from contracts with customers</i>		
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 RMB'000	2019 RMB'000
Types of customers		
State-owned telecommunication operator groups	67,207	85,172
Other customers	13,792	7,975
	80,999	93,147

	2020 RMB'000	2019 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
	80,999	93,147

5. REVENUE, OTHER INCOME AND GAINS (continued)**Revenue from contracts with customers** (continued)**(a) Disaggregated revenue information** (continued)

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

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

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(b) Performance obligations (continued)

Sales of embedded hardware and standard APM software (continued)

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 RMB'000	2019 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.

6. PROFIT BEFORE TAX

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

	<i>Notes</i>	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	<i>12</i>	444	766
Depreciation of right-of-use assets	<i>13</i>	1,744	1,498
Amortisation of other intangible assets	<i>14</i>	2,381	1,414
Research and development costs:			
Deferred expenditure amortised	<i>14</i>	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	<i>13(c)</i>	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	<i>16</i>	362	(59)
Impairment of contract assets, net	<i>18</i>	(307)	948
		55	889
Other interest income from financial assets at fair value through profit or loss		(1,074)	(630)
Bank interest income	<i>5</i>	(70)	(349)

7. 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 (note14)	105	150
	291	150

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The Company consists of seven directors, including three executive directors, one non-executive director and three independent non-executive directors, all of whom were appointed in the board meeting on 28 July 2016. According to the articles of association, at the end of the one-year term, one-third of the directors need to be reappointed. As a result, Mr. Yue Yong, Mr. Liang Judong and Professor Lam Kin Man were reappointed on 19 June 2020.

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2020 RMB'000	2019 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. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)**(a) Independent non-executive directors**

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

	2020 RMB'000	2019 RMB'000
Mr. Cheung Hon Fai	156	172
Professor Lam Kin Man	104	114
Mr. Shen Qi	104	114
	364	400

There were no other emoluments payable to the independent non-executive directors during the year (2019: Nil).

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

2020	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Yue Yong	–	1,106	54	1,160
Mr. Guan Haiqing	–	1,268	54	1,322
	–	2,374	108	2,482
Executive director and the chief executive:				
Mr. Sie Tak Kwan	–	1,106	54	1,160
Non-executive director:				
Mr. Liang Judong	104	–	–	104
	104	3,480	162	3,746

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)**(b) Executive directors, a non-executive director and the chief executive** (continued)

2019	Fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Pension scheme contributions RMB'000	Total remuneration RMB'000
Executive directors:				
Mr. Yue Yong	–	1,212	60	1,272
Mr. Guan Haiqing	–	1,745	63	1,808
	–	2,957	123	3,080
Executive director and the chief executive:				
Mr. Sie Tak Kwan	–	1,212	60	1,272
Non-executive director:				
Mr. Liang Judong	115	–	–	115
	115	4,169	183	4,467

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

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included three directors (2019: three), details of whose remuneration are set out in note 8 above. Details of the remuneration of the remaining two (2019: two) highest paid employees who are neither a director nor chief executive of the Group are as follows:

	2020 RMB'000	2019 RMB'000
Salaries, allowances and benefits in kind	1,164	1,281
Pension scheme contributions	7	94
	1,171	1,375

9. FIVE HIGHEST PAID EMPLOYEES (continued)

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

	Number of employees	
	2020	2019
Nil to HK\$1,000,000	2	2

During the year, no highest paid employees waived or agreed to waive any remuneration and no remuneration was paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

10. INCOME TAX

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Company Law of the Cayman Islands and 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 (note 24)	(400)	732
Total tax charge for the year	12	2,742

10. INCOME TAX (continued)

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

	2020		2019	
	RMB'000	%	RMB'000	%
Profit before tax	1,111		15,553	
Tax at the statutory tax rate	278	25	3,888	25
Lower tax rate for a specific entity in the PRC	(1,115)	(100)	(1,184)	(8)
Tax losses not recognised	747	67	–	–
Expenses not deductible for tax	2,157	194	1,872	12
Additional deductible allowance for research and development costs	(2,055)	(185)	(1,834)	(12)
Tax charge at the Group's effective rate	12	1	2,742	18

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between PRC and the jurisdiction of the foreign investors.

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

No withholding tax had been provided for the earnings retained by Vixtel Technologies Limited and not yet remitted to the shareholders. Based on management's judgement and assumptions, which are influenced by projected future market and economic conditions and future financing requirements of the Group, the fund of Vixtel Technologies Limited will be retained in Mainland China for the expansion of the Group's operation, so it is not probable that Vixtel Technologies Limited will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investment in Vixtel Technologies Limited for which deferred tax liabilities have not been recognised totalled approximately RMB77,142,000 at 31 December 2020 (2019: RMB68,692,000).

11. DIVIDENDS

No dividends had been paid or declared by the Group during the year ended 31 December 2020 (2019: Nil).

12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY 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

13. PROPERTY AND EQUIPMENT

	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2020					
At 1 January 2020:					
Cost	317	229	2,682	524	3,752
Accumulated depreciation	(317)	(227)	(2,232)	(494)	(3,270)
Net carrying amount	-	2	450	30	482
At 1 January 2020, net of accumulated depreciation					
Additions	-	59	26	308	393
Depreciation provided during the year	-	(5)	(364)	(75)	(444)
At 31 December 2020, net of accumulated depreciation					
Cost	317	288	2,708	832	4,145
Accumulated depreciation	(317)	(232)	(2,596)	(569)	(3,714)
Net carrying amount	-	56	112	263	431

13. PROPERTY AND EQUIPMENT (continued)

	Motor vehicles RMB'000	Furniture and fixtures RMB'000	Computer equipment RMB'000	Leasehold improvements RMB'000	Total RMB'000
31 December 2019					
At 1 January 2019:					
Cost	317	229	2,572	524	3,642
Accumulated depreciation	(317)	(222)	(1,540)	(425)	(2,504)
Net carrying amount	–	7	1,032	99	1,138
At 1 January 2019, net of accumulated depreciation					
Additions	–	–	110	–	110
Depreciation provided during the year	–	(5)	(692)	(69)	(766)
At 31 December 2019, net of accumulated depreciation	–	2	450	30	482
At 31 December 2019:					
Cost	317	229	2,682	524	3,752
Accumulated depreciation	(317)	(227)	(2,232)	(494)	(3,270)
Net carrying amount	–	2	450	30	482

14. LEASES

The Group as a lessee

The Group has lease contracts for office premises used in its operations. The leases of properties generally have lease terms between 1 and 2 years, and some have lease terms of 12 months or less and are individually of low value. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options, which are further discussed below. Additionally, the lease of the Group's main office will expire in 2022. The Group has not yet decided whether to renew the lease or not.

(a) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
At the beginning of the year	2,684	2,844
Additions	1,499	1,338
Depreciation charge (note 6)	(1,744)	(1,498)
At the end of the year	2,439	2,684

(b) Lease liabilities

The carrying amount of lease liabilities (included under interest-bearing bank and other borrowings) and the movements during the year are as follows:

	2020 RMB'000	2019 RMB'000
Carrying amount at 1 January	2,731	2,844
New leases	1,499	1,338
Accretion of interest recognised during the year (note 7)	105	150
Payments	(1,921)	(1,601)
Carrying amount at 31 December	2,414	2,731
Analysed into:		
Current portion	1,886	1,658
Non-current portion	528	1,073

The maturity analysis of lease liabilities is disclosed in note 33 to the financial statements

14. LEASES (continued)**The Group as a lessee** (continued)

(c) The amounts recognised in profit or loss in relation to leases are as follows:

	2020 RMB'000	2019 RMB'000
Interest on lease liabilities	105	150
Depreciation charge of right-of-use assets	1,744	1,498
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December (included in cost of sales)	–	619
Expense relating to leases of low-value assets (included in administrative expenses)	168	71
Total amounts recognised in profit or loss	2,017	2,338

(d) Extension and termination options

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the Group's business needs.

(e) The total cash outflow for leases and future cash outflows relating to leases that have not yet commenced are disclosed in notes 27(c) and 29, respectively, to the financial statements.

15. OTHER INTANGIBLE ASSETS

	Computer software RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2020			
Cost at 1 January 2020, net of accumulated amortisation	41	9,167	9,208
Additions-internal development	–	5,973	5,973
Amortisation provided during the year	(41)	(2,340)	(2,381)
At 31 December 2020	–	12,800	12,800
At 31 December 2020:			
Cost	184	17,174	17,358
Accumulated amortisation	(184)	(4,374)	(4,558)
Net carrying amount	–	12,800	12,800
31 December 2019			
Cost at 1 January 2019, net of accumulated amortisation	102	5,677	5,779
Additions-internal development	–	4,843	4,843
Amortisation provided during the year	(61)	(1,353)	(1,414)
At 31 December 2019	41	9,167	9,208
At 31 December 2019:			
Cost	184	11,201	11,385
Accumulated amortisation	(143)	(2,034)	(2,177)
Net carrying amount	41	9,167	9,208

16. INVENTORIES

	2020 RMB'000	2019 RMB'000
Raw materials	1,353	1,858

17. TRADE 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.

17. TRADE AND BILLS RECEIVABLES (continued)

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 RMB'000	2019 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 RMB'000	2019 RMB'000
At beginning of year	80	139
Impairment losses, net (note 6)	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.

17. TRADE AND BILLS RECEIVABLES (continued)

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

18. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2020 RMB'000	2019 RMB'000
Current portion		
Prepayments	1,365	2,905
Rental deposits	565	512
Bidding deposits	1,727	1,371
Others	98	90
	3,755	4,878

The financial assets included in the above balances relate to receivables for which there was no recent history of default and past due amounts. As at 31 December 2020 and 2019, the loss allowance was assessed to be minimal.

19. 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 recognised 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 17 to the financial statements.

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

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

19. CONTRACT ASSETS (continued)

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

	2020 RMB'000	2019 RMB'000
At beginning of year	1,376	428
Impairment losses, net (note 6)	(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

19. CONTRACT ASSETS (continued)

	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

20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSIT

		2020 RMB'000	2019 RMB'000
Cash and bank balances		92,912	80,873
Less: Restricted bank deposit			
Pledged time deposit for a bank loan	<i>i</i>	(7,000)	–
Cash and cash equivalents	<i>ii</i>	85,912	80,873
Denominated in:			
RMB		78,590	60,192
HK\$		12,243	20,681
USD		2,079	–

- i. At 31 December 2020, a bank deposit of RMB7,000,000 (2019: Nil) was pledged for interest-bearing bank borrowings
- ii. At the end of the reporting period, the cash and bank balances of the Group were denominated in Renminbi ("RMB") amounting to RMB78,590,000 (2019: RMB60,192,000). The RMB is not freely convertible into other currencies, however, under 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. The bank balances and pledged deposit are deposited with creditworthy banks with no recent history of default.

21. 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.

22. OTHER PAYABLES AND ACCRUALS

	2020 RMB'000	2019 RMB'000
Salaries and welfare payables	6,654	6,981
Contract liabilities (a)	589	637
Other tax payables	8,781	8,169
Other payables (b)	3,866	3,000
	19,890	18,787

(a) Details of the contract liabilities are as follows:

	31 December 2020 RMB'000	31 December 2019 RMB'000	31 December 2018 RMB'000
<i>Contract liabilities arising from contracts with customers</i>			
Technical services	589	637	644
Total contract liabilities	589	637	644

The contract liabilities include short-term advances received for technical services and an amount prepaid by the customer for the performance obligation related to integrated APM system solutions.

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

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

	2020			2019		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Lease liabilities (note 14(b))	4.75	2021	1,886	4.75	2020	1,658
Bank loans – unsecured	3.65	2021	5,000	–	–	–
Bank loans – secured	3.65	2021	5,000	–	–	–
			11,886			1,658
Non-current						
Lease liabilities (note 14(b))		2022	528		2021	1,073
			12,414			2,731

	2020 RMB'000	2019 RMB'000
Analysed into		
Bank loans:		
Within one year	10,000	–
Other borrowings repayable:		
Within one year	1,886	1,658
In the second year	528	1,073
	12,414	2,731

- (a) Certain of the Group's bank loans are secured by the pledge of certain of the Group's time deposit amounting to RMB70,000,000 (2019: Nil).
- (b) The Group's other loans are unsecured, bear interest at 0.2% below the RMB loan prime rate per annum and are repayable on 27 June 2021.

24. DEFERRED TAX**Deferred tax liabilities**

	2020			Total RMB'000
	Non-taxable government grants RMB'000	Withholding taxes on the earnings anticipated to be remitted by subsidiaries RMB'000	Development costs RMB'000	
At 1 January 2020	625	1,428	1,031	3,084
Deferred tax charged to the statement of profit or loss and other comprehensive income during the year (note 10)	(625)	–	409	(216)
At 31 December 2020	–	1,428	1,440	2,868

Deferred tax assets

	2020		Total RMB'000
	Book-tax difference of amortisation of intangible assets RMB'000	Impairment of trade receivables and contract assets RMB'000	
At 1 January 2020	152	218	370
Deferred tax credited to the statement of profit or loss and other comprehensive income during the year (note 10)	175	9	184
At 31 December 2020	327	227	554

24. DEFERRED TAX (continued)**Deferred tax liabilities**

	2019			
	Non-taxable government grants	Withholding taxes on the earnings anticipated to be remitted by subsidiaries	Development costs	Total
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	–	1,428	639	2,067
Deferred tax charged to the statement of profit or loss and other comprehensive income during the year (note 10)	625	–	392	1,017
At 31 December 2019	625	1,428	1,031	3,084

Deferred tax assets

	2019		
	Book-tax difference of amortisation of intangible assets	Impairment of trade receivables and contract assets	Total
	RMB'000	RMB'000	RMB'000
At 1 January 2019	–	85	85
Deferred tax credited to the statement of profit or loss and other comprehensive income during the year (note 10)	152	133	285
At 31 December 2019	152	218	370

As at 31 December 2020, the Group reversed no relevant deferred tax liabilities (2019: Nil) on earnings anticipated to be remitted by a subsidiary in the foreseeable future. No withholding tax had been provided for the earnings of approximately RMB77,142,000 (2019: RMB68,982,000) expected to be retained by the PRC subsidiaries and not to be remitted to a foreign investor in the foreseeable future based on several factors, including projected future market and economic conditions and future financing requirement of the Group. The Group also has tax losses arising in Mainland China of RMB2,989,000 (2019: Nil) that will expire in one to five years for offsetting against future taxable profits.

24. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Deferred tax assets have not been recognised in respect of the following items:

	2020 RMB'000	2019 RMB'000
Tax losses	2,989	–

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

25. ISSUED CAPITAL

	2020 RMB'000	2019 RMB'000
Authorised: 20,000,000,000 (2019: 20,000,000,000) ordinary shares of HK\$0.01 each	178,630	178,630
Issued and fully paid: 508,000,000 (2018: 508,000,000) ordinary shares of HK\$0.01 each	4,514	4,514

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

	Number of shares in issue	Issued capital RMB'000	Share premium account RMB'000	Total RMB'000
At 1 January 2019	508,000,000	4,514	81,929	86,443
Final 2018 dividend declared	–	–	(5,348)	(5,348)
At 31 December 2019	508,000,000	4,514	76,581	81,095
At 1 January 2020 and 31 December 2020	508,000,000	4,514	76,581	81,095

Pursuant to the shareholders' resolution passed in March 2019, the final 2018 dividend of HK1.2 cents per share amounting to RMB5,348,000 was paid entirely out of the share premium account pursuant to the articles of association and in accordance with the Cayman Companies Law.

26. RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 54 of the financial statements.

(a) Capital reserve

The capital reserve of the Group represents the capital contribution from the shareholders of Vixtel Technologies Limited.

(b) Statutory surplus reserve

Pursuant to the relevant laws in the PRC, the Company's subsidiary in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiary.

In accordance with the Company Law of the PRC, the domestic enterprises are required to allocate 10% of their profit after tax, as determined in accordance with the relevant PRC accounting standards, to their respective statutory surplus reserves until the reserves reach 50% of their respective registered capital. Subject to certain restrictions set out in the Company Law of the PRC, part of the statutory surplus reserve may be converted to share capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, the Group had non-cash additions to right-of-use assets and lease liabilities of RMB1,499,000 (2019: RMB1,338,000) and RMB1,499,000 (2019: RMB1,338,000), respectively, in respect of lease arrangements for plant and equipment.

(b) Changes in liabilities arising from financing activities

Pursuant to the relevant laws in the PRC, the Company's subsidiaries in the PRC shall make appropriations from after-tax profit to non-distributable reserve funds as determined by the boards of directors of the relevant PRC subsidiaries.

2020

	Bank loans RMB'000	Lease liabilities RMB'000
At 1 January 2020	–	2,731
Changes from financing cash flows	10,000	(1,816)
New leases	–	1,499
Interest expense	–	105
Interest paid classified as operating cash flows	–	(105)
At 31 December 2020	10,000	2,414

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)**(b) Changes in liabilities arising from financing activities** (continued)

2019

	Bank loans RMB'000	Lease liabilities RMB'000
At 1 January 2019	–	2,844
Changes from financing cash flows	–	(1,451)
New leases	–	1,338
Interest expense	–	150
Interest paid classified as operating cash flows	–	(150)
	<hr/>	<hr/>
At 31 December 2019	–	2,731

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2020 RMB'000	2019 RMB'000
Within operating activities	105	150
Within investing activities	–	–
Within financing activities	(1,816)	1,450
	<hr/> (1,711) <hr/>	<hr/> 1,600 <hr/>

28. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 23 to the financial statements.

29. COMMITMENTS

The Group has various lease contracts that have not yet commenced as at 31 December 2020. The future lease payments for these non-cancellable lease contracts are RMB1,510,000 due within one year.

30. RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group:

	2020 RMB'000	2019 RMB'000
Fee	104	115
Other emoluments:		
Salaries, allowances and benefits in kind	7,138	7,305
Pension scheme contributions	195	381
	7,333	7,686
	7,437	7,801

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

31. FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets at amortised cost	2020 RMB'000	2019 RMB'000
Trade and bills receivables	16,142	18,202
Financial assets included in prepayments, other receivables and other assets	2,390	1,973
Pledged deposit	7,000	–
Cash and cash equivalents	85,912	80,873
	111,444	101,048
Financial liabilities at amortised cost	2020 RMB'000	2019 RMB'000
Trade payables	5,257	6,517
Financial liabilities included in other payables and accruals	3,866	3,000
Interest-bearing bank and other borrowings	10,000	–
Lease liabilities	2,414	2,731
	21,537	12,248

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

There are no significant differences between the carrying amounts and the fair values of the Group's financial instruments.

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

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank loans and cash and bank balances. The Group has various other financial assets and liabilities such as trade and bills receivables, contract assets, other receivables, trade payables, other payables and accruals and interest-bearing bank and other borrowings, which arise directly from its operations.

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

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's lease liabilities with a floating interest rate.

The Group has not used any interest rate hedging policy to mitigate its exposure associated with interest rate risk. However, the management of the Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

In the opinion of the directors, the expected change in interest rate will not have a significant impact on the Group.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Foreign currency risk**

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and Hong Kong dollar exchange rate, with all other variables held constant, of the Group's profit before (or after) tax (due to changes in the fair values of monetary assets and liabilities) and the Group's equity (due to changes in the fair value of forward currency contracts).

	Increase/ (decrease) in USD/ Hong Kong dollar rate %	Increase/ (decrease) in profit before (or after) tax RMB'000	Increase/ (decrease) in equity RMB'000
2020			
If the RMB weakens against the USD	(5%)	(104)	(88)
If the RMB strengthens against the USD	5%	104	88
If the RMB weakens against the Hong Kong dollar	(5%)	(612)	(520)
If the RMB strengthens against the Hong Kong dollar	5%	612	520
<hr/>			
2019			
If the RMB weakens against the USD	–	–	–
If the RMB strengthens against the USD	–	–	–
If the RMB weakens against the Hong Kong dollar	(5%)	(926)	(787)
If the RMB strengthens against the Hong Kong dollar	5%	926	787
<hr/>			

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Credit risk**

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

Maximum exposure and year-end staging

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

As at 31 December 2020	12-month	Lifetime ECLs			Total RMB'000
	ECLs	Simplified			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	approach RMB'000	
Contract assets*	–	–	–	92,838	92,838
Trade and bills receivables*	–	–	–	16,584	16,584
Financial assets included in prepayments, other receivables and other assets					
– Normal **	2,390	–	–	–	2,390
Pledged deposit					
– Not yet past due	7,000	–	–	–	7,000
Cash and cash equivalents					
– Not yet past due	85,912	–	–	–	85,912
	95,302	–	–	109,422	204,724

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Credit risk** (continued)

As at 31 December 2019	12-month		Lifetime ECLs			Total RMB'000
	ECLs		Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	
	Stage 1 RMB'000					
Contract assets*	–	–	–	–	93,845	93,845
Trade and bills receivables*	–	–	–	–	18,282	18,282
Financial assets included in prepayments, other receivables and other assets						
– Normal **	1,973	–	–	–	–	1,973
Cash and cash equivalents						
– Not yet past due	80,873	–	–	–	–	80,873
	82,846	–	–	–	112,127	194,973

* For trade and bill receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the loss rate approach is disclosed in notes 17 and 19 to the financial statements, respectively.

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

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by customer/counterparty, by geographical region and by product type. As detailed in note 4 to the financial statements, the Group trades with state-owned telecommunications operators and some of them are ultimately controlled by the same state-owned telecommunications operators. As the Group trades with each provincial subsidiary of the state-owned telecommunications operators and these trade receivables are settled independently, there are no significant concentrations of credit risk within the Group.

Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility using bank borrowings. The Group regularly reviews its major funding positions to ensure that it has adequate financial resources in meeting its financial obligations.

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)**Liquidity risk** (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	As at 31 December 2020			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Lease liabilities	104	393	920	1,417
Interest-bearing bank and other borrowings (excluding lease liabilities)	–	–	10,164	10,164
Trade payables	–	2,994	2,263	5,257
Financial instruments included in other payables and accruals	3,866	–	–	3,866
	3,970	3,387	13,183	20,540
	As at 31 December 2019			
	On demand RMB'000	Less than 3 months RMB'000	3 to less than 12 months RMB'000	Total RMB'000
Lease liabilities	–	–	2,839	2,839
Trade payables	800	2,466	3,251	6,517
Financial instruments included in other payables and accruals	3,000	–	–	3,000
	3,800	2,466	6,090	12,356

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

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

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

The directors of the Company review the asset-liability ratio, which is total liabilities divided by total assets, on a continuous basis considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the raising of new debts and equity as well as the redemption of the existing debts to manage the asset-liability ratio.

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

	2020 RMB'000	2019 RMB'000
Total assets	221,601	210,654
Total liabilities	40,927	32,078
Asset-liability ratio	18%	15%

34. EVENTS AFTER THE REPORTING PERIOD

As at the date of this report, there is no significant event of the Group after the reporting period.

35. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

	2020 RMB'000	2019 RMB'000
NON-CURRENT ASSETS		
Investment in a subsidiary	—*	—*
Property and equipment	5	5
Total non-current assets	5	5
CURRENT ASSETS		
Due from subsidiaries	97,534	105,223
Prepayments, other receivables and other assets	125	9
Cash and cash equivalents	277	297
Total current assets	97,936	105,529
CURRENT LIABILITIES		
Due to subsidiaries	4,416	4,381
Other payables and accruals	—	214
Total current liabilities	4,416	4,595
NET CURRENT ASSETS	93,520	100,934
Total assets less current liabilities	93,525	100,939
Net assets	93,525	100,939
EQUITY		
Issued capital	4,514	4,514
Reserves	89,011	96,425
Total equity	93,525	100,939

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

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

Note:

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

	Issued capital RMB'000	Share premium account RMB'000	Capital reserve RMB'000	Accumulated losses RMB'000	Total RMB'000
Balance at 1 January 2019	4,514	81,929	30,674	(4,711)	112,406
Loss for the year	–	–	–	(6,119)	(6,119)
Total comprehensive loss for the year	–	–	–	(6,119)	(6,119)
Interim 2019 dividend	–	(5,348)	–	–	(5,348)
At 31 December 2019 and 1 January 2020	4,514	76,581	30,674	(10,830)	100,939
Loss for the year	–	–	–	(7,414)	(7,414)
Total comprehensive loss for the year	–	–	–	(7,414)	(7,414)
At 31 December 2020	4,514	76,581	30,674	(18,244)	93,525

36. APPROVAL OF THE FINANCIAL STATEMENTS

These financial statements were approved and authorised for issue by the board of directors on 26 March 2021.

FINANCIAL SUMMARY

A summary of the results, and of the assets, liabilities and non-controlling interest of the Group for the last five financial years, as extracted from the published audited consolidated financial statements or published prospectus of the Company is set out below:

	2020 RMB'000	Year ended 31 December			
		2019 RMB'000	2018 RMB'000	2017 RMB'000	2016 RMB'000
RESULTS					
REVENUE	80,999	93,147	115,107	109,103	74,255
Cost of sales	(37,409)	(40,074)	(45,024)	(43,023)	(30,287)
Gross profit	43,590	53,073	70,083	66,080	43,968
Other income and gains	5,148	10,698	9,308	6,201	5,263
Selling and distribution expenses	(9,435)	(8,934)	(8,602)	(7,864)	(5,401)
Research and development expenses	(21,681)	(22,644)	(18,713)	(14,808)	(9,179)
Administrative expenses	(15,192)	(15,525)	(19,896)	(15,736)	(21,530)
Impairment losses on financial and contract assets, net	(55)	(889)	(140)	–	–
Other expenses	(973)	(76)	(65)	(2,914)	(30)
Financial costs	(291)	(150)	–	–	–
PROFIT BEFORE TAX	1,111	15,553	31,975	30,959	13,091
Income tax expense	(12)	(2,742)	(4,082)	(8,784)	(2,870)
PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,099	12,811	27,893	22,175	10,221
Attributable to:					
Owners of the parent	1,104	12,811	27,893	22,175	10,221
ASSETS AND LIABILITIES					
Total assets	221,601	210,654	210,038	171,740	149,923
Total liabilities	40,926	32,078	38,925	39,065	36,870
Total equity	180,675	178,576	171,113	132,675	113,053