Directel Holdings Limited
直通電訊控股有限公司

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

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 8337)

FIRST QUARTERLY REPORT
2017

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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 three months ended 31 March 2017 was approximately HK$1,444,000, representing a decrease of approximately 2.7% as compared with the corresponding period in 2016.
- Loss attributable to shareholders of the Company for the three months ended 31 March 2017 was approximately HK$3,693,000, representing a decrease of approximately 39.1% as compared with the corresponding period in 2016.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2017.

UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2017

The board of Directors (the "Board") of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the three months ended 31 March 2017 together with the unaudited comparative figures for the corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the three months ended 31 March 2017 *HK$'000* (Unaudited)	2016 *HK$'000* (Unaudited)
Revenue	4	**1,444**	1,484
Cost of sales		**(2,846)**	(3,283)
Gross loss		**(1,402)**	(1,799)
Other income	5(a)	**123**	571
Other net profit	5(b)	**449**	607
Administrative and other operating expenses		**(2,863)**	(3,032)
Provision for impairment loss on trade receivables		**—**	(2,414)
Loss before taxation	6	**(3,693)**	(6,067)
Income tax	7	**—**	—
Loss for the period attributable to equity shareholders of the Company		**(3,693)**	(6,067)
Other comprehensive loss for the period, net of income tax:			
Item that may be reclassified subsequently to profit or loss:			
Available-for-sale financial assets: net change in fair value		**(136)**	—
Total comprehensive loss for the period attributable to equity shareholders of the Company		**(3,829)**	(6,067)
Loss per share	8		
– Basic and diluted (HK cents)		**(0.12)**	(0.19)

NOTES TO THE UNAUDITED CONSOLIDATED QUARTERLY 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 quarterly financial report has been prepared in compliance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange and 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 2016, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The quarterly financial report contains consolidated first quarterly statement of profit or loss and other comprehensive income and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the financial performance of the Group since the 2016 annual financial statements. The consolidated quarterly financial report 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 ("IFRSs").

The quarterly financial report has not been audited by the Company's auditors, but has been reviewed by the Company's audit committee.

3. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board 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.

4. REVENUE

	For the three months ended 31 March	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Provision of telecommunications services	**1,444**	1,484

5. OTHER INCOME AND OTHER NET PROFIT

		For the three months ended 31 March	
		2017	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
(a)	**Other income**		
	Interest income from bank deposits	**122**	571
	Sundry income	**1**	—
		123	571
(b)	**Other net profit**		
	Net foreign exchange gain	**449**	607

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		For the three months ended 31 March	
		2017	2016
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
(a)	Staff costs:		
	Salaries, wages and other benefits	**783**	930
	Contributions to defined contribution retirement plan	**26**	32
		809	962
(b)	Other items:		
	Depreciation	**431**	412
	Licence charges	**240**	482
	Operating lease charges in respect of		
	– rental of properties	**262**	260
	– rental of transmission lines	**245**	235
	Auditors' remuneration		
	– audit services	**205**	220
	Repairs and maintenance	**200**	202
	Provision for impairment loss on trade receivables	**—**	2,414

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

	For the three months ended 31 March	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(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 ended 31 March 2017 (three months ended 31 March 2016: Nil).

8. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the three months ended 31 March 2017 is based on the unaudited loss attributable to ordinary equity shareholders of the Company of approximately HK$3,693,000 (three months ended 31 March 2016: approximately HK$6,067,000) and the weighted average number of 3,112,500,000 ordinary shares in issue during the three months ended 31 March 2017 (three months ended 31 March 2016: 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.

9. MOVEMENT OF EQUITY

	Share capital HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Warrant reserve HK$'000 (Unaudited)	Fair value reserve HK$'000 (Unaudited)	Retained earnings HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
As at 1 January 2016	31,125	46,749	1,654	—	23,849	103,377
Loss and total comprehensive loss for the period	—	—	—	—	(6,067)	(6,067)
As at 31 March 2016	31,125	46,749	1,654	—	17,782	97,310
As at 1 January 2017	**31,125**	**46,749**	**1,654**	**—**	**27,092**	**106,620**
Loss for the period	**—**	**—**	**—**	**—**	**(3,693)**	**(3,693)**
Other comprehensive loss for the period	**—**	**—**	**—**	**(136)**	**—**	**(136)**
Total comprehensive loss for the period	**—**	**—**	**—**	**(136)**	**(3,693)**	**(3,829)**
As at 31 March 2017	**31,125**	**46,749**	**1,654**	**(136)**	**23,263**	**102,791**

10. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: Nil).

11. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 31 March 2017 ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Trade receivables		
– amounts due from third parties	**562**	36,939
Other receivables, deposits and prepayments		
– other receivables	**1,017**	964
– deposits and prepayments	**2,236**	2,313
	3,253	3,277
	3,815	40,216

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

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 could 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 31 March 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Within 1 month	**44**	123
Over 1 month but less than 3 months	**109**	162
Over 3 months but less than 6 months	**217**	342
Over 6 months but less than 12 months	**192**	1
Over 12 months but less than 18 months	**—**	4,245
Over 18 months	**—**	32,066
	562	36,939

11. 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 31 March 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Current	**39**	118
Less than 1 month past due	**49**	161
1 to 3 months past due	**125**	127
More than 3 months but less than 12 months past due	**349**	221
More than 12 months but less than 18 months past due	**—**	4,601
More than 18 months past due	**—**	31,711
	562	36,939

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. On 1 March 2017, the Group received amounts due from the Service Provider without any disputes or balances requiring to be written off and 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.

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

(b) 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 31 March 2017 ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Neither past due nor impaired	**39**	118
Less than 1 month past due	**49**	161
1 to 3 months past due	**125**	127
More than 3 months but less than 12 months past due	**349**	221
More than 12 months but less than 18 months past due	**—**	4,601
More than 18 months past due	**—**	31,711
	523	36,821
	562	36,939

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.

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 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 three months ended 31 March 2017 compared with the corresponding period in 2016. The monthly average number of activated phone numbers decreased by approximately 19.2% to 48,770 for the three months ended 31 March 2017 when compared with the corresponding period in 2016 and the total number of activated phone numbers decreased by approximately 12.7% to 47,008 as of 31 March 2017 compared to 53,829 as of 31 December 2016.

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 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 average revenue per user ("ARPU") of the Group remained at a low level and the ARPU of the Group was approximately HK$9.9 for the three months ended 31 March 2017, which is higher than approximately HK$8.2 for the same period last year.

The volume of the Group's airtime sold decreased from approximately 12.7 million minutes for the three months ended 31 March 2016 to approximately 9.7 million minutes for the three months ended 31 March 2017. The revenue derived from the provision of "One Card Multiple Number" service and Hong Kong local mobile phone services decreased slighty from approximately HK$1.5 million to approximately HK$1.4 million during the same period. The Group's revenue per minute of airtime sold increased from approximately HK$0.12 for the three months ended 31 March 2016 to approximately HK$0.15 for the three months ended 31 March 2017.

FINANCIAL REVIEW

For the three months ended 31 March 2017, the revenue of the Group decreased to approximately HK$1,444,000 compared to approximately HK$1,484,000 for the corresponding period last year, represented a decrease of approximately 2.7%. 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.

The Group's cost of sales decreased by approximately 13.3% to approximately HK$2,846,000 for the three months ended 31 March 2017 compared to approximately HK$3,283,000 for the corresponding period last year.

The gross loss of the Group for the three months ended 31 March 2017 decreased by approximately 22.1% to approximately HK$1,402,000 when compared with approximately HK$1,799,000 for the corresponding period last year. The decrease in the cost of sales and gross loss was mainly attributable to the reduction of the minimum requirement of the monthly purchase amount adopted by the MNOs.

The Group's other income for the three months ended 31 March 2017 decreased by approximately 78.5% to approximately HK$123,000 when compared with approximately HK$571,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

The Group's other net profit for the three months ended 31 March 2017 decreased by approximately 26.0% to approximately HK$449,000 when compared to approximately HK$607,000 for the corresponding period last year. The decrease was mainly due to the decrease of foreign exchange gain 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 three months ended 31 March 2017 decreased slightly by approximately 5.6% to approximately HK$2,863,000 compared to approximately HK$3,032,000 for the corresponding period last year.

In accordance with the Group's policy in provision for doubtful debts, during the three months ended 31 March 2016, the Group has made a provision for impairment loss on trade receivables of approximately HK$2,414,000 while during the three months ended 31 March 2017, no provision for impairment loss on trade receivables has been made. Details are set out in note 11 to the financial statements.

No income tax has been provided for the three months ended 31 March 2016 and 2017 as the Group had no assessable profits for the periods.

The Group recorded a loss attributable to equity shareholders of the Company for the three months ended 31 March 2017 of approximately HK$3,693,000, representing a decrease of approximately 39.1% when compared to approximately HK$6,067,000 for the corresponding period last year. The decrease was mainly due to the provision for impairment loss on trade receivables during the three months ended 31 March 2016 while no such provision has been made for the three months ended 31 March 2017.

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 second quarter 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. 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 provider 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.

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$21.1 million had been utilised as at 31 March 2017. The breakdown of the Company's actual use of the IPO proceeds as at 31 March 2017 is as follows:

	Proposed use of the IPO proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the "Prospectus") *HK$ million*	**Actual use of the IPO proceeds from the date of listing to 31 March 2017** *HK$ million* (unaudited)
Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories	22.7	5.6
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	21.1

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 58.2% of the unutilised IPO proceeds of approximately HK$48.1 million) in the following manner:

(a) approximately HK$10.0 million (representing approximately 20.8% 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 report.

The remaining unutilised IPO Proceeds of approximately HK$48.1 million have been placed as interest bearing deposits in banks in Hong Kong. As at the date of this report, 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.

CONTINGENT LIABILITIES

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

DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2017 (three months ended 31 March 2016: Nil).

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"). For details, please refer to the announcements of the Company dated 30 April 2014 and 29 May 2014. 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 have been adjusted from HK$0.1648 to HK$0.0549 and from 200,000,000 Shares to 600,000,000 Shares respectively, as a result of the completion of bonus issue of the Company on 23 June 2015. For details of the completion of the bonus issue, please refer to the announcement of the Company dated 23 June 2015. On 23 November 2016, the Subscriber as transferor, transferred 200,000,000 Warrants to six individuals, as transferees, at a consideration of HK$2,000,000 (at HK$0.01 per Warrant). At as the date of this report, no Warrants have been exercised and the Company has not utilised any of the net proceeds.

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

As at 31 March 2017, 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 31 March 2017, 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 31 March 2017, 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 31 March 2017, 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 31 March 2017. 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 three months ended 31 March 2017, and as at 31 March 2017, there was no outstanding share option 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 three months ended 31 March 2017.

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 three months ended 31 March 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the three months ended 31 March 2017, 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 of the Audit Committee published on the Company's website and 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. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee. The Group's unaudited results for the three months ended 31 March 2017 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 May 2017

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.