



Directel Holdings Limited
直通電訊控股有限公司

DIRECTEL HOLDINGS LIMITED

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(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8337)

THIRD QUARTERLY REPORT

2018

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

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Given that the companies listed on GEM are generally small and mid-sized companies, 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.

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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 nine months ended 30 September 2018 was approximately HK\$181,072,000, representing an increase of approximately 16.2 times as compared with the corresponding period in 2017.
- Profit attributable to shareholders of the Company for the nine months ended 30 September 2018 was approximately HK\$2,397,000, while loss attributable to shareholders of the Company for the corresponding period in 2017 was approximately HK\$9,863,000.
- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018.

UNAUDITED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

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 and the nine months ended 30 September 2018 together with the unaudited comparative figures for the respective corresponding period in 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2018	2017	2018	2017
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Revenue	4	66,350	7,460	181,072	10,526
Cost of sales		<u>(61,380)</u>	<u>(7,538)</u>	<u>(162,924)</u>	<u>(12,473)</u>
Gross profit/(loss)		4,970	(78)	18,148	(1,947)
Other income	5(a)	36	105	298	356
Other net (loss)/income	5(b)	(429)	193	(1,208)	782
Administrative and other operating expenses		<u>(4,998)</u>	<u>(3,344)</u>	<u>(13,806)</u>	<u>(9,054)</u>
(Loss)/profit before taxation	6	(421)	(3,124)	3,432	(9,863)
Income tax	7	<u>—</u>	<u>—</u>	<u>(1,035)</u>	<u>—</u>
(Loss)/profit for the period attributable to equity shareholders of the Company		(421)	(3,124)	2,397	(9,863)
Other comprehensive income for the period, net of income tax:					
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Equity investments at FVOCI – net change in fair value		(250)	—	515	—
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Available-for-sale securities: changes in fair value		—	118	—	167
Exchange differences on translation of financial statements of overseas subsidiaries		<u>(991)</u>	<u>(30)</u>	<u>(1,505)</u>	<u>(30)</u>

	For the three months ended 30 September		For the nine months ended 30 September	
	2018	2017	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Note	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Total comprehensive income for the period attributable to equity shareholders of the Company	<u>(1,662)</u>	<u>(3,036)</u>	<u>1,407</u>	<u>(9,726)</u>
(Loss)/earnings per share	9			
– Basic (HK cents)	<u>(0.01)</u>	<u>(0.10)</u>	<u>0.08</u>	<u>(0.32)</u>
– Diluted (HK cents)	<u>(0.01)</u>	<u>(0.10)</u>	<u>0.07</u>	<u>(0.32)</u>

There is no tax effect relating to the above components of other comprehensive income.

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 the provision of mobile telecommunications services and distribution business.

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 2017, except for the accounting policy changes that are expected to be reflected in the 2018 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The quarterly financial report contains consolidated third 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 2017 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

Revenue represents the amounts received and receivable for goods sold and services provided, net of returns and trade discounts. An analysis of the Group's revenue for the period is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
Telecommunications services	15,420	1,965	50,446	5,031
Distribution business	50,930	5,495	130,626	5,495
	<u>66,350</u>	<u>7,460</u>	<u>181,072</u>	<u>10,526</u>

5. OTHER INCOME AND OTHER NET (LOSS)/INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)	2018 <i>HK\$'000</i> (Unaudited)	2017 <i>HK\$'000</i> (Unaudited)
(a) Other income				
Interest income from bank deposits	30	103	183	352
Sundry income	6	2	115	4
	<u>36</u>	<u>105</u>	<u>298</u>	<u>356</u>
(b) Other net (loss)/ income				
Net foreign exchange (loss)/gain	(429)	193	(1,208)	782

6. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging:

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)	2018 HK\$'000 (Unaudited)	2017 HK\$'000 (Unaudited)
(a) Staff costs:				
Salaries, wages and other benefits	1,243	839	3,359	2,397
Contributions to retirement benefit schemes	75	31	215	84
	<u>1,318</u>	<u>870</u>	<u>3,574</u>	<u>2,481</u>
(b) Other items:				
Cost of inventories	50,381	5,516	129,544	5,699
Depreciation	707	461	2,124	1,326
Amortisation of intangible assets	608	—	1,836	—
Licence charges	201	260	803	761
Operating lease charges in respect of				
– rental of properties	368	246	1,104	787
– rental of transmission lines	337	251	870	748
Auditors' remuneration				
– audit services	297	213	905	622
– tax services	13	1	38	38
Repairs and maintenance	117	210	370	619
	<u>117</u>	<u>210</u>	<u>370</u>	<u>619</u>

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
Current tax				
– Hong Kong Profits Tax	—	—	—	—
– Overseas Tax	—	—	—	—
Deferred tax	—	—	1,035	—
	<u>—</u>	<u>—</u>	<u>1,035</u>	<u>—</u>
	<u>—</u>	<u>—</u>	<u>1,035</u>	<u>—</u>

(i) 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. The provision for Hong Kong Profits Tax for the three months and the nine months ended 30 September 2018 is calculated at 16.5% (three months and nine months ended 30 September 2017: 16.5%) of the estimated assessable profits for the period. No Hong Kong Profits Tax has been provided as there was no assessable profit or there was accumulated tax losses brought forward from prior years exceeded the estimated assessable profits for the three months and the nine months ended 30 September 2018 (2017: Nil).

(ii) Overseas Tax

Taxation for overseas subsidiaries is charged at the approximately current rates of taxation ruling in the relevant countries for the three months and nine months ended 30 September 2017 and 2018 respectively.

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2018 (nine months ended 30 September 2017: Nil).

9 (LOSS)/EARNINGS PER SHARE

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
(Loss)/profit for the period attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted (loss)/ earnings per share	<u>(421)</u>	<u>(3,124)</u>	<u>2,397</u>	<u>(9,863)</u>

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018	2017	2018	2017
	Number	Number	Number	Number
	of shares	of shares	of shares	of shares
	'000	'000	'000	'000
Issued ordinary shares at 1 January and 30 September	<u>3,112,500</u>	<u>3,112,500</u>	<u>3,112,500</u>	<u>3,112,500</u>
Weighted average number of ordinary shares at 30 September	<u>3,112,500</u>	<u>3,112,500</u>	<u>3,112,500</u>	<u>3,112,500</u>

9 (LOSS)/EARNINGS PER SHARE (Continued)

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2018 Number of shares '000	2017 Number of shares '000	2018 Number of shares '000	2017 Number of shares '000
Weighted average number of ordinary shares (basic)	3,112,500	3,112,500	3,112,500	3,112,500
Effect of unlisted warrants on deemed issue for nil consideration	—	—	229,888	—
Weighted average number of ordinary shares (diluted) at 30 September	<u>3,112,500</u>	<u>3,112,500</u>	<u>3,342,388</u>	<u>3,112,500</u>

Diluted loss per share is the same as basic loss per share for the three months and the nine months ended 30 September 2017 as the potential ordinary shares under the unlisted warrants have anti-dilutive effects on the basic loss per share.

10. MOVEMENT OF EQUITY

	Share capital <i>HK\$'000</i> (Unaudited)	Share premium <i>HK\$'000</i> (Unaudited)	Warrant reserve <i>HK\$'000</i> (Unaudited)	Exchange reserve <i>HK\$'000</i> (Unaudited)	Fair value reserve <i>HK\$'000</i> (Unaudited)	Retained earnings <i>HK\$'000</i> (Unaudited)	Total equity <i>HK\$'000</i> (Unaudited)
As at 1 January 2017	31,125	46,749	1,654	—	—	27,092	106,620
Loss for the period	—	—	—	—	—	(9,863)	(9,863)
Other comprehensive income for the period	—	—	—	(30)	167	—	137
Total comprehensive income for the period	—	—	—	(30)	167	(9,863)	(9,726)
As at 30 September 2017	<u>31,125</u>	<u>46,749</u>	<u>1,654</u>	<u>(30)</u>	<u>167</u>	<u>17,229</u>	<u>96,894</u>
As at 1 January 2018	31,125	46,749	1,654	135	89	20,870	100,622
Profit for the period	—	—	—	—	—	2,397	2,397
Other comprehensive income for the period	—	—	—	(1,505)	515	—	(990)
Total comprehensive income for the period	—	—	—	(1,505)	515	2,397	1,407
As at 30 September 2018	<u>31,125</u>	<u>46,749</u>	<u>1,654</u>	<u>(1,370)</u>	<u>604</u>	<u>23,267</u>	<u>102,029</u>

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business in Hong Kong

The Group is a mobile virtual network operator (“MVNO”) which is principally engaged in the provision of mobile telecommunications services and telecommunications value-added services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime and mobile data sourced from several mobile network operators (“MNOs”) in and outside Hong Kong and subsequently sold the airtime and mobile data through different channels and in various forms to users and dealers. 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 Directors are of the view that the downturn of the Group’s business in the past few years is due to the comparatively fall-behind technology of the 3G networks employed by the Group as well as limited geographical coverage of its mobile data roaming services. The Directors were aware of the issues and had therefore taken various measures in this regard. The Group has successfully upgraded its network in Hong Kong to be compatible with the 4G network in October 2017 and thereafter introduced the 4G services. With the introduction of the new 4G services together with the additional coverage provided by an existing service provider, the Group is able to broaden its mobile roaming coverage to over 60 countries and to launch a new mobile roaming application called “DIRECT-TX”, for users to make phone calls through the application in the broadened coverage. The Group has commenced its marketing efforts in promoting its new 4G telecommunications services and is currently actively contacting agents for distribution of its new 4G products. The Group has entered into distribution contracts with three distribution agents and a number of agents have also expressed their interests in becoming the Group’s agents. Among the three distribution contracts the Group has entered into, contracts with two of the distributors included a term that the distributors would commit subscription of not less than HK\$29 million and HK\$21.3 million worth of airtime and mobile data services in aggregate throughout the period ending 31 December 2018, respectively.

As a result of the above measures, the number of users of the Group increased significantly since October 2017. The total number of activated phone numbers as of 30 September 2018 increased by approximately 137.8% to 123,327 as compared to 51,856 as of 30 September 2017 and increased by approximately 17.3% compared to 105,130 as of 31 December 2017. The monthly average number of activated phone numbers for the nine months ended 30 September 2018 increased by approximately 134.3% to 112,781 when compared to 48,132 for the last corresponding period. The average revenue per user (“ARPU”) of the Group increased from approximately HK\$11.6 for the nine months ended 30 September 2017 to approximately HK\$40.9 for the nine months ended 30 September 2018. The revenue derived from the provision of telecommunications services increased by approximately 7.3 times to approximately HK\$41,554,000 for the nine months ended 30 September 2018 compared to approximately HK\$5,031,000 for the same period last year.

The Group is confident that the new 4G product offering will help the Group to broaden its user base as well as the total usage of airtime and mobile data, which in turn will strengthen the market position of the Group and increase our revenue as well as the market share of the Group in the competitive telecommunication industry.

In the second quarter of 2018, the Group has diversified its business in Hong Kong to the distribution of mobile phones and equipment. For the nine months ended 30 September 2018, the revenue generated from such distribution business was approximately HK\$28,791,000 which represents the sales proceeds of the mobile phone products and equipment, net of returns and discounts.

In addition, 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 of 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 launched in the fourth quarter of 2017.

Business in the PRC

On 8 September 2017, the Group completed the acquisition of Joint Top Investments Limited (“Joint Top”) together with its subsidiary, Guangzhou Directel Telecommunications Limited* 廣州直通電訊有限公司 (“GZDT”) (together with Joint Top, the “Joint Top Group”) (the “PRC Acquisition”). Following the completion of the acquisition, Joint Top has become an indirect wholly-owned subsidiary of the Company and thereafter, the Group has engaged in the provision of mobile telecommunications services and distribution business in Guangdong province in the PRC.

* *For identification only*

GZDT is principally engaged in three main businesses. The first is the provision of mobile telecommunications services in Guangdong province of the PRC, especially focusing on prepaid telecommunications business. It strategically sets inbound and outbound travellers as its target end users for its pre-paid telecommunications products in view of the strong demand for local and roaming telecommunications services from inbound and outbound travellers respectively. GZDT principally carries two major categories of pre-paid telecommunications products, namely (i) local pre-paid products which mainly targets inbound travellers to the PRC and allow users to enjoy voice calls and mobile data services in the PRC without incurring roaming charges; and (ii) roaming pre-paid products which mainly targets PRC outbound travellers who would like to enjoy voice calls and mobile data services during their overseas travels at lower charges. GZDT distributes the roaming pre-paid products mainly through its established network including travel agents, hotels, telecommunications services/equipment agents/distributors, retail stores/chains, automobile 4S shops and others.

GZDT has successfully secured contracts with 5 sales channels/distributors for the pre-paid telecommunications business. Out of the 5 contracts, (i) two contracts are with local travel agents which include a term that each travel agent has committed subscription of not less than RMB20 million worth of mobile and data services in aggregate for the coming two years from the date of respective contracts; and (ii) one contract is with a telecommunications service distributor which include a term that the relevant distributor has agreed to procure not less than RMB5 million worth of annual sales of telecommunications services provided by GZDT during the three years contract term.

In addition to pre-paid telecommunications business, GZDT has leveraged its established relationship and connection with telecommunications services/equipment agents/distributors to commence the mobile phones distribution business. GZDT has entered into mobile phone and equipment supply contracts with two suppliers in different provinces of the PRC which enable GZDT to sell the most popular and price competitive handsets to dealers. At the same time, GZDT is actively negotiating with other telecommunications equipment distributors for further potential business cooperation.

GZDT has successfully secured a contract with a telecommunications equipment distributor which includes a term that the relevant distributor has committed to procure sales of mobile phones and equipment in aggregate of not less than RMB50 million throughout the period ending 31 December 2020. For the nine months ended 30 September 2018, the revenue generated from the distribution business which represents the sales proceeds of the mobile phone products and equipment, net of returns and discounts, increased by approximately 3.6 times to approximately HK\$19,181,000 when compared with approximately HK\$4,191,000 for the corresponding period last year.

Besides, GZDT has diversified its business to the distribution of mobile top-up and data top-up e-vouchers sourced from the dealers of the 3 major mobile network operators in the PRC and resale to ultimate users through the e-commerce platform which is connected to various online payment platforms. The various function of mobile phones such as online shopping, mobile navigation, video watching and online games playing etc. lead to increasing demand for mobile data traffic and trouble faced by mobile users of insufficient data traffic. Through the new mobile and data top-up services provided by GZDT, the mobile users can enjoy a special discount rate on the mobile top up and data top up which superimpose on their original mobile data packages and thus solve the particular needs of the users such as roaming day plan and video watching plan. For the nine months ended 30 September 2018, the revenue generated from the distribution of mobile top-up and data top-up business increased substantially to approximately HK\$36,204,000 when compared with approximately HK\$129,000 for the corresponding period last year. The Directors believe that the growing demand of mobile data traffic will make a great contribution to the Group's overall revenue in the coming years.

In addition to the abovementioned, the Group obtained the Mainland and Hong Kong Closer Economic Partnership Arrangement ("CEPA") qualification in June 2017 and obtained the approval letter from the Guangdong Communications Administration 廣東省通信管理局備案批准 in December 2017 which allows the Group to sell its SIM cards through distributors to local customers in Guangdong Province who intend to travel abroad and use data services while they are abroad. In view of this, GZDT acts as a new distribution channel of the Group's products (especially the 4G roaming products as mentioned above) in the Guangdong Province market. The Group will continue to leverage on the established network and sales channels of GZDT to penetrate into the PRC market. In a longer term perspective, it is the Group's plan to use GZDT as a platform to reach other PRC markets outside the Guangdong Province. Thus, the Company is of the view that the PRC Acquisition will continue to enhance the Group's operation, broaden its revenue source and expand its geographical reach.

Business in Singapore

On the other hand, the Group always targets to expand its business to Southeast Asia. In September 2017, the Group completed an acquisition of South Data Communication Pte. Ltd. (“South Data”), a company incorporated in Singapore, which is principally engaged in the provision of telecommunications services and distribution business in Singapore. Following the completion of the acquisition, South Data has become an indirect wholly-owned subsidiary of the Company and acts as the Group’s platform to establish a foothold in the telecommunications market in Singapore. South Data has entered into contracts with several distributors for the pre-paid telecommunications business. For the nine months ended 30 September 2018, the revenue derived from the provision of telecommunications services was approximately HK\$8,756,000. In respect of the distribution business, South Data has already successfully secured a contract with one of the largest e-commerce platform operator in Singapore (the “E-commerce Platform Operator”) as a sale channel in which it will purchase mobile top-up and data top-up e-vouchers from South Data and then resell to ultimate mobile users and the E-commerce Platform Operator has committed to procure not less than SGD36 million worth of mobile top-up and data top-up credits in aggregate throughout the period ending 31 December 2020. The E-commerce Platform Operator has a wide distribution channel of over 800 point of sales in Singapore and the ultimate users can easily top up their mobile phones through various popular payment methods such as credit cards and online payment. For the nine months ended 30 September 2018, the revenue derived from the distribution of mobile top-up and data top-up business increased by approximately 38.5 times to approximately HK\$46,450,000 when compared with approximately HK\$1,175,000 for the corresponding period last year. The Directors are confident that the new business would greatly improve the Group’s business performance and operation and act as a milestone in the expansion of telecommunications market to other Asia Pacific territories.

The Company is also continuously exploring suitable business development/ investment opportunities in the relevant telecommunications 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.

FINANCIAL REVIEW

For the nine months ended 30 September 2018, the revenue of the Group increased to approximately HK\$181,072,000 compared to approximately HK\$10,526,000 for the corresponding period last year, representing an increase of approximately 16.2 times. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK\$50,446,000 and HK\$130,626,000 respectively, representing approximately 27.9% and 72.1% of the Group's revenue for the nine months ended 30 September 2018, respectively. The increase was mainly attributable to the revenue generated from the distribution business by the acquisition of the wholly owned subsidiaries in September 2017 and the revenue generated from the increase in usage of mobile data after the launch of the new 4G service in the fourth quarter of 2017.

The Group's cost of sales increased by approximately 12.1 times to approximately HK\$162,924,000 for the nine months ended 30 September 2018 compared to approximately HK\$12,473,000 for the corresponding period last year. The increase was mainly attributable to the increase in cost of roaming data from the provision of telecommunications services and the new distribution business by the acquisition of the wholly owned subsidiaries in September 2017.

For the nine months ended 30 September 2017, the Group incurred a gross loss of approximately HK\$1,947,000 while for the nine months ended 30 September 2018, the Group recorded a gross profit of approximately HK\$18,148,000. The incurrence of gross profit was mainly attributable to (i) the increase of revenue and improved gross profit margin from the provision of telecommunications services and the reduction of minimum requirement of the monthly purchase amount adopted by the MNOs and (ii) the gross profit contributed by the new distribution business through the acquisition of the wholly owned subsidiaries in September 2017.

The Group's other income for the nine months ended 30 September 2018 decreased by approximately 16.3% to approximately HK\$298,000 when compared with approximately HK\$356,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

For the nine months ended 30 September 2017, the Group recorded other net income of approximately HK\$782,000 while for the nine months ended 30 September 2018, the Group incurred other net loss of approximately HK\$1,208,000. The incurrence of other net loss was mainly due to foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the period.

The Group's administrative and other operating expenses for the nine months ended 30 September 2018 increased by approximately 52.5% to approximately HK\$13,806,000 when compared to approximately HK\$9,054,000 for the corresponding period last year. The increase was primarily due to the amortisation of intangible assets acquired in the second half of 2017, the increase of staff cost and depreciation for the period ended 30 September 2018.

The Group's income tax expenses for the nine months ended 30 September 2018 was approximately HK\$1,035,000. No income tax has been provided for the nine months ended 30 September 2017 as the Group has no assessable profits for the period.

The Group recorded a loss attributable to equity shareholders of the Company for the nine months ended 30 September 2017 of approximately HK\$9,863,000 while it recorded a profit attributable to equity shareholders of the Company of approximately HK\$2,397,000 for the nine months ended 30 September 2018. The incurrence of profit was mainly attributable to the increase in revenue and the profit generated from the entering into the guaranteed contracts with existing customers and distributors in the fourth quarter of 2017 and the improved gross profit margin for the nine months ended 30 September 2018.

OTHER INFORMATION

Update on the use of proceeds from the placing of the shares of the Company (“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\$48.3 million had been utilised up to 30 September 2018. As disclosed in the announcement of the Company dated 12 September 2018, the Directors had resolved to change part of the use of the unutilised net proceeds from the Placing. Therefore, the breakdown of the Company’s actual use of the IPO Proceeds up to 30 September 2018 is as follows:

	Proposed use of the IPO Proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the “Prospectus”) <i>HK\$ million</i>	Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 12 September 2018 (the “Announcement”) <i>HK\$ million</i>	Actual use of the IPO Proceeds from the date of listing to 30 September 2018 <i>HK\$ million</i> (unaudited)
Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories	22.7	22.7	22.7
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	12.8	11.7
Development and implementation of RF-SIM business plans in Hong Kong and Macau	18.9	12.3	4.3
Distribution of mobile phones and equipment overseas (<i>Note</i>)	—	12.1	2.4
Working capital	6.8	9.3	7.2
Total	69.2	69.2	48.3

Note: As disclosed in the announcement of the Company dated 12 September 2018, the Directors had resolved to allocate part of the use of the unutilised net proceeds to distribution of mobile phones and equipment overseas.

Based on the information currently available and the Board's estimation of the future market condition, the Company intends to utilise approximately HK\$12.1 million (representing approximately 57.9% of the unutilised IPO Proceeds of approximately HK\$20.9 million) in the following manner:

1. *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*

Up to 30 September 2018, approximately HK\$11.7 million out of approximately HK\$12.8 million of the changed use of IPO Proceeds allocated to the 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 has been utilised. The Group has successfully upgraded its network in Hong Kong to be compatible with 4G network in October 2017, which supports higher-speed mobile data transmission. Although the Group began exploring options to upgrade its existing system to a 4G system since 2014, the upgrading work only started to take place in mid-2017 as significant amount of time has been spent on researching the technology and comparing quotations from various equipment suppliers and to solve the technical complications in transferring the Group's existing data from one system to the new system. The upgrade cost amounted to approximately HK\$8 million which includes the equipment cost of the 4G core networks, implementation cost of the core networks and first year system warranty. The Group plans to pay the entire upgrade cost by the IPO Proceeds, of which approximately HK\$6.9 million has been paid up to 30 September 2018 and the remaining HK\$1.1 million is expected to be paid in the first half of 2019. It is expected that no substantial cost will be further incurred for the upgrading of the 4G system within a short period of time.

2. *Development and implementation of RF-SIM business plans in Hong Kong and Macau*

Up to 30 September 2018, approximately HK\$4.3 million out of approximately HK\$12.3 million of the changed use of IPO Proceeds allocated to development and implementation of RF-SIM business plans in Hong Kong and Macau has been utilised. Upon completion of the Placing, the Group originally intended to launch and promote the use of RF-SIM technology for applications including the access control services and promotion services for commercial customers and mobile wallet and payment services immediately upon the Placing. In view of this, the Group had explored with mobile network operators in Hong Kong to launch the above applications. However, the Group experienced difficulties in promoting the above applications to mobile network operators in Hong Kong because the market of electronic wallet and payment has been dominated by a stored value smart card system. The Group had also approached potential partners in Macau to attempt to launch similar RF-SIM applications but failed to reach any conclusion.

After attempting for around three years, the Group decided to shift the application of RF-SIM technology to smart living with mobile access to doors and other facilities. The Group approached various major residential property management companies to introduce the application of RF-SIM technology for smart living in large-scale private housing estates in Hong Kong. However, the co-operations were not materialised as the Group failed to agree the commercial terms with the management companies.

Since the completion of the Placing, the development and implementation of RF-SIM business continues to be one of the business development agendas of the Group and the Group continues to conduct in-house research to explore the different applications of the RF-SIM technology. The slow utilisation of the IPO Proceeds originally allocated to this segment was due to the slower than expected business development progress. The Company will closely monitor the development of its RF-SIM business and will consider the need to further change the use of the IPO Proceeds allocated to this segment if appropriate.

3. *Distribution of mobile phones and equipment overseas*

Up to 30 September 2018, approximately HK\$2.4 million out of approximately HK\$12.1 million of the changed use of IPO Proceeds allocated to distribution of mobile phones and equipment overseas has been utilised. The Group began to distribute mobile phones and equipment overseas since September 2017. In addition, it also distributes mobile top-up and data top-up e-vouchers. The Company expects that the entire unutilised IPO Proceeds allocated for the expansion of the business in distribution of mobile phones and equipment overseas of approximately HK\$9.7 million as at 30 September 2018 will be used up in the fourth quarter of 2018.

4. Working capital

Approximately HK\$1.3 million out of approximately HK\$2.1 million of the unutilised changed use of IPO Proceeds allocated to fund working capital and other general corporate purposes is expected to be applied to the same in the fourth quarter of 2018.

The remaining unutilised IPO Proceeds of approximately HK\$20.9 million have been placed as interest bearing deposits in banks. As at the date of this report, the Board confirmed that there is no plan to change the resolved change of the use of IPO Proceeds as disclosed in the announcement of the Company dated 12 September 2018. If there is any change to the resolved change of the use of IPO Proceeds, announcement will be published by the Company in accordance with the GEM Listing Rules.

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 nine months ended 30 September 2018 (nine months ended 30 September 2017: 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). As at the date of this report, no Warrants have been exercised.

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.

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

As at 30 September 2018, 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 September 2018, 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 September 2018, 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 <i>(Note 1)</i>	67.11%
	Interest of spouse	101,250,000 <i>(Note 2)</i>	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 September 2018, 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 September 2018. 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 nine months ended 30 September 2018, and as at 30 September 2018, 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 nine months ended 30 September 2018.

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 nine months ended 30 September 2018, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the nine months ended 30 September 2018, 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 nine months ended 30 September 2018. 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 nine months ended 30 September 2018 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 November 2018

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.