



Directel Holdings Limited
直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

Stock Code: 8337



INTERIM
REPORT
2016

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.

Hong Kong Exchanges and Clearing Limited and the Stock Exchange take no responsibility for the contents of this report, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this report.

This report, for which the directors (the “Director(s)”) of Directel Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief: (1) the information contained in this report is accurate and complete in all material respects and not misleading or deceptive; and (2) there are no other matters the omission of which would make any statement herein or this report misleading.

HIGHLIGHTS

- Revenue for the six months ended 30 June 2016 was approximately HK\$3,726,000, representing a decrease of approximately 52.3% as compared with the corresponding period in 2015.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2016 was approximately HK\$15,135,000, representing an increase of approximately 10.5% as compared with the corresponding period in 2015.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2016.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The board of Directors (the “Board”) of the Company hereby announces the unaudited consolidated financial statements of the Company and its subsidiaries (together referred to as the “Group”) for the three months and the six months ended 30 June 2016 together with the unaudited comparative figures for the respective corresponding period in 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Revenue	5	2,242	3,214	3,726	7,806
Cost of sales		(3,380)	(5,255)	(6,663)	(10,581)
Gross loss		(1,138)	(2,041)	(2,937)	(2,775)
Other income	6(a)	387	610	958	1,227
Other net (loss)/profit	6(b)	(2,710)	493	(2,103)	125
Administrative and other operating expenses		(3,121)	(3,223)	(6,153)	(6,501)
Provision for impairment loss on trade receivables		(2,486)	(3,194)	(4,900)	(5,772)
Loss before taxation	7	(9,068)	(7,355)	(15,135)	(13,696)
Income tax	8	—	—	—	—
Loss for the period attributable to equity shareholders of the Company		(9,068)	(7,355)	(15,135)	(13,696)
Loss per share	10	(0.29)	(0.24)	(0.49)	(0.44)
- Basic and diluted (HK cents)					

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	11	7,491	8,174
Deposits		342	102
Total non-current assets		7,833	8,276
Current assets			
Inventories	12	151	212
Trade receivables	13	8,196	13,504
Other receivables, deposits and prepayments	13	3,413	2,477
Taxation recoverable		2,104	2,104
Cash at bank and in hand	14	73,342	89,782
Total current assets		87,206	108,079
Current liabilities			
Payables and accruals	15	5,789	11,970
Taxation payable		—	—
Total current liabilities		5,789	11,970
Net current assets		81,417	96,109
Total assets less current liabilities		89,250	104,385
Non-current liabilities			
Deferred tax liabilities		1,008	1,008
Net assets		88,242	103,377
Capital and reserves			
Share capital	16	31,125	31,125
Share premium		46,749	46,749
Warrant reserve		1,654	1,654
Retained earnings		8,714	23,849
Total equity		88,242	103,377

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i> (Unaudited) (Note 16)	Share premium <i>HK\$'000</i> (Unaudited) (Note 16)	Warrant reserve <i>HK\$'000</i> (Unaudited)	Retained earnings <i>HK\$'000</i> (Unaudited)	Total Equity <i>HK\$'000</i> (Unaudited)
As at 1 January 2015	10,375	67,499	1,654	59,889	139,417
Issue of bonus shares	20,750	(20,750)	—	—	—
Loss and total comprehensive income for the period	—	—	—	(13,696)	(13,696)
As at 30 June 2015	<u>31,125</u>	<u>46,749</u>	<u>1,654</u>	<u>46,193</u>	<u>125,721</u>
As at 1 January 2016	31,125	46,749	1,654	23,849	103,377
Loss and total comprehensive income for the period	—	—	—	(15,135)	(15,135)
As at 30 June 2016	<u>31,125</u>	<u>46,749</u>	<u>1,654</u>	<u>8,714</u>	<u>88,242</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2016	2015
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)
	Note		
Net cash used in operating activities		(17,253)	(10,209)
Cash flows from investing activities			
Decrease in long term fixed deposits		—	46,205
Other cash flows arising from investing activities		813	1,061
Net cash generated from investing activities		813	47,266
Net (decrease)/increase in cash and cash equivalents		(16,440)	37,057
Cash and cash equivalents at 1 January	14	89,782	66,235
Cash and cash equivalents at 30 June	14	73,342	103,292

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

Directel Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its principal place of business in Hong Kong is at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West, Hong Kong and its registered office is at Clifton House, 75 Fort Street, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company and its subsidiaries are principally engaged in provision of telecommunications services.

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, and in compliance with International Accounting Standard 34 “Interim Financial Reporting” (“IAS 34”) issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 9 August 2016.

The interim financial report of the Group has been prepared in accordance with substantially the same accounting policies adopted in the Group’s audited financial statements set out in the annual report for the year ended 31 December 2015, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of these changes in accounting policies are set out in note 4.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Group’s interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”).

The interim financial report for the six months ended 30 June 2016 is unaudited, but has been reviewed by the Company’s audit committee.

The financial information relating to the financial year ended 31 December 2015 that is included in the interim financial report as being previously reported information does not constitute the Group’s annual financial statements prepared under IFRS for that financial year but is derived from those financial statements. The Group’s financial information relating to the financial year ended 31 December 2015 which is included in the annual report for the year ended 31 December 2015 is available at the Company’s registered office. The independent auditor has expressed an unqualified opinion on those financial statements in the independent auditor’s report included in the annual report for the year ended 31 December 2015.

3. SEGMENT REPORTING

IFRS 8 “Operating Segments” introduces a “management approach” to segment reporting, i.e. the identification of segments and the preparation of segment information must be based on the internal reports that the entity’s chief operating decision maker reviews regularly in allocating resources to segments and in assessing their performance.

The financial information provided to the chief operating decision maker does not contain profit or loss information of each service line and the chief operating decision maker reviews the operating results of the Group as a whole. Therefore, the operations of the Group constitute one single reportable segment.

4. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRS that are first effective for the current accounting period of the Group and the Company. There have been no significant changes to the accounting policies adopted in the Group’s financial statements as a result of these developments.

The Group has not adopted any new standard or interpretation that is not yet effective for the current accounting period.

5. REVENUE

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$’000</i> (Unaudited)	2015 <i>HK\$’000</i> (Unaudited)	2016 <i>HK\$’000</i> (Unaudited)	2015 <i>HK\$’000</i> (Unaudited)
Provision of telecommunications services	2,242	3,214	3,726	7,806

Revenue from transactions with external customers, including revenue derived from individual customers who are known to the Group to be subject to common control, amounting to 10% or more of the Group’s aggregate turnover for each of the periods is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$’000</i> (Unaudited)	2015 <i>HK\$’000</i> (Unaudited)	2016 <i>HK\$’000</i> (Unaudited)	2015 <i>HK\$’000</i> (Unaudited)
The largest customer	1,771	1,375	3,200	3,544
The second largest customer	306	—	430	—

6. OTHER INCOME AND OTHER NET (LOSS)/PROFIT

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
(a) Other income				
Interest income from bank deposits	387	604	958	1,218
Sundry income	—	6	—	9
	<u>387</u>	<u>610</u>	<u>958</u>	<u>1,227</u>
(b) Other net (loss)/profit				
Net foreign exchange (loss)/gain	(2,710)	493	(2,103)	125
	<u>(2,710)</u>	<u>493</u>	<u>(2,103)</u>	<u>125</u>

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
(a) Staff costs:				
Salaries, wages and other benefits	852	856	1,782	1,719
Contributions to defined contribution retirement plan	32	33	64	67
	<u>884</u>	<u>889</u>	<u>1,846</u>	<u>1,786</u>

7. LOSS BEFORE TAXATION *(Continued)*

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
(b) Other items:				
Depreciation	415	224	827	446
Licence charges	397	490	879	986
Operating lease charges in respect of				
– rental of properties	262	260	522	518
– rental of transmission lines	224	261	459	499
Auditors' remuneration				
– audit services	224	222	444	444
– tax services	18	20	37	39
Repairs and maintenance	205	234	407	461
Provision for impairment loss on trade receivables	2,486	3,194	4,900	5,772

8. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)	2016 <i>HK\$'000</i> (Unaudited)	2015 <i>HK\$'000</i> (Unaudited)
Current tax				
– Hong Kong Profits Tax	—	—	—	—

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, whilst the Company and Elitel Limited are incorporated in the Cayman Islands, they are considered as having a presence in Hong Kong for tax purpose since they are primarily managed and controlled in Hong Kong. Accordingly, they are subject to tax on an entity basis on income arising in or derived from Hong Kong. No Hong Kong Profits Tax has been provided as there was no assessable profit for the three months and six months ended 30 June 2016 (three months and six months ended 30 June 2015: Nil).

9. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2016. No interim dividend was paid in respect of the six months ended 30 June 2015.

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the three months and six months ended 30 June 2016 is based on the unaudited loss attributable to ordinary equity shareholders of the Company of approximately HK\$9,068,000 and HK\$15,135,000 respectively (three months and six months ended 30 June 2015: approximately HK\$7,355,000 and HK\$13,696,000 respectively) and the weighted average number of 3,112,500,000 ordinary shares in issue during the three months and six months ended 30 June 2016 (three months and six months ended 30 June 2015: 3,112,500,000 ordinary shares).

(b) Diluted loss per share

As the Company's outstanding unlisted warrants have anti-dilutive effects to the basic loss per share calculation for the current and prior periods, the conversion of the above potential dilutive shares is not assumed in the computation of diluted loss per share amounts. Therefore, the basic and diluted loss amounts per share calculations for the respective periods are equal.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2016, the Group acquired items of property, plant and equipment with an aggregate cost of approximately HK\$145,000 (six months ended 30 June 2015: approximately HK\$158,000).

12. INVENTORIES

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
SIM cards	130	194
Recharge vouchers	21	18
	151	212

13. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Trade receivables		
– amounts due from third parties	39,030	39,438
Less: allowance for doubtful debts (<i>note 13(b)</i>)	<u>(30,834)</u>	<u>(25,934)</u>
	<u>8,196</u>	<u>13,504</u>
Other receivables, deposits and prepayments		
– other receivables	1,058	1,253
– deposits and prepayments	<u>2,355</u>	<u>1,224</u>
	<u>3,413</u>	<u>2,477</u>
	<u><u>11,609</u></u>	<u><u>15,981</u></u>

Generally, provision of mobile phone services to the Group's major customers, including major mobile network operators and its dealers, are made in an open account with credit terms up to 30 days after the date of invoice. Subject to negotiations, credit terms can be extended to two to four months for certain customers with well-established trading and payment records on a case-by-case basis. Provision of mobile phone services to the Group's pre-paid users are made with payment in advance, whereas post-paid users are made in an open account with credit terms up to 12 days after the date of invoice.

(a) Ageing analysis

Included in trade receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis by billing date as of the end of the reporting period:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Within 1 month	758	35
Over 1 month but less than 3 months	136	4,100
Over 3 months but less than 6 months	94	944
Over 6 months but less than 12 months	4,514	2,848
Over 12 months but less than 18 months	2,694	5,048
Over 18 months	<u>—</u>	<u>529</u>
	<u><u>8,196</u></u>	<u><u>13,504</u></u>

13. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

(a) Ageing analysis *(Continued)*

Included in trade receivables are trade debtors with the following ageing analysis by due date as of the end of the reporting period:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Current	753	29
Less than 1 month past due	105	2,967
1 to 3 months past due	89	1,599
More than 3 months but less than 12 months past due	4,762	4,544
More than 12 months but less than 18 months past due	2,487	4,365
More than 18 months past due	<u>30,834</u>	<u>25,934</u>
	39,030	39,438
Less: allowance for doubtful debts <i>(note 13(b))</i>	<u>(30,834)</u>	<u>(25,934)</u>
	<u>8,196</u>	<u>13,504</u>

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for doubtful debts during the end of the reporting period are as follows:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
At 1 January	25,934	14,360
Impairment loss recognised	5,038	11,591
Reversal of impairment loss	<u>(138)</u>	<u>(17)</u>
At end of the reporting period	<u>30,834</u>	<u>25,934</u>

13. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

(b) Impairment of trade receivables *(Continued)*

At 30 June 2016, the Group's trade receivables of approximately HK\$30,834,000 (31 December 2015: approximately HK\$25,934,000) were individually determined to be impaired. The individually impaired receivables related to invoices that were default in payment and management assessed that the receivables are not expected to be recovered. Consequently, specific allowances for doubtful debts of approximately HK\$30,834,000 (31 December 2015: approximately HK\$25,934,000) were recognised. The Group does not hold any collateral over these balance.

In particular, the trade receivables (before provision) as at 30 June 2016 included amounts due from a mobile network operator in China ("that MNO") which is a subsidiary of a company listed on the Main Board of the Stock Exchange and the New York Stock Exchange and the outstanding amount was approximately HK\$38,040,000, of which HK\$4,719,000, HK\$2,487,000 and HK\$30,834,000 fell into "More than 3 months but less than 12 months past due", "More than 12 months but less than 18 months past due" and "More than 18 months past due", respectively. The credit terms of 30 days were granted by the Group to that MNO as it is in line with the credit policy of the Group whilst the delay in settlement by that MNO renders the actual credit period longer than the contractual credit period. Taking into account of the above and in accordance with the Group's provisioning for doubtful debts on trade receivables, the Group made a provision for impairment loss on trade receivables of approximately HK\$2,624,000 and HK\$5,037,000 respectively for the three months and six months ended 30 June 2016 (Year ended 31 December 2015: approximately HK\$11,578,000).

(c) Trade receivables that are not impaired

The ageing analysis of trade receivables by due date that are neither individually nor collectively considered to be impaired are as follows:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Neither past due nor impaired	753	32
Less than 1 month past due	105	71
1 to 3 months past due	89	346
More than 3 months but less than 12 months past due	43	95
	237	512
	990	544

13. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(Continued)*

(c) Trade receivables that are not impaired *(Continued)*

Trade receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default. Trade receivables that were past due but not impaired relate to a number of independent customers that have a good repayment track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

14. CASH AT BANK AND IN HAND

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Deposits with banks	68,655	84,057
Cash at bank	4,677	5,715
Cash in hand	10	10
	<u>73,342</u>	<u>89,782</u>

15. PAYABLES AND ACCRUALS

	As at 30 June 2016 <i>HK\$'000</i> (Unaudited)	As at 31 December 2015 <i>HK\$'000</i> (Audited)
Trade payables		
– amounts due to related parties	49	4,229
– amounts due to third parties	2,548	4,008
	<u>2,597</u>	<u>8,237</u>
Other payables and accruals		
– accrued charges and deposits	2,415	2,677
– deferred income	777	1,056
	<u>3,192</u>	<u>3,733</u>
	<u>5,789</u>	<u>11,970</u>

The amounts due to related parties are unsecured, interest free and repayable on demand.

15. PAYABLES AND ACCRUALS *(Continued)*

Included in trade and other payables are trade creditors with the following ageing analysis by transaction date as of the end of the reporting period:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Within 1 month	975	6,509
Over 1 month but less than 3 months	<u>1,622</u>	<u>1,728</u>
	<u>2,597</u>	<u>8,237</u>

16. SHARE CAPITAL

	Note	As at 30 June 2016		As at 31 December 2015	
		Number of shares (Unaudited)	Nominal value HK\$'000 (Unaudited)	Number of shares (Audited)	Nominal value HK\$'000 (Audited)
Ordinary shares of HK\$0.01 each					
Authorised:					
At 1 January		10,000,000,000	100,000	4,000,000,000	40,000
Increase on 3 June 2015	(i)	<u>—</u>	<u>—</u>	<u>6,000,000,000</u>	<u>60,000</u>
At end of period/year		<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:					
At 1 January		3,112,500,000	31,125	1,037,500,000	10,375
Issue of bonus shares	(ii)	<u>—</u>	<u>—</u>	<u>2,075,000,000</u>	<u>20,750</u>
At end of period/year		<u>3,112,500,000</u>	<u>31,125</u>	<u>3,112,500,000</u>	<u>31,125</u>

Notes:

- (i) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, the authorised share capital of the Company was increased from HK\$40,000,000, divided into 4,000,000,000 ordinary shares of HK\$0.01 each to HK\$100,000,000 divided into 10,000,000,000 ordinary shares of HK\$0.01 each by the creation of an additional 6,000,000,000 ordinary shares of HK\$0.01 each of the Company.
- (ii) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, the Company issued two bonus shares for every one share held. The issued share capital of the Company was therefore increased from 1,037,500,000 shares of HK\$0.01 each to 3,112,500,000 shares of HK\$0.01 each accordingly. On 23 June 2015, the Company completed the bonus issue, in which, the share premium account was reduced by approximately HK\$20,750,000, and the same amount was credited to share capital account.

16. SHARE CAPITAL *(Continued)*

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

17. COMMITMENTS

(a) Capital commitments outstanding not provided for in the interim financial report were as follows:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Contracted for	632	102

(b) The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	As at 30 June 2016		As at 31 December 2015	
	Properties HK\$'000 (Unaudited)	Transmission lines HK\$'000 (Unaudited)	Properties HK\$'000 (Audited)	Transmission lines HK\$'000 (Audited)
Within 1 year	996	127	996	428
After 1 year but within 5 years	498	48	996	6
	1,494	175	1,992	434

The Group is the lessee in respect of a number of properties and transmission lines held under operating lease agreements. The leases typically run for an initial period of one to three years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

18. MATERIAL RELATED PARTY TRANSACTIONS

(a) **Relationship between the Group and related parties**

(i) *Controlling shareholders of the Group*

- Li Kin Shing
- Kwok King Wa

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(a) Relationship between the Group and related parties *(Continued)*

(ii) Subject to common control from controlling shareholders

- China Elite Information Technology Ltd.
- Directel Limited
- Fastary Limited
- International Elite Ltd.
- International Elite Limited - Macao Commercial Offshore
- PacificNet Communications Limited - Macao Commercial Offshore
- Sunward Telecom Limited (incorporated in the BVI)
- Sunward Telecom Limited (incorporated in the Cayman Islands)
- Talent Group (International) Limited
- Talent Information Engineering Co. Limited
- Target Link Enterprises Limited
- Xiamen Elite Electric Co., Ltd.

(b) Transactions

The Group entered into the following material related party transactions:

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Continuing after the Listing				
Services rendered (i)	238	268	476	536
Rental of properties (ii)	249	249	498	498

Notes:

- (i) Services rendered by related parties related to data processing and billing management services, built-in-secretarial and customer hotline services, telesales services and development and maintenance of the Company's website.
- (ii) The Group has leased certain properties under operating lease from a related party, Talent Information Engineering Co. Limited, at an aggregate monthly rental of approximately HK\$83,000 from 1 January 2015 to 31 December 2017.

The directors of the Company are of the opinion that the above transactions with related parties were conducted on terms and conditions that are mutually agreed in the ordinary course of the Group's business.

18. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(c) Balances with related parties

As at the respective end of the reporting period, the Group had the following balances with related parties:

	As at 30 June 2016 HK\$'000 (Unaudited)	As at 31 December 2015 HK\$'000 (Audited)
Amounts due to related parties		
– trade	49	4,229

Notes: The amounts due to related parties are unsecured, interest free and repayable on demand and is included in “Payables and accruals” (note 15).

(d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Group’s directors and certain of the individuals with highest emoluments, is as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)	2016 HK\$'000 (Unaudited)	2015 HK\$'000 (Unaudited)
Short-term employee benefits	515	507	1,024	1,014
Contributions to defined contribution retirement plan	16	17	33	33
	531	524	1,057	1,047

19. CONTINGENT LIABILITIES

As at the date of this report, the Group did not have any contingent liabilities.

20. EVENTS AFTER THE REPORTING PERIOD

On 27 May 2016, the Company entered into a sale and purchase agreement with vendors and guarantors, pursuant to which the Company has conditionally agreed to purchase and the vendors have conditionally agreed to sell, the Sale Shares at a total consideration of HK\$132,903,850. Details of the transaction are set out in the Company’s announcement dated 27 May 2016. Subsequently, the Company and the vendors cannot formulate on the future business development and cooperation, thus on 14 July 2016, the Company had terminated the acquisition. Details of the termination are set out in the Company’s announcement dated 14 July 2016. The Company did not have any commitments to the agreement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a mobile virtual network operator (“MVNO”) which is principally engaged in the provision of mobile phone services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime sourced from two mobile network operators (“MNOs”) in Hong Kong and one MNO in the People’s Republic of China (the “PRC”), and subsequently sold the airtime through different channels and in various forms to users, dealers or MNOs. The Group’s mobile phone services include “One Card Multiple Number” service and Hong Kong local mobile phone services. The Group also provides services of resale of airtime to MNOs and other services.

The performance of the Group worsened for the six months ended 30 June 2016 compared to the corresponding period in 2015. The monthly average number of activated phone numbers decreased by approximately 45.0% to 57,769 in the first half year of 2016 when compared to the corresponding period in 2015 and the total number of activated phone numbers decreased by approximately 21.7% to 54,686 as of 30 June 2016 compared to 69,858 as of 31 December 2015.

The Group continues to face difficulties in the highly competitive mobile services industry particularly in the data access services and mobile communications applications. The increased popularity of smart mobile devices also led to a rapid growth of alternative means of communications (e.g. social networking applications) which had reduced the usage for traditional voice and short message services. The competitiveness of the Group’s business has been adversely affected and the average revenue per user (“ARPU”) of the Group showed a decreasing trend and the ARPU of the Group was approximately HK\$10.7 for the six months ended 30 June 2016, lower than approximately HK\$12.0 for the same period last year.

The volume of the Group’s airtime sold decreased from approximately 42.6 million minutes for the first half year of 2015 to approximately 25.7 million minutes for the first half year of 2016. The revenue derived from the provision of “One Card Multiple Number” service, Hong Kong local mobile phone services and resale of airtime to MNOs decreased from approximately HK\$7.8 million to approximately HK\$3.7 million during the same period. The Group’s revenue per minute of airtime sold decreased from approximately HK\$0.18 for the first half year of 2015 to approximately HK\$0.15 for the first half year of 2016.

FINANCIAL REVIEW

For the six months ended 30 June 2016, the revenue of the Group decreased to approximately HK\$3,726,000 compared to approximately HK\$7,806,000 for the corresponding period last year, representing a decrease of approximately 52.3%. The decrease in revenue was mainly attributable to the decrease in the monthly average number of activated phone numbers and decrease of airtime usage by users.

The Group’s cost of sales decreased by approximately 37.0% to approximately HK\$6,663,000 for the six months ended 30 June 2016 compared to approximately HK\$10,581,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of airtime usage by users.

The gross loss of the Group for the six months ended 30 June 2016 increased by approximately 5.8% to approximately HK\$2,937,000 when compared to approximately HK\$2,775,000 for the corresponding period last year. The increase was mainly attributable to the decrease of airtime usage by users and the increase of average unit cost of Hong Kong airtime resulting from the requirement to satisfy the minimum monthly airtime purchase amount adopted by two MNOs.

The Group's other income for the six months ended 30 June 2016 decreased by approximately 21.9% to approximately HK\$958,000 when compared to approximately HK\$1,227,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

For the six months ended 30 June 2016, the Group recorded other net loss of approximately HK\$2,103,000 while for the six months ended 30 June 2015, the Group incurred other net profit of approximately HK\$125,000. The incurrence of other net loss was mainly due to foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the period.

The Group's administrative and other operating expenses for the six months ended 30 June 2016 decreased by approximately 5.4% to approximately HK\$6,153,000 when compared to approximately HK\$6,501,000 for the corresponding period last year.

During the six months ended 30 June 2016, the Group has made a provision for impairment loss on trade receivables of approximately HK\$4,900,000 in accordance with the Group's policy in provision for doubtful debts. Details are set out in note 13 to the financial statements.

No income tax has been provided for the six months ended 30 June 2015 and 2016 respectively as the Group had no assessable profits for the periods.

The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2016 of approximately HK\$15,135,000, representing an increase of approximately 10.5% when compared to approximately HK\$13,696,000 for the corresponding period in last year. Such increase was mainly due to decrease of revenue and the record of foreign exchange loss during the six months ended 30 June 2016 while the Group recorded a foreign exchange gain for the corresponding period last year.

BUSINESS OUTLOOK

As disclosed in the announcements of the Company dated 29 April 2016 and 3 May 2016, the Group entered into an agreement with a Hong Kong based telecommunication service provider and a Singapore-based telecommunication service provider (the "Service Providers") respectively, in respect of the establishment of strategic cooperation relationship concerning the provision of airtime and mobile data services in the PRC, Singapore and other regions, including but not limited to Japan, Taiwan and Macau (the "Covered Regions") to the Group. The Board believes that the cooperation with the Service Providers will enable the Group to broaden its mobile roaming coverage to the Covered Regions, and to create new roaming platforms for providing airtime and mobile data services in the Covered Regions to the users from different countries all over the world. Thereafter, the users would be able to enjoy the mobile data service in addition to the airtime service that the Group has been providing. The Board considers that the entering into of the agreements is a furtherance of the principal business of the Group which is in the interest of the Company and its shareholders as a whole.

In response to the changes in the traditional voice and SMS business in the mobile telecommunications market, we need to adjust our way of thinking and deliver innovative services, so that we could transform the challenges in driving force and provide customers with services that better fulfill their practical needs. Going forward in the third quarter of 2016, we intend to launch several new mobile and roaming services to align with the developing trends of mobile internet and promote strategic transformation and reform and innovation.

1. OTA Card

OTA Card is a new generation of “3Gmate” telecommunication service provided by the Group. Through the two core technologies of air-issuing and APP writing, users will not need to buy extra SIM cards. A single CA-SIM card can load with multiple phone numbers, enjoying the favorable local call charging and traffic rate. With the value-added service platform, users can travel around and connect to the world. Users can receive free traffic, credits and coupons etc. The authentication and encryption functions of CA-SIM card can provide to the outbound traveling users better value-added services like Mzone network, O2O business in their destinations and ticket booking service etc.

With the APP application and the CA-SIM authenticated identity, users can have access to the local telecommunication service, saving the tedious account opening procedure and making communication more convenient. The multiple number function of the APP includes account opening, card re-issuing and number switching. And through the APP, users can check their account, pay for the phone bill or charge their account.

2. New Service Named “Directel”

The “Directel” is an innovated integration of mobile Internet and traditional PSTN network, using the APP on the mobile phone end to accomplish the basic telephone function and meet the customized requirements of mobile Internet telecommunication for the users. It can promote different telecommunication service providers to integrate their services (not only includes HK service providers, but also can provide access to overseas telecommunication service providers to achieve non-standard cross border telecommunication service), so as to realize one APP with multiple affiliated phone numbers, saving money for the user and bring new telecom experience.

3. Private Phonebook

Private phonebook is a personal communication management software with CA core technology (including CA-SIM card’s hardware certificate and software certificate), mainly helping you to accomplish all functions that are based on security factors, such as the business card/phonebook management, the encrypted local/cloud storage of phonebook, prevention of malwares’ access to the phonebook, encryption of the telephone communication and so on.

Apart from the above, the Group will continue to look for potential opportunities to diversify its business scope and we believe that the new business will make a positive contribution to the results of the Group in the future. Thus, the Group is planning to utilise certain portion of cash on the following potential new business.

(a) Expansion of mobile phone services

Approximately HK\$10.0 million is expected to be applied to expand the business of mobile phone services of the Group, which is to provide a wider variety of value-added services for the Group's users (including but not limited to users located in Asia Pacific territories) by launching several new mobile and roaming services. The Directors estimate that this portion of cash will be utilised on or before 30 April 2017;

(b) Upgrading the Group's telecommunications equipment

Approximately HK\$16 million is expected to be applied to upgrade the Group's telecommunications equipment to be compatible with the 4G mobile networks in Hong Kong and it is estimated that the services will be launched in the first quarter of 2017 after testing of the relevant system; and

(c) Potential investment or acquisition

Approximately HK\$30.0 million to HK\$40.0 million is expected to be applied to invest in any business development/investment opportunities in respect of the Offline to Online mobile internet business in the coming six months. As at the date hereof, the Company is exploring suitable opportunity in the Offline to Online mobile internet business, and will issue announcement(s) in accordance with the applicable Listing Rules, as and when appropriate.

The above potential business plans are based on the information currently available and the Directors' estimation of the future market condition. Apart from the aforementioned potential business plans, the Group has paid approximately HK\$4,241,000 to Xiamen Elite Electric Company Limited ("Xiamen Elite") in January 2016 for the research and development services relating to the OTA Card and the application programming interface for the "One Card Multiple Number" pursuant to the technology and development agreements dated 23 November 2015 entered into between Directel Communications Limited, a subsidiary of the Company, and Xiamen Elite. The unused net proceeds from the Placing as at 30 June 2016 have been placed as interest bearing deposits in banks in Hong Kong.

CAPITAL STRUCTURE

As at 30 June 2016, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable.

Unlisted Warrants

On 30 April 2014, the Company entered into a warrant subscription agreement (the “Warrant Subscription Agreement”) with JD Edward Asset Management Company Limited, an independent third party (the “Subscriber”) in relation to the subscription of a total of 200,000,000 unlisted warrants (the “Warrant(s)”) by the Subscriber at the issue price of HK\$0.01 per unit of Warrants (the “Warrant Subscriptions”). The Warrants entitled the Subscriber to subscribe in cash for in aggregate of 200,000,000 shares in the Company at the subscription price of HK\$0.1648 per new share (subject to anti-dilutive adjustment) for a period of 60 months commencing from the date of issue of the Warrants. On 29 May 2014, the conditions set out in the Warrant Subscription Agreement have been fulfilled and completion of the Warrant Subscriptions took place. The net proceeds from the Warrant Subscriptions (after expenses of approximately HK\$346,000) were approximately HK\$1,654,000. Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, a specific mandate was given to the directors of the Company to allot and issue new Shares (subject to adjustment) upon exercise of subscription rights attaching to the Warrants. On 23 June 2015, the Company completed a bonus issue on the basis of two bonus shares for every one held by the existing shareholders (“Bonus Issue”). As a result of the Bonus Issue, the subscription price for such warrant shares and the number of warrant shares to be issued and allotted upon exercise of the subscription rights attached to the Warrants shall be adjusted from HK\$0.1648 to HK\$0.0549 and from 200,000,000 Shares to 600,000,000 Shares respectively. At as the date of this report, no Warrants have been exercised and the Company has not utilised any of the net proceeds.

Issued Share Capital

On 1 April 2015, the Board proposed a bonus issue of new shares (“Bonus Shares”) on the basis of two bonus shares for every one share held by the existing shareholders. The Bonus Shares rank pari passu in all respect with the shares then in issue. On 23 June 2015, the Bonus Issue was completed. The issued share capital of the Company was therefore increased by 2,075,000,000 shares from 1,037,500,000 shares to 3,112,500,000 shares and approximately of HK\$20,750,000 was credited to share capital with the same amount was debited to the share premium account.

As at 30 June 2016, total equity attributable to equity holders of the Company amounted to approximately HK\$88,242,000 (31 December 2015: approximately HK\$103,377,000).

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 30 June 2016, the Group had net current assets of approximately HK\$81,417,000 (31 December 2015: approximately HK\$96,109,000), including cash at bank and in hand of approximately HK\$73,342,000 (31 December 2015: approximately HK\$89,782,000). The current ratio was 15.1 as at 30 June 2016, higher than 9.0 as at 31 December 2015.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi (“RMB”) and United States dollars (“US\$”). The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 30 June 2016, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2016, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

As at the date of this report, the Group did not have any contingent liabilities.

MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

As at 30 June 2016, the Group has no specific acquisition target. The Group did not have any material acquisition, disposals of subsidiaries or affiliated companies or significant investment during the period under review.

STAFF AND REMUNERATION POLICY

As at 30 June 2016, the Group had 10 employees (31 December 2015: 13 employees). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include medical insurance, share option scheme and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2016 (six months ended 30 June 2015: Nil).

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 20 to this report.

OTHER INFORMATION

Reference is made to the announcement of the Company dated 7 June 2016 that with effect from 7 June 2016:

- Mr. Chu, Howard Ho Wa tendered his resignation as an independent non-executive Director of the Company and has ceased to be the member of audit committee of the Company;
- Mr. Hu Tiejun has been appointed as a non-executive Director of the Company;
- Mr. Liu Kejun has been appointed as an independent non-executive Director and member of audit committee of the Company;
- Ms. Chan Wai Ching has been resigned as the company secretary and the authorised representative of the Company; and
- Mr. Li Chi Chung has been appointed as the company secretary and the authorised representative of the Company.

Save as disclosed herein, there are no other information is to be disclosed pursuant to the requirements of the Rule 17.50(2) of the GEM Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, so far as it is known to the Directors, the Directors and the chief executive of the Company had the following interests and short positions in the shares, underlying shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the Securities and Futures Ordinance (the "SFO"), which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules:

(i) Long position in shares of the Company:

Name of Director	Nature of Interest/ Capacity	Number of Ordinary Shares	Approximate Percentage of Shareholding
Mr. Li Kin Shing	Interest of controlled corporation	2,088,750,000 (Note)	67.11%
	Beneficial owner	101,250,000	3.25%
Mr. Pang Kwok Chau	Beneficial owner	30,000,000	0.96%
Mr. Wong Kin Wa	Beneficial owner	30,000,000	0.96%

Note: The 2,088,750,000 shares are owned by New Everich Holdings Limited ("New Everich") which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 2,088,750,000 shares under the SFO.

(ii) Long position in New Everich, an associated corporation of the Company:

Name of Director	Nature of Interest/Capacity	Approximate Percentage of Shareholding
Mr. Li Kin Shing	Beneficial owner	100.00%

Note: New Everich is owned as to 54% and 46% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 100% interests in New Everich under the SFO.

Save as disclosed above, as at 30 June 2016, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2016, so far as it is known to the Directors, the persons (other than the Directors or chief executive of the Company) with interests 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 would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group were as follows:

Long position in shares of the Company:

Name	Nature of Interest/ Capacity	Number of Ordinary Shares	Approximate Percentage of Shareholding
New Everich	Beneficial owner	2,088,750,000	67.11%
Ms. Kwok King Wa	Interest of controlled corporation	2,088,750,000 (Note 1)	67.11%
	Interest of spouse	101,250,000 (Note 2)	3.25%

Notes:

- (1) The 2,088,750,000 shares are owned by New Everich which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46% respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 2,088,750,000 shares under the SFO.
- (2) Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Ms. Kwok King Wa is deemed to be interested in the 101,250,000 shares under the SFO.

Save as disclosed above, as at 30 June 2016, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests 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 would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this report, during the period under review, there was no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

SHARE OPTION SCHEME

The Company has conditionally adopted a new share option scheme (the “Share Option Scheme”) in the annual general meeting held on 11 May 2016, for the purpose of providing incentives or rewards to eligible participants (including employees, executives or officers, directors including executive directors, non-executive directors and independent non-executive directors, advisers, consultants, suppliers, customers and agents of the Company or any of its subsidiaries) for their contribution to the long term growth of the Group and to enable the Company to attract and retain high caliber employees. Unless otherwise cancelled or amended, the Share Option Scheme will remain in force for 10 years from 11 May 2016.

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 311,250,000 shares, representing 10% of the shares of the Company in issue as at 30 June 2016. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders’ approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company’s shares at the date of grant) in excess of HK\$5 million, are subject to shareholders’ approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the Company’s shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company’s shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

As at 30 June 2016, no option has been granted under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. In the opinion of the Directors, the Company has complied with all the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2016.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct regarding securities transactions by directors in securities of the Company. Having made specific enquiry of all Directors, the Directors have confirmed that they have complied with the required standard of dealings as set out in the adopted code of conduct regarding securities transactions by directors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the six months ended 30 June 2016, save as disclosed below, none of the Directors or controlling shareholders of the Company nor their respective associates is considered to have interests in a business that competes or is likely to compete, either directly or indirectly, with the businesses of the Group other than those businesses where the Directors have been appointed or were appointed as directors to represent the interests of the Company and/or the Group.

Directel Limited, a company incorporated in the Cayman Islands, is held as to 50% and 50% by Mr. Li Kin Shing, a non-executive Director, the chairman of the Company, a controlling shareholder and a substantial shareholder of the Company, and Ms. Kwok King Wa, a controlling shareholder and a substantial shareholder of the Company and the spouse of Mr. Li Kin Shing, respectively. According to the GEM Listing Rules, Directel Limited is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person.

Directel Limited is the legal and beneficial owner of the RF-SIM intellectual property rights in Hong Kong and Macau. Further, Directel Limited is the licensee of the operation rights of RF-SIM in markets other than the PRC in addition to its owned RF-SIM intellectual property rights in Hong Kong and Macau and it has the right to grant licences of the operation rights of RF-SIM intellectual property rights to others in markets other than the PRC. There is a risk that such services provided by Directel Limited may compete with the services provided by the Group as Directel Limited is expected to grant licences of the operation rights of RF-SIM intellectual property rights in other regions in the future.

International Elite Ltd. ("IEL") is a company incorporated in the Cayman Islands and a listed company on the Main Board of the Stock Exchange with Mr. Li Kin Shing and Ms. Kwok King Wa as controlling shareholders. According to the GEM Listing Rules, IEL is an associate of Mr. Li Kin Shing and Ms. Kwok King Wa and thus a connected person. Sunward Telecom Limited ("Sunward Telecom") and its wholly-owned subsidiaries (collectively, the "Sunward Group") are wholly-owned subsidiaries of IEL. The Sunward Group, as a whole, is principally engaged in (i) the research and development, production and sales of RF-SIM products; (ii) licensing of the RF-SIM operations rights in markets other than Hong Kong and Macau, and (iii) research and development and technology transfer of CA-SIM application rights to customers.

The Directors confirm that as China-Hongkong Telecom Limited, a wholly-owned subsidiary of the Company, has obtained the exclusive licence of the operation rights of RF-SIM intellectual property rights in Hong Kong and Macau and since the services provided by the Group are mainly in Hong Kong and Macau, there will be no direct competition between the services provided by Directel Limited, which are in territories other than the PRC, Hong Kong and Macau. There will also be no direct competition between the services provided by IEL, which its strategy is to concentrate on the application of the RF-SIM intellectual property rights in the PRC. Nevertheless, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 24 May 2010 pursuant to which the Covenantors have undertaken to the Company inter alia, that (i) the Covenantors shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the RF-SIM business of the Group in Hong Kong and Macau; and (ii) in the event the Covenantors or their associates were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company.

AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules (“Terms of Reference”). The Terms of Reference of the Audit Committee were revised and adopted by the Board on 29 March 2016. For details, please refer to the Terms of Reference published on the Stock Exchange website on 31 March 2016. The primary duties of the Audit Committee are to review the Company’s annual report and consolidated financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee is also responsible for reviewing and monitoring the financial reporting, risk management and internal control systems of the Group. The Audit Committee is of the view that the risk management and internal control system at present have been valid and adequate.

The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Liu Kejun. Mr. Chu, Howard Ho Hwa has been resigned as an independent non-executive Director and the member of Audit Committee on 7 June 2016. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee. The Group’s unaudited results for the six months ended 30 June 2016 have been reviewed by the Audit Committee. The Audit Committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

By order of the Board
Directel Holdings Limited
Pang Kwok Chau
Executive Director

Hong Kong, 9 August, 2016

As at the date of this report, the executive Directors are Mr. Pang Kwok Chau and Mr. Li Wang; the non-executive Directors are Mr. Li Kin Shing, Mr. Wong Kin Wa and Mr. Hu Tiejun; and the independent non-executive Directors are Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Liu Kejun.