Directel

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)

INTERIM REPORT

2017

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

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

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

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

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

HIGHLIGHTS

- Revenue for the six months ended 30 June 2017 was approximately HK$3,066,000, representing a decrease of approximately 17.7% as compared with the corresponding period in 2016.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2017 was approximately HK$6,739,000, representing a decrease of approximately 55.5% as compared with the corresponding period in 2016.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2017.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The board of Directors (the "Board") of the Company hereby announces the unaudited consolidated financial statements of the Company and its subsidiaries (together referred to as the "Group") for the three months and the six months ended 30 June 2017 together with the unaudited comparative figures for the respective corresponding period in 2016 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the three months ended 30 June **2017** *HK$'000* **(Unaudited)**	For the three months ended 30 June 2016 *HK$'000* (Unaudited)	For the six months ended 30 June **2017** *HK$'000* **(Unaudited)**	For the six months ended 30 June 2016 *HK$'000* (Unaudited)
Revenue	5	**1,622**	2,242	**3,066**	3,726
Cost of sales		**(2,089)**	(3,380)	**(4,935)**	(6,663)
Gross loss		**(467)**	(1,138)	**(1,869)**	(2,937)
Other income	6(a)	**128**	387	**251**	958
Other net profit/(loss)	6(b)	**140**	(2,710)	**589**	(2,103)
Administrative and other operating expenses		**(2,847)**	(3,121)	**(5,710)**	(6,153)
Provision for impairment loss on trade receivables		**—**	(2,486)	**—**	(4,900)
Loss before taxation	7	**(3,046)**	(9,068)	**(6,739)**	(15,135)
Income tax	8	**—**	—	**—**	—
Loss for the period attributable to equity shareholders of the Company		**(3,046)**	(9,068)	**(6,739)**	(15,135)
Other comprehensive income for the period, net of income tax:					
Item that may be reclassified subsequently to profit or loss:					
Available-for-sale financial asset: net change in fair value		**185**	—	**49**	—
Total comprehensive loss for the period attributable to equity shareholders of the Company		**(2,861)**	(9,068)	**(6,690)**	(15,135)
Loss per share	10				
– Basic and diluted (HK cents)		**(0.10)**	(0.29)	**(0.22)**	(0.49)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	**As at 30 June 2017** ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Non-current assets			
Property, plant and equipment	11	**6,542**	7,225
Deposits		**2,429**	224
Available-for-sale financial asset	12	**2,065**	—
Total non-current assets		**11,036**	7,449
Current assets			
Inventories	13	**216**	207
Trade receivables	14	**603**	36,939
Other receivables, deposits and prepayments	14	**4,850**	3,277
Taxation recoverable		**120**	120
Cash and cash equivalents	15	**89,612**	66,148
Total current assets		**95,401**	106,691
Current liabilities			
Payables and accruals	16	**5,627**	6,640
Total current liabilities		**5,627**	6,640
Net current assets		**89,774**	100,051
Total assets less current liabilities		**100,810**	107,500
Non-current liabilities			
Deferred tax liabilities		**880**	880
Net assets		**99,930**	106,620
Capital and reserves			
Share capital	17	**31,125**	31,125
Share premium		**46,749**	46,749
Warrant reserve		**1,654**	1,654
Fair value reserve		**49**	—
Retained earnings		**20,353**	27,092
Total equity		**99,930**	106,620

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital *HK$'000* (Unaudited) (Note 17)	Share premium *HK$'000* (Unaudited) (Note 17)	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	—	—	—	—	(15,135)	(15,135)
As at 30 June 2016	31,125	46,749	1,654	—	8,714	88,242
As at 1 January 2017	**31,125**	**46,749**	**1,654**	**—**	**27,092**	**106,620**
Loss for the period	**—**	**—**	**—**	**—**	**(6,739)**	**(6,739)**
Other comprehensive income for the period	**—**	**—**	**—**	**49**	**—**	**49**
Total comprehensive loss for the period	**—**	**—**	**—**	**49**	**(6,739)**	**(6,690)**
As at 30 June 2017	**31,125**	**46,749**	**1,654**	**49**	**20,353**	**99,930**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	For the six months ended 30 June **2017** **HK$'000** **(Unaudited)**	2016 *HK$'000* (Unaudited)
Net cash generated from/(used in) operating activities		**25,462**	(17,253)
Net cash (used in)/generated from investing activities		**(1,998)**	813
Net increase/(decrease) in cash and cash equivalents		**23,464**	(16,440)
Cash and cash equivalents at 1 January	15	**66,148**	89,782
Cash and cash equivalents at 30 June	15	**89,612**	73,342

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

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

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

2. BASIS OF PREPARATION

The interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, and in compliance with International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 8 August 2017.

The interim financial report of the Group has been prepared in accordance with substantially the same accounting policies adopted in the Group's audited financial statements set out in the annual report for the year ended 31 December 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 4.

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

The Group's interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRS").

2. BASIS OF PREPARATION *(Continued)*

The interim financial report for the six months ended 30 June 2017 is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as being previously reported information does not constitute the Group's annual financial statements prepared under IFRS for that financial year but is derived from those financial statements. The Group's financial information relating to the financial year ended 31 December 2016 which is included in the annual report for the year ended 31 December 2016 is available at the Company's registered office. The independent auditor has expressed an unqualified opinion on those financial statements in the independent auditor's report included in the annual report for the year ended 31 December 2016.

3. SEGMENT REPORTING

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

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

4. CHANGES IN ACCOUNTING POLICIES

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

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

5. REVENUE

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Provision of telecommunications services	**1,622**	2,242	**3,066**	3,726

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
The largest customer	**—**	1,771	**—**	3,200
The second largest customer	**—**	306	**—**	430

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Other income				
Interest income from bank deposits	**127**	387	**249**	958
Sundry income	**1**	—	**2**	—
	128	387	**251**	958
(b) Other net profit/(loss)				
Net foreign exchange gain/(loss)	**140**	(2,710)	**589**	(2,103)

7. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Staff costs:				
Salaries, wages and other benefits	**775**	852	**1,558**	1,782
Contributions to defined contribution retirement plan	**27**	32	**53**	64
	802	884	**1,611**	1,846
(b) Other items:				
Depreciation	**434**	415	**865**	827
Licence charges	**261**	397	**501**	879
Operating lease charges in respect of				
– rental of properties	**279**	262	**541**	522
– rental of transmission lines	**252**	224	**497**	459
Auditors' remuneration				
– audit services	**204**	224	**409**	444
– tax services	**18**	18	**37**	37
Repairs and maintenance	**209**	205	**409**	407
Provision for impairment loss on trade receivables	**—**	2,486	**—**	4,900

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(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 and six months ended 30 June 2017 (three months and six months ended 30 June 2016: Nil).

9. DIVIDEND

The Board does not recommend any payment of an interim dividend for the six months ended 30 June 2017. No interim dividend was paid in respect of the six months ended 30 June 2016.

10. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share for the three months and six months ended 30 June 2017 is based on the unaudited loss attributable to ordinary equity shareholders of the Company of approximately HK$3,046,000 and HK$6,739,000 respectively (three months and six months ended 30 June 2016: approximately HK$9,068,000 and HK$15,135,000 respectively) and the weighted average number of 3,112,500,000 ordinary shares in issue during the three months and six months ended 30 June 2017 (three months and six months ended 30 June 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.

11. PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2017, the Group acquired items of property, plant and equipment with an aggregate cost of approximately HK$182,000 (six months ended 30 June 2016: approximately HK$145,000).

12. AVAILABLE-FOR-SALE FINANCIAL ASSET

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
At beginning of the period/year	**—**	—
Additions	**2,016**	—
Fair value gain	**49**	—
At end of the period/year	**2,065**	—

Available-for-sale financial asset includes the following:

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Listed shares in Hong Kong	**2,065**	—

Available-for-sale financial asset is denominated in HK dollars.

The fair value of the available-for-sale financial asset is based on its current bid prices in an active market. Fair value gain during the period was recognised as other comprehensive income.

13. INVENTORIES

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
SIM cards	**195**	190
Recharge vouchers	**21**	17
	216	207

14. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Trade receivables		
– amounts due from third parties	**603**	36,939
Other receivables, deposits and prepayments		
– other receivables	**1,067**	964
– deposits and prepayments	**3,783**	2,313
	4,850	3,277
	5,453	40,216

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

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

(a) Ageing analysis

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

	As at 30 June 2017 ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Within 1 month	**57**	123
Over 1 month but less than 3 months	**59**	162
Over 3 months but less than 6 months	**119**	342
Over 6 months but less than 12 months	**368**	1
Over 12 months but less than 18 months	**—**	4,245
Over 18 months	**—**	32,066
	603	36,939

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

	As at 30 June 2017 ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Current	**53**	118
Less than 1 month past due	**57**	161
1 to 3 months past due	**125**	127
More than 3 months but less than 12 months past due	**368**	221
More than 12 months but less than 18 months past due	**—**	4,601
More than 18 months past due	**—**	31,711
	603	36,939

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

(a) Ageing analysis *(Continued)*

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.

(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 30 June 2017 ***HK$'000*** **(Unaudited)**	As at 31 December 2016 *HK$'000* (Audited)
Neither past due nor impaired	**53**	118
Less than 1 month past due	**57**	161
1 to 3 months past due	**125**	127
More than 3 months but less than 12 months past due	**368**	221
More than 12 months but less than 18 months past due	**—**	4,601
More than 18 months past due	**—**	31,711
	550	36,821
	603	36,939

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

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

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

15. CASH AND CASH EQUIVALENTS

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Deposits with banks	**82,281**	56,919
Cash at bank	**7,321**	9,219
Cash in hand	**10**	10
	89,612	66,148

16. PAYABLES AND ACCRUALS

	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
Trade payables		
– amounts due to related parties	**26**	49
– amounts due to third parties	**2,859**	3,697
	2,885	3,746
Other payables and accruals		
– accrued charges and deposits	**1,978**	2,108
– deferred income	**764**	786
	2,742	2,894
	5,627	6,640

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

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

	As at 30 June 2017 HK$'000 (Unaudited)	As at 31 December 2016 HK$'000 (Audited)
Within 1 month	**720**	1,859
Over 1 month but less than 3 months	**1,128**	1,887
Over 3 months but less than 6 months	**1,037**	—
	2,885	3,746

17. SHARE CAPITAL

	Note	As at 30 June 2017 Number of shares (Unaudited)	As at 30 June 2017 Nominal value HK$'000 (Unaudited)	As at 31 December 2016 Number of shares (Audited)	As at 31 December 2016 Nominal value HK$'000 (Audited)
Ordinary shares of HK$0.01 each					
Authorised:	(i)	**10,000,000,000**	**100,000**	10,000,000,000	100,000
Issued and fully paid:					
At beginning and end of period/year	(ii)	**3,112,500,000**	**31,125**	3,112,500,000	31,125

Notes:

(i) Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, the authorised share capital of the Company was increased from HK$40,000,000, divided into 4,000,000,000 ordinary shares of HK$0.01 each to HK$100,000,000 divided into 10,000,000,000 ordinary shares of HK$0.01 each by the creation of an additional 6,000,000,000 ordinary shares of HK$0.01 each of the Company.

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

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

18. COMMITMENTS

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

	As at 30 June 2017 *HK$'000* (Unaudited)	As at 31 December 2016 *HK$'000* (Audited)
Contracted for	**5,078**	225

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

	As at 30 June 2017		As at 31 December 2016	
	Properties *HK$'000* (Unaudited)	**Transmission lines *HK$'000* (Unaudited)**	Properties *HK$'000* (Audited)	Transmission lines *HK$'000* (Audited)
Within 1 year	**498**	**111**	996	69
After 1 year but within 5 years	**—**	**82**	—	28
	498	**193**	996	97

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

19. MATERIAL RELATED PARTY TRANSACTIONS

(a) Relationship between the Group and related parties

(i) Controlling shareholders of the Group

- Li Kin Shing
- Kwok King Wa

(ii) Subject to common control from controlling shareholders

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

19. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(b) Transactions

The Group entered into the following material related party transactions:

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Continuing after the Listing				
Services rendered (i)	**169**	238	**384**	476
Rental of properties (ii)	**249**	249	**498**	498

Notes:

(i) Services rendered by related parties related to data processing and billing management services, built-in-secretarial and customer hotline services, telesales services and development and maintenance of the Company's website.

(ii) The Group has leased certain properties under operating lease from a related party, Talent Information Engineering Co. Limited, at an aggregate monthly rental of HK$83,000 for the period from 1 January 2015 to 31 December 2017.

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

(c) Balances with related parties

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

	As at 30 June 2017	As at 31 December 2016
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Amounts due to related parties		
– trade	**26**	49

Notes: The amounts due to related parties are unsecured, interest free and repayable on demand and is included in "Payables and accruals" (note 16).

19. MATERIAL RELATED PARTY TRANSACTIONS *(Continued)*

(d) Key management personnel remuneration

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

	For the three months ended 30 June		For the six months ended 30 June	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Short-term employee benefits	**531**	515	**1,046**	1,024
Contributions to defined contribution retirement plan	**16**	16	**32**	33
	547	531	**1,078**	1,057

20. CONTINGENT LIABILITIES

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

21. EVENTS AFTER THE REPORTING PERIOD

On 18 July 2017, Dynamic Profit International Limited (the "Purchaser"), an indirect and wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Ms. Wu Xinyu (the "Vendor"), pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the entire issued capital of Joint Top Investments Limited together with its subsidiary 廣州直通電訊有限公司, which is principally engaged in the sale of mobile telecommunication services in Guangdong province, the PRC at a total consideration of HK$60,000,000. Details of the transaction are set out in the Company's announcement dated 18 July 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is a mobile virtual network operator ("MVNO") which is principally engaged in the provision of mobile phone services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime sourced from 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 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 competitive of the Group's business has been adversely affected. The monthly average number of activated phone numbers decreased by approximately 19.2% to 46,667 in the first half year of 2017 when compared with the corresponding period in 2016 and the total number of activated phone numbers decreased by approximately 20.3% to 42,882 as of 30 June 2017 compared to 53,829 as of 31 December 2016. The average revenue per user ("ARPU") of the Group remained at a low level and the ARPU of the Group was approximately HK$11.0 for the six months ended 30 June 2017, which is slightly higher than approximately HK$10.7 for the same period last year.

The volume of the Group's airtime sold decreased from approximately 25.7 million minutes for the first half year of 2016 to approximately 20.1 million minutes for the first half year of 2017. The revenue derived from the provision of "One Card Multiple Number" service and Hong Kong local mobile phone services decreased from approximately HK$3.7 million to approximately HK$3.1 million during the same period. The Group's revenue per minute of airtime sold remained the same at approximately HK$0.15 for the first half year of 2016 and 2017, respectively.

FINANCIAL REVIEW

For the six months ended 30 June 2017, the revenue of the Group decreased to approximately HK$3,066,000 compared to approximately HK$3,726,000 for the corresponding period last year, representing a decrease of approximately 17.7%. 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 25.9% to approximately HK$4,935,000 for the six months ended 30 June 2017 compared to approximately HK$6,663,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of airtime usage by users.

The gross loss of the Group for the six months ended 30 June 2017 decreased by approximately 36.4% to approximately HK$1,869,000 when compared with approximately HK$2,937,000 for the corresponding period last year. The decrease in the 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 six months ended 30 June 2017 decreased by approximately 73.8% to approximately HK$251,000 when compared with approximately HK$958,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

For the six months ended 30 June 2016, the Group recorded other net loss of approximately HK$2,103,000 while for the six months ended 30 June 2017, the Group incurred other net profit of approximately HK$589,000. The other net profit during the first half of 2017 was mainly due to 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 six months ended 30 June 2017 decreased by approximately 7.2% to approximately HK$5,710,000 when compared to approximately HK$6,153,000 for the corresponding period last year. The decrease was primarily due to the decrease in licence charges as the number of activated phone numbers decreased during the period.

In accordance with the Group's policy in provision for doubtful debts, during the six months ended 30 June 2016, the Group has made a provision for impairment loss on trade receivables of approximately HK$4,900,000 while during the six months ended 30 June 2017, no provision for impairment loss on trade receivables has been made. Details are set out in note 14 to the financial statements.

No income tax has been provided for the six months ended 30 June 2016 and 2017 respectively as the Group had no assessable profits for the periods.

The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2017 of approximately HK$6,739,000, representing a decrease of approximately 55.5% when compared to approximately HK$15,135,000 for the corresponding period last year. The decrease was mainly due to the provision for impairment loss on trade receivables during the six months ended 30 June 2016 while no such provision has been made for the six months ended 30 June 2017. In addition, the Group recorded a foreign exchange gain for the six months ended 30 June 2017 as compared to a foreign exchange loss amounted to approximately HK$2,103,000 for the corresponding period last year.

BUSINESS OUTLOOK

The Company has been looking for opportunities to improve its operations and revenue. In addition to securing new contracts with agents for the distribution of its airtime and mobile data business in Hong Kong, the Company has been actively exploring new revenue sources and has achieved the following milestones up to the date of this report:

(1) Provision of mobile telecommunication services to a hotel booking services provider

The Group has signed a cooperation agreement with a hotel booking service provider, in which the Group shall provide free mobile telecommunications services, including airtime and mobile data usage, to guests of hotels in and outside Hong Kong who have made their hotel bookings through the designated hotel booking application or platform. The Group shall receive a commission rebated by the hotel booking service provider for the services rendered. The hotel booking application and platform have been developed and the Company expects the relevant services will be launched in the second half of 2017.

(2) Provision of mobile telecommunication services to a Hong Kong listed company

The Group has entered into a three-year cooperation agreement with a Hong Kong listed company (the “Business Partner”). Pursuant to the agreement, the Group shall provide a mobile telecommunication service package to customers of the Business Partner and receive a fee from the Business Partner for the services rendered. The service package includes a SIM card that can be used in four different territorial networks and a fixed amount of airtime, mobile data usage and SMS text messages across each territory, as well as customer services and maintenance etc.

(3) Provision of 4G telecommunication services

In order to improve our provision of services, the Group plans to upgrade its current network in Hong Kong to 4G and the relevant equipment have been installed. The upgraded system is currently under testing and commissioning and the Company expects to introduce its 4G services in the second half of 2017. Upon the introduction of the new 4G network, with the additional coverage provided by an existing service provider, the Group will be able to broaden its mobile roaming coverage to over 60 countries and to launch a new mobile roaming application, for users to make phone calls through the application in the broadened coverage. The Company has commenced marketing efforts in promoting its new 4G telecommunication services and is currently contacting agents actively for distribution of its new 4G products. Three new distribution agency contracts have already been signed up to the date of this report and a number of agents have expressed interest in becoming the Company's agents after the 4G network is ready. Therefore, upon the introduction of 4G services, the Company is of the view that the Group's business in Hong Kong will be improved.

(4) Provision of new services

The Group intends to launch several new mobile and roaming services to align with the developing trends of mobile internet, namely, (i) OTA Card and (ii) private phonebook, all of which are value-added services. The Group expects that the introduction of these value-added services will improve user experience and make our service more attractive to the customers.

In addition to the abovementioned, the Group has been actively expanding its business geographically, especially in the PRC. The Group recently obtained the Mainland and Hong Kong Closer Ecomonic Partnership Arrangement ("CEPA") qualification in June 2017 which allows the Group to sell its SIM cards through distributors in Guangdong Province. In view of this, on 18 July 2017, Dynamic Profit International Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Ms. Wu Xinyu, pursuant to which the Purchaser has conditionally agreed to purchase and the Vendor has conditionally agreed to sell the entire issued capital of Joint Top Investments Limited (the "Target"). The Target, through its subsidiary 廣州直通電訊有限公司 (Guangzhou Directel Telecommunications Limited*) (together with the Target, the "Target Group"), is principally engaged in the sale of mobile telecommunication services in Guangdong province, the PRC (the "Acquisition"). Upon completion of the Acquisition, it is expected that the Target Group will act as a new distribution channel of the Group in the Guangdong Province market. In a longer term perspective, it is the Group's plan to utilize the Target Group as a platform to reach other PRC markets outside the Guangdong province. Thus, the Company is of the view that the PRC Acquisition will enhance the Group's operation, broaden its revenue source and expand its geographical reach. Details of the transaction are set out in the Company's announcement dated 18 July 2017.

The Company is also continuously exploring suitable business development/ investment opportunities in the relevant telecommunication business, and will issue announcement(s) in accordance with the applicable GEM Listing Rules, as and when appropriate.

Besides exploring new revenue sources, the Group will at the same time implement stringent cost control measures in order to improve its business and financial performance. The Group is currently negotiating with the service providers to further reduce (i) the unit cost of airtime and mobile data; and (ii) the level of monthly minimum purchase amount which was previously agreed with the MNOs.

* For identification purpose only

OTHER INFORMATION

Update on the use of proceeds from the placing of the shares of the Company 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$23.6 million had been utilised up to 30 June 2017. The breakdown of the Company's actual use of the IPO Proceeds up to 30 June 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 30 June 2017 *HK$ million* (unaudited)
Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories	22.7	5.7
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	6.8
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	23.6

Based on the information currently available and the Board's estimation of the future market condition, the Company intends to utilise approximately HK$23.0 million (representing approximately 50.4% of the unutilised IPO Proceeds of approximately HK$45.6 million) in the following manner:

(a) approximately HK$17.0 million (representing approximately 37.3% 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 the fourth quarter of 2017;

(b) approximately HK$6.0 million (representing approximately 13.1% 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 forth quarter of 2017 after testing of the relevant system; and

(c) based on the latest information available to the Board, the Board expects no sums will be spent on developing and implementing of RF-SIM business in the second half of 2017.

The remaining unutilised IPO Proceeds of approximately HK$45.6 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.

CAPITAL STRUCTURE

As at 30 June 2017, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable.

Unlisted Warrants

On 30 April 2014, the Company entered into a warrant subscription agreement (the "Warrant Subscription Agreement") with JD Edward Asset Management Company Limited, an independent third party (the "Subscriber") in relation to the subscription of a total of 200,000,000 unlisted warrants (the "Warrant(s)") by the Subscriber at the issue price of HK$0.01 per unit of Warrants (the "Warrant Subscriptions"). 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.

Issued Share Capital

As at 30 June 2017, total equity attributable to equity holders of the Company, comprising share capital, share premium, retained earnings, warrant reserve and fair value reserve, amounted to approximately HK$99,930,000 (31 December 2016: approximately HK$106,620,000).

LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 30 June 2017, the Group had net current assets of approximately HK$89,774,000 (31 December 2016: approximately HK$100,051,000), including cash and cash equivalents of approximately HK$89,612,000 (31 December 2016: approximately HK$66,148,000). The current ratio was 17.0 as at 30 June 2017, higher than 16.1 as at 31 December 2016.

FOREIGN EXCHANGE EXPOSURE

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily Renminbi ("RMB") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, the management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 30 June 2017, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2017, the Group did not have any pledges on its assets.

CONTINGENT LIABILITIES

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

MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

The Group did not have any material acquisition, disposals of subsidiaries or affiliated companies or significant investment during the period under review. On 18 July 2017, the Group entered into a sale and purchase agreement in relation to the Acquisition, details of which are set out in the Company's announcement dated 18 July 2017.

STAFF AND REMUNERATION POLICY

As at 30 June 2017, the Group had 9 employees (31 December 2016: 10 employees). Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include medical insurance, share option scheme and contributions to statutory mandatory provident fund scheme to its employees in Hong Kong.

DIVIDENDS

The Board does not recommend the payment of any dividend for the six months ended 30 June 2017 (six months ended 30 June 2016: Nil).

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are set out in note 21 to this report.

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

As at 30 June 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 30 June 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 30 June 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 30 June 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 30 June 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 six months ended 30 June 2017, and as at 30 June 2017, no option has been granted under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. In the opinion of the Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2017 except for the deviations from code provision A.6.7 which is explained as follows:

In accordance with provision A.6.7 of the Corporate Governance Code, all independent non-executive Directors and non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Due to conflicting business schedule, Mr. Hu Tiejun, the independent non-executive Director, was unable to attend the annual general meeting of the Company held on 12 May 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 six months ended 30 June 2017, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the six months ended 30 June 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 (on behalf of the Board) oversees management in the design, implementation and monitoring of the financial reporting, risk management and internal control systems and the management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the six months ended 30 June 2017. The Company has conducted review of its risk management and internal control systems periodically and has convened meeting periodically to discuss the financial, operational and risk management control. The Audit Committee is of the view that the risk management and internal control system implemented by the Group during the period under review had 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 six months ended 30 June 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, 8 August, 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.