DIRECTEL HOLDINGS LIMITED
直 通 電 訊 控 股 有 限 公 司

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 8337)

ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2016

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

HIGHLIGHTS

- Revenue for the year ended 31 December 2016 was approximately HK$6,415,000, representing a decrease of approximately 59.7% as compared with 2015.
- Profit attributable to shareholders of the Company for the year ended 31 December 2016 was approximately HK$3,243,000 while loss attributable to shareholders of the Company for the year ended 31 December 2015 was approximately HK$36,040,000.
- Basic and diluted earnings per ordinary share for the year ended 31 December 2016 was 0.10 HK cents and 0.09 HK cents respectively as compared with basic and diluted loss of 1.16 HK cents for year ended 31 December 2015.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The board of Directors (the "Board") of the Company is pleased to announce the audited consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2016 together with the comparative figures for 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	**2016** ***HK$'000***	2015 *HK$'000*
Revenue	4	**6,415**	15,934
Cost of sales		**(13,562)**	(18,728)
Gross loss		**(7,147)**	(2,794)
Other income	5(a)	**1,115**	2,369
Other net loss	5(b)	**(4,590)**	(6,528)
Administrative and other operating expenses		**(12,197)**	(17,212)
Reversal of/(provision for) impairment loss on trade receivables		**25,934**	(11,574)
Profit/(loss) before taxation	6	**3,115**	(35,739)
Income tax	7	**128**	(301)
Profit/(loss) and total comprehensive income for the year attributable to equity shareholders of the Company		**3,243**	(36,040)
Earnings/(loss) per share	9		
– Basic (HK cents)		**0.10**	(1.16)
– Diluted (HK cents)		**0.09**	(1.16)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Note	**2016**	2015
		HK$'000	*HK$'000*
Non-current assets			
Property, plant and equipment	10	**7,225**	8,174
Deposits		**224**	102
Total non-current assets		**7,449**	8,276
Current assets			
Inventories	11	**207**	212
Trade receivables	12	**36,939**	13,504
Other receivables, deposits and prepayments	12	**3,277**	2,477
Taxation recoverable		**120**	2,104
Cash and cash equivalents	13	**66,148**	89,782
Total current assets		**106,691**	108,079
Current liabilities			
Payables and accruals	14	**6,640**	11,970
Total current liabilities		**6,640**	11,970
Net current assets		**100,051**	96,109
Total assets less current liabilities		**107,500**	104,385
Non-current liabilities			
Deferred tax liabilities		**880**	1,008
Net assets		**106,620**	103,377
Capital and reserves			
Share capital		**31,125**	31,125
Share premium		**46,749**	46,749
Warrant reserve		**1,654**	1,654
Retained earnings		**27,092**	23,849
Total equity		**106,620**	103,377

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Share premium	Warrant reserve	Retained earnings	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2015	10,375	67,499	1,654	59,889	139,417
Changes in equity for 2015:					
Issue of bonus shares	20,750	(20,750)	—	—	—
Loss and total comprehensive income for the year	—	—	—	(36,040)	(36,040)
At 31 December 2015 and at 1 January 2016	31,125	46,749	1,654	23,849	103,377
Change in equity for 2016:					
Profit and total comprehensive income for the year	—	—	—	3,243	3,243
At 31 December 2016	31,125	46,749	1,654	27,092	106,620

NOTES

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 (together referred to as the "Group") are principally engaged in provision of telecommunications services.

2. BASIS OF PREPARATION

The annual results set out in this announcement do not comprise the consolidated financial statements for the year ended 31 December 2016 but are extracted from the audited consolidated financial statements of the Group for the year ended 31 December 2016.

The financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations, issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

IFRS 8 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 decisions 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.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's result and financial position for the current or prior periods have been prepared or presented.

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

4. REVENUE

	2016	2015
	HK$'000	*HK$'000*
Provision of telecommunications services	**6,415**	15,934

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 revenue during the year are as follows:

	2016	2015
	HK$'000	*HK$'000*
The largest customer	**929**	6,242

5. OTHER INCOME AND OTHER NET LOSS

	2016	2015
	HK$'000	*HK$'000*
(a) Other income		
Interest income from bank deposits	**1,112**	2,369
Sundry income	**3**	—
	1,115	2,369
(b) Other net loss		
Net foreign exchange loss	**(4,590)**	(6,528)

6. PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

(a) Staff costs

	2016	2015
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**3,526**	3,578
Contributions to defined contribution retirement plan	**133**	138
	3,659	3,716

(b) Other items

	2016	2015
	HK$'000	*HK$'000*
Cost of inventories	**321**	321
Depreciation	**1,669**	999
Licence charges	**1,155**	1,991
Operating lease charges in respect of		
– rental of properties	**996**	996
– rental of transmission lines	**939**	1,053
Auditors' remuneration		
– audit services	**818**	881
– tax services	**74**	74
– other services	**60**	10
Repairs and maintenance	**826**	874
Research and development cost	**15**	4,241
(Reversal of)/Provision for impairment loss on trade receivables	**(25,934)**	11,574

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

Taxation in the consolidated statement of profit or loss and other comprehensive income represents:

	2016	2015
	HK$'000	*HK$'000*
Current tax – Hong Kong Profits Tax	**—**	(18)
Deferred tax	**(128)**	319
	(128)	301

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. Provision for Hong Kong Profits Tax for the year ended 31 December 2016 is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.

8. DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil).

9. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the ordinary equity shareholders of the Company is based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Profit/(loss) for the year attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted earnings/(loss) per share	**3,243**	(36,040)

(a) Weighted average number of ordinary shares (basic)

	2016	2015
	Number of shares '000	*Number of shares '000*
Issued ordinary shares at 1 January	**3,112,500**	1,037,500
Effect of bonus issue	**—**	2,075,000
Weighted average number of ordinary shares at 31 December	**3,112,500**	3,112,500

(b) Weighted average number of ordinary shares (diluted)

	2016	2015
	Number of shares '000	*Number of shares '000*
Weighted average number of ordinary shares (basic)	**3,112,500**	3,112,500
Effect of unlisted warrants on deemed issue for nil consideration	**445,352**	—
Weighted average number of ordinary shares (diluted) at 31 December	**3,557,852**	3,112,500

Diluted loss per share is the same as basic loss per share for the year 2015 as the potential ordinary shares under the unlisted warrants have anti-dilutive effects on the basic loss per share.

10. PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2016, the Group acquired property, plant and equipment with an aggregate cost of approximately HK$720,000 (2015: approximately HK$4,812,000).

11. INVENTORIES

	2016	2015
	HK$'000	*HK$'000*
SIM cards	**190**	194
Recharge vouchers	**17**	18
	207	212

12. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Trade receivables	**36,939**	39,438
Less: allowance for doubtful debts	**—**	(25,934)
	36,939	13,504
Other receivables, deposits and prepayments	**3,277**	2,477
	40,216	15,981

Generally, provision of mobile phone services to the Group's major customers, including major mobile network operators and their 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:

	2016	2015
	HK$'000	*HK$'000*
Within 1 month	**123**	35
Over 1 month but less than 3 months	**162**	4,100
Over 3 months but less than 6 months	**342**	944
Over 6 months but less than 12 months	**1**	2,848
Over 12 months but less than 18 months	**4,245**	5,048
Over 18 months	**32,066**	529
	36,939	13,504

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

	2016	2015
	HK$'000	*HK$'000*
Current	**118**	29
Less than 1 month past due	**161**	2,967
1 to 3 months past due	**127**	1,599
More than 3 months but less than 12 months past due	**221**	4,544
More than 12 months but less than 18 months past due	**4,601**	4,365
More than 18 months past due	**31,711**	25,934
	36,939	39,438
Less: allowance for doubtful debts	**—**	(25,934)
	36,939	13,504

(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 current and prior years are as follows:

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**25,934**	14,360
Impairment loss recognised	**6,100**	11,591
Reversal of impairment loss	**(32,034)**	(17)
At 31 December	**—**	25,934

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

In particular, the trade receivables as at 31 December 2016 included amounts due from its airtime service provider in the PRC (the "Service Provider") 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$36,312,000, of which HK$4,601,000 and HK$31,711,000 fell into the categories of "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 the Service Provider as it is in line with the credit policy of the Group whilst the delay in settlement by the Service Provider 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 previously made a provision for impairment loss on trade receivables of approximately HK$6,099,000 for the nine months ended 30 September 2016.

Subsequent to the end of the reporting period, the Group received amounts due from the Service Provider without any disputes or balances requiring to be written off. As at the date of issue of these financial statements, the balances in relation to the Service Provider have been fully settled. Please refer to the Company's announcements dated 17 August 2016, 28 February 2017 and 1 March 2017 for details. Accordingly, reversals to the provision for impairment loss of approximately HK$31,896,000 made previously in respect of the amounts due from the Service Provider has been made to the Group's financial statement.

(c) Trade receivables that are not impaired

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

	2016	2015
	HK$'000	*HK$'000*
Neither past due nor impaired	**118**	32
Less than 1 month past due	**161**	71
1 to 3 months past due	**127**	346
More than 3 months but less than 12 months past due	**221**	95
More than 12 months but less than 18 months past due	**4,601**	—
More than 18 months past due	**31,711**	—
	36,821	512
	36,939	544

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.

13. CASH AND CASH EQUIVALENTS

	2016	2015
	HK$'000	*HK$'000*
Deposits with banks	**56,919**	84,057
Cash at bank	**9,219**	5,715
Cash in hand	**10**	10
	66,148	89,782

14. PAYABLES AND ACCRUALS

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**3,746**	8,237
Other payables and accruals	**2,894**	3,733
	6,640	11,970

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:

	2016	2015
	HK$'000	*HK$'000*
Within 1 month	**1,859**	6,509
Over 1 month but less than 3 months	**1,887**	1,728
	3,746	8,237

15. COMMITMENTS

(a) Capital commitments outstanding at 31 December 2016 not provided for in the financial statements were as follows:

	2016	2015
	HK$'000	*HK$'000*
Contracted for	**225**	102

(b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2016		2015	
		Transmission		Transmission
	Properties	**lines**	Properties	lines
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**996**	**69**	996	428
After 1 year but within 5 years	**—**	**28**	996	6
	996	**97**	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 (2015: one to three years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

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 trading of airtime sourced from several mobile network operators ("MNOs") in and outside Hong Kong and subsequently sold the airtime through different channels and in various forms to users, dealers or the MNOs. The Group's mobile phone services include "One Card Multiple Number" service and Hong Kong local mobile phone services. The Group also provides telesales dealership services and other services.

The Group's performance was weakened for the year ended 31 December 2016 comparing to the year ended 31 December 2015. The monthly average number of activated phone numbers decreased by approximately 39.5% to 56,691 in the year ended 31 December 2016 when compared to the year ended 31 December 2015 and the total number of activated phone numbers decreased by approximately 22.9% to 53,829 as of 31 December 2016 compared to 69,858 as of 31 December 2015.

The Group continued 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 phone 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 average revenue per user ("ARPU") of the Group showed a decreasing trend and the ARPU of the Group was approximately HK$9.5 for the year ended 31 December 2016, lower than approximately HK$14.0 for the last corresponding year.

The volume of the Group's airtime sold decreased from approximately 76.4 million minutes for the year ended 31 December 2015 to approximately 51.1 million minutes for the year ended 31 December 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$15.9 million to approximately HK$6.4 million during the same period. The Group's revenue per minute of airtime sold decreased from approximately HK$0.21 for the year ended 31 December 2015 to approximately HK$0.13 for the year ended 31 December 2016.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2016, the revenue of the Group decreased to approximately HK$6,415,000 compared to approximately HK$15,934,000 for the last corresponding year, represented a decrease of approximately 59.7%. 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.

Cost of Sales

The Group's cost of sales decreased by approximately 27.6% to approximately HK$13,562,000 for the year ended 31 December 2016 compared to approximately HK$18,728,000 for the last corresponding year. The decrease was mainly attributable to the decrease of airtime usage by users.

Gross Loss

The gross loss of the Group for the year ended 31 December 2016 increased by approximately 155.8% to approximately HK$7,147,000 when compared to approximately HK$2,794,000 for the last corresponding 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.

Other Income

The Group's other income for the year ended 31 December 2016 decreased by approximately 52.9% to approximately HK$1,115,000 when compared to approximately HK$2,369,000 for the last corresponding year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

Other Net Loss

The Group's other net loss for the year ended 31 December 2016 decreased by approximately 29.7% to approximately HK$4,590,000 when compared to approximately HK$6,528,000 for the last corresponding year. The decrease was attributable to the decrease of foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the year.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses for the year ended 31 December 2016 decreased by approximately 29.1% to approximately HK$12,197,000 compared to approximately HK$17,212,000 for the last corresponding year. The decrease was mainly attributable to the research and development cost of approximately HK$4,241,000 incurred in the year of 2015 while only approximately HK$15,000 has incurred in the year of 2016.

Reversal of Impairment Loss on Trade Receivables

In accordance with the Group's policy in provision for doubtful debts, during the year ended 31 December 2016, the Group has made a reversal of impairment loss on trade receivables of approximately HK$25,934,000 while during the year ended 31 December 2015, the Group has made a provision for impairment loss on trade receivables of approximately HK$11,574,000. Details are set out in note 12 to the financial statements.

Income Tax

The Group recorded income tax credit of approximately HK$128,000 for the year ended 31 December 2016 while the Group's income tax for the year ended 31 December 2015 was approximately HK$301,000. Such income tax credit was mainly attributable to the decrease of deferred tax liabilities provided for the property, plant and equipment of the Group.

Profit Attributable to Shareholders

The Group recorded a profit attributable to equity shareholders of the Company for the year ended 31 December 2016 of approximately HK$3,243,000 while it recorded a loss attributable to equity shareholders of the Company of approximately HK$36,040,000 for the last corresponding year. The profit was mainly due to the reversal of impairment loss on trade receivables for the year ended 31 December 2016.

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 "New 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 cooperation with the New Service Providers enables 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. The users are 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 year of 2017, 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. 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.

CAPITAL STRUCTURE

There has been no material change in the capital structure of the Group for the year ended 31 December 2016.

As at 31 December 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. As at 31 December 2016, total equity attributable to equity holders of the Company amounted to approximately HK$106,620,000 (as at 31 December 2015: approximately HK$103,377,000).

As of 31 December 2016, the Company had an authorised share capital of HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each ("Shares"), of which 3,112,500,000 Shares were issued.

OTHER INFORMATION

Update on the Use of Proceeds from the Placing Completed on 2 June 2010 ("IPO Proceeds")

This section is made by the Company to provide an update on the use of IPO Proceeds.

The IPO Proceeds were approximately HK$69.2 million, amongst which approximately HK$21.0 million had been utilised as at 31 December 2016. The breakdown of the Company's actual use of the IPO proceeds as at 31 December 2016 is as follows:

	Proposed use of the IPO proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the "Prospectus")	**Actual use of the IPO proceeds from the date of listing to 31 December 2016**
	HK$ million	*HK$ million*
		(Unaudited)
Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories	22.7	5.5
Upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service providers in Hong Kong and the PRC	20.8	4.4
Development and implementation of RF-SIM business plans in Hong Kong and Macau	18.9	4.3
Working capital	6.8	6.8
Total	69.2	21.0

Based on the information currently available and the Board's estimation of the future market condition, the Company intends to utilise approximately HK$28.0 million (representing approximately 58.1% of the unutilised IPO proceeds of approximately HK$48.2 million) in the following manner:

(a) approximately HK$10.0 million (representing approximately 20.7% of the unutilised IPO Proceeds) is expected to be applied to expanding of 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 Macau, Taiwan and other Asia Pacific territories) by launching several new mobile and roaming services on or before 30 June 2017;

(b) approximately HK$16.0 million (representing approximately 33.2% of the unutilised IPO Proceeds) is expected to be applied to upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service operators in Hong Kong and the PRC on or before the third quarter of 2017 after testing of the relevant system; and

(c) approximately HK$2.0 million (representing approximately 4.2% of the unutilised IPO Proceeds) is expected to be applied to developing and implementing of RF-SIM business in the coming three months from the date of this announcement.

The remaining balance of approximately HK$20.2 million (representing approximately 41.9% of the unutilised IPO proceeds) have been placed as interest bearing deposits in banks in Hong Kong. As at the date of this announcement, the Board confirmed that there is no plan to change the original intended use of the proceeds as disclosed in the Prospectus.

In addition to the above, 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.

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 31 December 2016, the Group had net current assets of approximately HK$100,051,000 (as at 31 December 2015: approximately HK$96,109,000), including cash and cash equivalents of approximately HK$66,148,000 (as at 31 December 2015: approximately HK$89,782,000). The current ratio was 16.1 as at 31 December 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, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 31 December 2016, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 31 December 2016, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

As at 31 December 2016, the Group had no specific acquisition target. The Group did not have any material acquisition, disposals of subsidiaries or affiliated companies or significant investment during the year under review.

STAFF AND REMUNERATION POLICY

As at 31 December 2016, the Group had 10 employees (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 a final dividend for the year ended 31 December 2016 (2015: Nil).

EVENT AFTER THE REPORTING PERIOD

On 17 August 2016, the Group entered into a termination agreement with the Service Provider to officially terminate the contractual relationship (the "Termination Agreement"). Pursuant to the Termination Agreement, the Service Provider will settle the outstanding sums due to the Group (the "Outstanding Sums"). As at 30 September 2016, the accumulated provision for impairment loss on trade receivables arising from such Outstanding Sums made by the Group amounted to approximately HK$31,896,000. On 1 March 2017, the Outstanding Sums have been duly received by the Group and accordingly, the provision for impairment loss of approximately HK$31,896,000 made previously in respect of the Outstanding Sums has been reversed at the end of the reporting period. For details, please refer to the Company's announcements dated 17 August 2016, 28 February 2017 and 1 March 2017.

Save as disclosed above, no significant event has taken place subsequent to 31 December 2016 and up to the date of this announcement.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Wednesday, 10 May 2017 to Friday, 12 May 2017, both days inclusive. In order to ascertain the members' entitlement to the attendance of the forthcoming annual general meeting of the Company, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, namely Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 9 May 2017.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this announcement, during the year ended 31 December 2016, 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 31 December 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.

The Company did not grant or cancel any options under the Share Option Scheme any time during the year, and as at 31 December 2016, there was no outstanding share option under the Share Option Scheme.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. During the year ended 31 December 2016, the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules.

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 year ended 31 December 2016, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the year ended 31 December 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. 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. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee.

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 supervising the financial reporting process and internal control of the Group.

During the year of 2016, the audit committee has (i) reviewed the quarterly and half-yearly results; (ii) reviewed the accounting policies adopted by the Group and issues related to accounting practice; (iii) met with external auditors to discuss on issues arising from the audit and financial reporting matters and reviewed the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement; and (iv) assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control.

The Group's audited results for the year ended 31 December 2016 have been reviewed by the Audit Committee and which 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, 22 March, 2017

As at the date of this announcement, 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.

This announcement will remain on the "Latest Company Announcements" page of the GEM website at www.hkgem.com for at least 7 days from the day of its publication and on the Company's website at www.directel.hk.