# DIRECTEL HOLDINGS LIMITED
# 直通電訊控股有限公司

*(incorporated in the Cayman Islands with limited liability)*

**(Stock Code : 8337)**

# ANNUAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2018

## CHARACTERISTICS OF GEM OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate small and mid-sized 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.**

**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.**

## HIGHLIGHTS

- Revenue for the year ended 31 December 2018 was approximately HK$256,279,000, representing an increase of approximately 3.3 times as compared with 2017.
- Loss attributable to shareholders of the Company for the year ended 31 December 2018 was approximately HK$1,778,000, representing a decrease of approximately 71.4% when compared with 2017.
- Basic and diluted loss per ordinary share for the year ended 31 December 2018 was 0.06 HK cents respectively as compared with basic and diluted loss of 0.20 HK cents respectively for year ended 31 December 2017.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

## ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

The board of Directors (the "Board") of the Company is pleased to announce the consolidated results of the Company and its subsidiaries (together referred to as the "Group") for the year ended 31 December 2018 together with the comparative figures for 2017 as follows:

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

| | Note | **2018** | 2017 (Note (i)) |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| **Revenue** | 4, 5 | **256,279** | 59,096 |
| Cost of sales | | **(235,009)** | (54,208) |
| **Gross profit** | | **21,270** | 4,888 |
| Other income | 6(a) | **374** | 984 |
| Other net (loss)/income | 6(b) | **(4,285)** | 944 |
| Administrative and other operating expenses | | **(19,294)** | (13,775) |
| **Loss before taxation** | 7 | **(1,935)** | (6,959) |
| Income tax credit | 8 | **157** | 737 |
| **Loss for the year attributable to equity shareholders of the Company** | | **(1,778)** | (6,222) |
| **Other comprehensive income for the year** | | | |
| *Item that may not be reclassified subsequently to profit or loss:* | | | |
| Equity securities at fair value through other comprehensive income – net movement in the fair value reserve (non-recycling) | | **633** | — |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Available-for-sale securities: net movement in the fair value reserve (recycling) (Note (ii)) | | **—** | 89 |
| Exchange differences on translation of financial statements of overseas subsidiaries | | **(1,418)** | 135 |
| **Total comprehensive income for the year attributable to equity shareholders of the Company** | | **(2,563)** | (5,998) |
| **Loss per share** | 10 | | |
| – Basic | | **(0.06) cents** | (0.20) cents |
| – Diluted | | **(0.06) cents** | (0.20) cents |

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

Notes:

(i) The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

(ii) This amount arose under the accounting policies applicable prior to 1 January 2018. As part of the opening balance adjustments as at 1 January 2018 the balance of this reserve has been reclassified to fair value reserve (non-recycling) and will not be reclassified to profit or loss in any future periods. See note 3(i).

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

| | Note | 2018 HK$'000 | 2017 (Note) HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 11 | **11,739** | 13,283 |
| Goodwill | 14 | **34,003** | 34,003 |
| Intangible assets | 13 | **4,869** | 7,314 |
| Other non-current financial assets | 15 | **2,739** | 2,106 |
| Deferred tax assets | | **1,783** | 1,808 |
| Deposits | | **—** | 327 |
| **Total non-current assets** | | **55,133** | 58,841 |
| **Current assets** | | | |
| Inventories | 16 | **3,522** | 3,022 |
| Trade receivables | 17 | **55,358** | 15,728 |
| Other receivables, deposits and prepayments | 17 | **14,309** | 6,697 |
| Taxation recoverable | | **—** | 120 |
| Pledged bank deposits | 18 | **200** | — |
| Cash and cash equivalents | 18 | **15,711** | 58,169 |
| **Total current assets** | | **89,100** | 83,736 |
| **Current liabilities** | | | |
| Payables and accruals and contract liabilities | 19 | **10,972** | 9,562 |
| Taxation payable | | **—** | 10 |
| **Total current liabilities** | | **10,972** | 9,572 |
| **Net current assets** | | **78,128** | 74,164 |
| **Total assets less current liabilities** | | **133,261** | 133,005 |
| **Non-current liabilities** | | | |
| Contingent consideration payables | 12(a) | **33,433** | 30,442 |
| Deferred tax liabilities | | **1,769** | 1,941 |
| **Total non-current liabilities** | | **35,202** | 32,383 |
| **Net assets** | | **98,059** | 100,622 |
| **Capital and reserves** | | | |
| Share capital | | **31,125** | 31,125 |
| Share premium | | **46,749** | 46,749 |
| Warrant reserve | | **1,654** | 1,654 |
| Exchange reserve | | **(1,283)** | 135 |
| Fair value reserve | | **722** | 89 |
| Retained profits | | **19,092** | 20,870 |
| **Total equity** | | **98,059** | 100,622 |

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

| | Share capital | Share premium | Warrant reserve | Exchange reserve | Fair value reserve (recycling) | Fair value reserve (non-recycling) | Retained profits | Total equity |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Balance at 1 January 2017** | 31,125 | 46,749 | 1,654 | — | — | — | 27,092 | 106,620 |
| **Changes in equity for 2017:** | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | (6,222) | (6,222) |
| Other comprehensive income | — | — | — | 135 | 89 | — | — | 224 |
| Total comprehensive income | — | — | — | 135 | 89 | — | (6,222) | (5,998) |
| **Balance at 31 December 2017 and 1 January 2018 (Note)** | 31,125 | 46,749 | 1,654 | 135 | 89 | — | 20,870 | 100,622 |
| Impact on initial application on IFRS 9 | — | — | — | — | (89) | 89 | — | — |
| **Adjusted balance at 1 January 2018** | 31,125 | 46,749 | 1,654 | 135 | — | 89 | 20,870 | 100,622 |
| **Changes in equity for 2018:** | | | | | | | | |
| Loss for the year | — | — | — | — | — | — | (1,778) | (1,778) |
| Other comprehensive income | — | — | — | (1,418) | — | 633 | — | (785) |
| Total comprehensive income | — | — | — | (1,418) | — | 633 | (1,778) | (2,563) |
| **Balance at 31 December 2018** | 31,125 | 46,749 | 1,654 | (1,283) | — | 722 | 19,092 | 98,059 |

Note: The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 3.

## 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 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 and distribution business.

## 2 BASIS OF PREPARATION

The annual results set out in this announcement do not consitute the Group's financial statements for the year ended 31 December 2018 but are extracted from those financial statements.

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

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 3 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– contingent consideration.

– equity securities at fair value through other comprehensive income ("FVOCI").

## 3 CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) IFRS 9, *Financial instruments*

(ii) IFRS 15, *Revenue from contracts with customers*

(iii) IFRIC 22, *Foreign currency transactions and advance consideration*

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

(i) IFRS 9, *Financial instruments*

IFRS 9 replaces IAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied IFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under IAS 39.

The following table summarises the impact of transition to IFRS 9 on fair value reserves at 1 January 2018.

| | *HK$'000* |
|---|---|
| **Fair value reserve (recycling)** | |
| Transferred to fair value reserve (non-recycling) relating to equity securities now measured at FVOCI at 1 January 2018 | (89) |
| **Fair value reserve (non-recycling)** | |
| Transferred from fair value reserve (recycling) relating to equity securities now measured at FVOCI at 1 January 2018 | 89 |

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

**(a) Classification of financial assets and financial liabilities**

IFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at FVOCI and at fair value through profit or loss ("FVPL"). These supersede IAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale securities and financial assets measured at FVPL. The classification of financial assets under IFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

The following table shows the original measurement categories for available-for-sale securities under IAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with IAS 39 to those determined in accordance with IFRS 9.

| | **IAS39 carrying amount at 31 December 2017** | **Reclassification** | **IFRS 9 carrying amount at 1 January 2018** |
|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* |
| Financial assets measured at FVOCI (non-recyclable) | | | |
| Equity securities (note) | — | 2,106 | 2,106 |
| Financial assets classified as available-for-sale securities under IAS 39 (note) | 2,106 | (2,106) | — |

Note: Under IAS 39, equity securities not held for trading were classified as available-for-sale securities. The equity securities are classified as at FVPL under IFRS 9, unless they are eligible for and designated at FVOCI by the Group. At 1 January 2018, the Group designated its investment at FVOCI, as the investment is held for strategic purposes (see note 15).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of IFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

**(b) Credit losses**

IFRS 9 replaces the "incurred loss" model in IAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in IAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including pledged bank deposits, cash and cash equivalents and trade and other receivables).

The Group has concluded that there would be no material impact for the initial application of the new impairment requirements in accordance with IFRS 9 as at 1 January 2018.

**(c) Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below:

– Information relating to comparative periods has not been restated. Accordingly, the information presented for 2017 continues to be reported under IAS 39 and thus may not be comparable with the current period.

– The following assessments have been made on the basis of the facts and circumstances that existed at 1 January 2018 (the date of initial application of IFRS 9 by the Group):

  – the determination of the business model within which a financial asset is held; and

  – the designation of certain investments in equity instruments not held for trading to be classified as at FVOCI (non-recycling).

(ii) IFRS 15, *Revenue from contracts with customers*

IFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. IFRS 15 replaces IAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specified the accounting for construction contracts.

IFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has elected to use the cumulative effect transition method and has recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS 18. As allowed by IFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

The Group has concluded that the initial adoption of IFRS 15 in relation to timing of revenue recognition and significant financing benefit obtained from customers had no material impact on the opening balances of equity at 1 January 2018.

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. Timing of revenue recognition

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. IFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under IFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

b. Significant financing component

IFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

Previously, the Group only applied such a policy when payments were significantly deferred, which was not common in the Group's arrangements with its customers. The Group did not apply such a policy when payments were received in advance since the payments are expected to be settled within one year.

The adoption of IFRS 15 does not have a significant impact on when the Group recognises financing component from the provision of telecommunications services and distribution business and this change in accounting policy had no material impact on the opening balances as at 1 January 2018.

c. Presentation of contract assets and liabilities

Under IFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before receiving the consideration or being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset. Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract liabilities relating to provision of telecommunications services was presented as “Deferred income” under “Payables and accruals” (see note 19) amounting to HK$1,156,000 were reclassified to contract liabilities at 1 January 2018.

(iii) IFRIC 22, Foreign currency transactions and advance consideration

This interpretation provides guidance on determining “the date of the transaction” for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies that “the date of the transaction” is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of IFRIC 22 does not have any material impact on the financial position and the financial results of the Group.

## 4 REVENUE

The principal activities of the Group are the telecommunications services and distribution business. Further details regarding the Group’s principal activities are disclosed in note 5.

(i) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by products or service lines is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$’000*** | *HK$’000* |
| Telecommunications services | **105,130** | 27,281 |
| Distribution business | **151,149** | 31,815 |
| | **256,279** | 59,096 |

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 5(a) and 5(b) respectively.

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A – distribution business | **67,335** | 17,839 |
| Customer B – telecommunications business | **—** | 12,229 |

(ii) Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date

The performance obligations arisen from telecommunications services contracts are for period of one year or less or are billed based on usage incurred. The Group has applied the practical expedient in paragraph 121 of IFRS 15 to its contracts for services which had an original expected duration of one year or less, and the transaction price allocated to these unsatisfied contracts has therefore not been disclosed.

## 5 SEGMENT INFORMATION

Operating segment is reported in a manner consistent with the internal reporting provided to the chief operating decision-maker ("CODM"). The CODM, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the key management team of the Company. The CODM reviews the Group's internal reports in order to assess performance, allocate resources and determine the operating segments.

The CODM assesses the performance of the operating segments based on the results attributable to each reportable segment. Interest income and expense are not allocated to segment, as this type of activity is driven by the central treasury function, which manages the cash position of the Group.

The CODM has determined the operating segments based on these reports. The Group is organised into two business segments:

(i) Telecommunications services: Provision of telecommunications services

(ii) Distribution business: Distribution of mobile phones and electronic products and distribution of mobile and data top-up e-vouchers

No operating segments have been aggregated to form the reportable segments.

## (a) SEGMENT RESULTS

The CODM assesses the performance of the operating segments based on the revenue from external customers and reportable segment profit (i.e. revenue less cost of sales). Segment profits do not include other income, other net (loss)/ income and unallocated corporate expenses.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below.

| | **2018** | | |
|---|---|---|---|
| | **Telecommunications services** *HK$'000* | **Distribution business** *HK$'000* | **Total** *HK$'000* |
| **Disaggregated by timing of revenue recognition** | | | |
| Point in time | **–** | **151,149** | **151,149** |
| Over time | **105,130** | **–** | **105,130** |
| **Revenue from external customers** | **105,130** | **151,149** | **256,279** |
| **Reportable segment revenue and consolidated revenue** | **105,130** | **151,149** | **256,279** |
| **Reportable segment profit** | **18,561** | **2,709** | **21,270** |
| Other income | | | **374** |
| Other net loss | | | **(4,285)** |
| Unallocated corporate expenses | | | **(19,294)** |
| Consolidated loss before taxation | | | **(1,935)** |

| | 2017 | | |
|---|---|---|---|
| | Telecommunications services *HK$'000* | Distribution business *HK$'000* | Total *HK$'000* |
| **Disaggregated by timing of revenue recognition** | | | |
| Point in time | – | 31,815 | 31,815 |
| Over time | 27,281 | – | 27,281 |
| **Revenue from external customers** | 27,281 | 31,815 | 59,096 |
| **Reportable segment revenue and consolidated revenue** | 27,281 | 31,815 | 59,096 |
| **Reportable segment profit** | 4,305 | 583 | 4,888 |
| Other income | | | 984 |
| Other net income | | | 944 |
| Unallocated corporate expenses | | | (13,775) |
| Consolidated loss before taxation | | | (6,959) |

Information of assets and liabilities for reportable segments are not provided to CODM for their review. Therefore, no analysis of the Group's assets and liabilities by reportable segments are presented.

### (b) GEOGRAPHICAL INFORMATION

The following table sets out information about the geographical locations of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment ("specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of the specified non-current assets is based on the location of the operation to which they are allocated.

| | Revenue from external customers | | Specified non-current assets | |
|---|---|---|---|---|
| | **2018** | **2017** | **2018** | **2017** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Hong Kong | **109,659** | 15,052 | **11,706** | 13,251 |
| Mainland China | **73,454** | 26,205 | **27** | 24 |
| Singapore | **73,166** | 17,839 | **6** | 8 |
| | **256,279** | 59,096 | **11,739** | 13,283 |

## 6 OTHER INCOME AND OTHER NET (LOSS)/INCOME

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **(a) Other income** | | |
| Interest income on financial assets measured at amortised cost | **198** | 434 |
| Sundry income | **176** | 550 |
| | **374** | 984 |
| **(b) Other net (loss)/income** | | |
| Net foreign exchange (loss)/gain | **(1,294)** | 944 |
| Fair value change on contingent consideration | **(2,991)** | — |
| | **(4,285)** | 944 |

## 7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Staff costs

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, wages and other benefits | **4,689** | 3,357 |
| Contributions to defined contribution retirement plan | **218** | 124 |
| | **4,907** | 3,481 |

(b) Other items

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amortisation of intangible assets | **2,445** | 748 |
| Depreciation | **2,849** | 1,959 |
| Impairment loss of trade receivables | **218** | – |
| Operating lease charges in respect of | | |
| – rental of properties | **1,522** | 1,140 |
| – rental of transmission lines | **1,167** | 995 |
| Auditors' remuneration | | |
| – audit services | **1,255** | 1,185 |
| – tax services | **10** | 51 |
| – other services | **5** | 65 |
| Cost of inventories | **149,879** | 31,842 |
| Licence charges | **1,015** | 1,038 |
| Repair and maintenance | **1,008** | 702 |

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

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax – Overseas | **(10)** | 10 |
| Deferred tax | **(147)** | (747) |
| | **(157)** | (737) |

(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, a direct wholly-owned subsidiary of the Company, 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 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 (2017: Nil) as the Group's operations in Hong Kong had tax losses brought forward to offset estimated assessable profits for the year.

(ii) Overseas Tax

Taxation for overseas subsidiaries is charged at the approximately current rates of taxation ruling in the relevant countries.

## 9 DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

## 10 LOSS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss for the year attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted loss per share | **(1,778)** | (6,222) |

| | **2018** | 2017 |
|---|---|---|
| | ***Number of shares*** | *Number of shares* |
| Weighted average number of ordinary shares (basis and diluted) | ***'000*** | *'000* |
| Issued ordinary shares at 1 January | **3,112,500** | 3,112,500 |
| Weighted average number of ordinary shares at 31 December | **3,112,500** | 3,112,500 |

Diluted loss per share was the same as basic loss per share for the years ended 31 December 2017 and 2018 as the potential ordinary shares under the unlisted warrants have anti-dilutive effects on the basic loss per share.

## 11 PROPERTY, PLANT AND EQUIPMENT

During the year ended 31 December 2018, the Group acquired property, plant and equipment with an aggregate cost of approximately HK$1,305,000 (2017: approximately HK$7,578,000).

## 12 BUSINESS COMBINATION

(a) Acquisition of Joint Top Investments Limited

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, Joint Top became an indirect wholly-owned subsidiary of the Company and thereafter, the Group has been engaging in the provision of telecommunications services and distribution business in Guangdong province in the PRC.

Pursuant to the agreement, the consideration for acquiring the entire equity interests in Joint Top, amounting to HK$50,000,000, comprised cash consideration of HK$10,000,000 payable immediately and a further contingent amount to be settled in 2020 (if applicable) depending upon the fulfilment of certain pre-determined conditions. The contingent consideration was recognised as a financial liability under "Contingent consideration payables" as at 31 December 2018 and 2017. The fair value of the contingent consideration payables was approximately HK$33,433,000 (2017: approximately HK$30,442,000) as at 31 December 2018.

The following table summarises the fair value of the identifiable assets acquired and liabilities assumed from the acquisition of Joint Top Group, and the calculation of goodwill:

| | *HK$'000* |
|---|---|
| Property, plant and equipment | 439 |
| Intangible assets | 8,062 |
| Inventories | 1,021 |
| Trade receivables | 83 |
| Other receivables, deposits and prepayments | 3,054 |
| Cash and cash equivalents | 3,173 |
| Payable and accruals | (3,451) |
| Fair value of net assets acquired | 12,381 |
| Goodwill (note 14) | 28,061 |
| Total consideration | 40,442 |
| Cash consideration paid | 10,000 |
| Contingent consideration payables | 30,442 |
| Total consideration | 40,442 |
| Cash consideration paid | 10,000 |
| Cash and cash equivalents acquired | (3,173) |
| Net cash outflow in respect of the PRC Acquisition during the year ended 31 December 2017 | 6,827 |

* For identification only

(b) Acquisition of South Data Communication Pte. Limited

On 13 September 2017, Asia Globe Investments Limited ("Asia Globe"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with an independent third party (the "SG Acquisition Vendor"), pursuant to which Asia Globe agreed to purchase and the SG Acquisition Vendor agreed to sell the entire issued share capital of South Data Communication Pte. Limited ("South Data") (the "Singapore Acquisition") at a total consideration of HK$6,000,000, which is to be satisfied by the payment of cash consideration at the completion date of the Singapore Acquisition. South Data is a company incorporated in Singapore with limited liability and is principally engaged in the provision of telecommunications services and distribution business in Singapore.

The total consideration for acquiring the entire equity interests in South Data, amounting to HK$6,000,000, comprised cash and contingent consideration receivables from the SG Acquisition Vendor in 2019 (if applicable) depending upon the fulfilment of certain pre-determined conditions. No contingent consideration receivables was recognised as a financial asset as at 31 December 2017 and 2018.

The following table summarises the fair value of the identifiable assets acquired from the acquisition of South Data, and the calculation of goodwill:

| | *HK$'000* |
|---|---|
| Other receivables | 58 |
| Fair value of net assets acquired | 58 |
| Goodwill (note 14) | 5,942 |
| Total consideration | 6,000 |
| Cash consideration paid and net cash outflow in respect of the Singapore Acquisition during the year ended 31 December 2017 | 6,000 |

## 13 INTANGIBLE ASSETS

| | HK$'000 |
|---|---|
| **Cost:** | |
| At 1 January 2017 | — |
| Acquisition of a subsidiary (note 12(a)) | 8,062 |
| At 31 December 2017, 1 January 2018 and 31 December 2018 | 8,062 |
| **Accumulated amortisation:** | |
| At 1 January 2017 | — |
| Charge for the year | 748 |
| At 31 December 2017 and 1 January 2018 | 748 |
| Charge for the year | 2,445 |
| At 31 December 2018 | 3,193 |
| **Net book value:** | |
| At 31 December 2018 | 4,869 |
| At 31 December 2017 | 7,314 |

The amortisation charge for the year is included in "administrative and other operating expenses" in the consolidated statement of profit or loss and other comprehensive income.

## 14 GOODWILL

| | HK$'000 |
|---|---|
| **Cost:** | |
| At 1 January 2017 | — |
| Acquisition of subsidiaries | 34,003 |
| At 31 December 2017, 1 January 2018 and 31 December 2018 | 34,003 |
| **Accumulated impairment losses:** | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018 | — |
| **Carrying amount:** | |
| At 31 December 2018 | 34,003 |
| At 31 December 2017 | 34,003 |

**Impairment tests for cash-generating units containing goodwill**

Goodwill is allocated to the Group's cash-generating units ("CGU") identified according to country of operation and operating segment as follows:

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Telecommunications services and distribution business – the People's Republic of China (the "PRC") | **28,061** | 28,061 |
| Telecommunications services and distribution business – Singapore | **5,942** | 5,942 |
| | **34,003** | 34,003 |

## 15 OTHER NON-CURRENT FINANCIAL ASSETS

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | HK$'000 |
| Equity securities designated at FVOCI (non-recycling) (Note (i)) | | |
| – Listed in Hong Kong | **2,739** | — |
| Available-for-sale equity securities (Notes (i) and (ii)) | | |
| – Listed in Hong Kong | **—** | 2,106 |

Notes:

(i) The equity securities are shares in Hospital Corporation of China Limited, a listed equity securities (stock code: 3869) listed on the Stock Exchange of Hong Kong Limited, and mainly engaged in operation and management of its privately owned hospital in the PRC. The Group designated the listed equity securities as measured at FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments during the year (2017: HK$Nil).

(ii) Available-for-sale equity securities were reclassified to equity securities designated at FVOCI (non-recycling) upon the initial application of IFRS 9 at 1 January 2018 (see note 3(i)).

## 16 INVENTORIES

| | 2018 | 2017 |
|---|---|---|
| | *HK$'000* | HK$'000 |
| SIM cards | **1,104** | 1,120 |
| Recharge and top-up vouchers | **86** | 98 |
| Mobile phone and electronic products | **2,332** | 1,804 |
| | **3,522** | 3,022 |

## 17 RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | HK$'000 |
| Trade receivables | **55,576** | 15,728 |
| Less: loss allowance | **(218)** | — |
| | **55,358** | 15,728 |
| Other receivables, deposits and prepayments | **14,309** | 6,697 |
| | **69,667** | 22,425 |

All of the other trade and other receivables are expected to be recovered or recognised as expense within one year.

Ageing analysis

As of the end of the reporting period, the ageing analysis of trade debtors, based on the invoice date and net of loss allowance, is as follows:

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **20,900** | 11,348 |
| Over 1 month but within 3 months | **16,093** | 3,809 |
| Over 3 months but within 6 months | **10,201** | 489 |
| Over 6 months but within 12 months | **8,164** | 82 |
| | **55,358** | 15,728 |

Generally, the provision of telecommunications services and distribution business to the Group's major customers, including their dealers, are made in an open account with credit terms up to 60 days after the date of invoice. Subject to negotiations, credit terms can be extended to three to six months (2017: three to four months) for certain customers with well-established trading and payment records on a case-by-case basis. Provision of telecommunications services to the Group's prepaid users are billed in advance, whereas postpaid users are made in an open account with credit terms up to 12 days after the date of invoice.

## 18 PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

| | 2018 | 2017 |
|---|---|---|
| | ***HK$'000*** | HK$'000 |
| Deposits with banks | **1,366** | 33,266 |
| Cash at banks and other financial institution | **14,448** | 24,889 |
| Cash on hand | **97** | 14 |
| | **15,911** | 58,169 |
| Less: pledged bank deposit (note) | **(200)** | — |
| Cash and cash equivalents in the consolidated statement of financial position | **15,711** | 58,169 |

Note: Bank deposits of HK$200,000 (2017: HK$Nil) were pledged for the issuance of a performance bond by a bank (Note 21).

## 19 PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

| | 31 December 2018 | 1 January 2018 (Note (i)) | 31 December 2017 (Note (i)) |
|---|---|---|---|
| | ***HK$'000*** | *HK$'000* | *HK$'000* |
| **Trade payables** | | | |
| – amounts due to related parties | **14** | 23 | 23 |
| – amounts due to third parties | **5,822** | 4,960 | 4,960 |
| | **5,836** | 4,983 | 4,983 |
| **Other payables and accruals** | | | |
| – accrued charges and deposits | **4,250** | 3,423 | 3,423 |
| – deferred income (Note (ii)) | **—** | — | 1,156 |
| | **4,250** | 3,423 | 4,579 |
| **Contract liabilities** | | | |
| Telecommunications services | | | |
| – advance payments (Note (ii)) | **886** | 1,156 | — |
| | **10,972** | 9,562 | 9,562 |

Trade and other payables (including amounts due to related parties) are expected to be settled within one year or are repayable on demand.

Notes:

(i) The Group has initially applied IFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018. Comparative information has not been restated.

(ii) Upon the adoption of IFRS 15, these amounts were reclassified from payables and accruals to contract liabilities. Payables and accruals and contract liabilities are aggregated into a single line item "Payables and accruals and contract liabilities" on the face of the consolidated statement of financial position (see note 3(ii)).

**(a) Trade payables**

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **1,927** | 3,764 |
| Over 1 month but within 3 months | **1,554** | 1,218 |
| Over 3 months but within 6 months | **2,355** | 1 |
| | **5,836** | 4,983 |

**(b) Contract liabilities**

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

The Group provides telecommunications services to customers through a variety of plans on a prepaid basis. Revenue is recognised using an output method, either as the service entitlement units are used or as time elapses, because it reflects the pattern by which the Group satisfies the performance obligation through the transfer of service to the customer. The service is generally billed in advance, which results in a contract liability.

The above balances represent the aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied or partially satisfied at the end of the reporting period, all of which will be recognised as revenue during the subsequent reporting period.

Movements in contract liabilities

| | **2018** |
|---|---|
| | ***HK$'000*** |
| Balance at 1 January | **1,156** |
| Decrease due to the recognition of revenue for contract liabilities at the beginning of the year | **(1,156)** |
| Increase due to cash received during the year | **48,336** |
| Decrease due to the recognition of revenue for cash received during the year | **(47,450)** |
| Balance at 31 December | **886** |

## 20 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Contracted for | **1,141** | 779 |

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Properties** | **Transmission lines** | Properties | Transmission lines |
| | ***HK$'000*** | ***HK$'000*** | *HK$'000* | *HK$'000* |
| Within 1 year | **1,341** | **841** | 251 | 623 |
| After 1 year but within 5 years | **359** | **131** | 403 | 400 |
| After 5 years | **247** | **—** | 357 | — |
| | **1,947** | **972** | 1,011 | 1,023 |

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 ten years (2017: one to ten years), with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

## 21 CONTINGENT LIABILITY

Other than the contingent consideration payables as disclosed in note 12(a), as at 31 December 2018, performance bond of HK$200,000 was given by a bank in favour of the Office of the Communications Authority as security for the due performance and observance of the Group's obligation under Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond (note 18). At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Group.

## 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 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 continued its marketing efforts in promoting its new 4G telecommunications services and is currently actively contacting distributors for distribution of its various 4G products. The Group has entered into distribution contracts with three distributors in 2017 and a number of distributors have also expressed their interests in becoming the Group's distributors. 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 ended 31 December 2018, respectively. For the year ended 31 December 2018, the two contracts with committed subscription have been fulfilled and the Group is confident to enter into new contracts with distributors with committed subscription in the near future.

As a result of the above measures, the number of users of the Group increased significantly since October 2017. The monthly average number of activated phone numbers for the year ended 31 December 2018 increased by approximately 90.2% to 106,547 when compared to 56,007 for the last corresponding year. The average revenue per user ("ARPU") of the Group increased from approximately HK$22.4 for the year ended 31 December 2017 to approximately HK$38.4 for the year ended 31 December 2018. The revenue derived from the provision of telecommunications services increased by approximately 2.3 times to approximately HK$49,063,000 for the year ended 31 December 2018 compared to approximately HK$15,052,000 for the last corresponding year.

The Group is confident that the various 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 its 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 phone and electronic products. For the year ended 31 December 2018, the revenue generated from such distribution business was approximately HK$60,596,000 which represents the sales proceeds of the mobile phone and electronic products, 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 became an indirect wholly-owned subsidiary of the Company and thereafter, the Group has been engaging in the provision of mobile telecommunications services and distribution business in Guangdong province in the PRC.

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 target 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 target 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 distributors which include a term that each distributor 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 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.

GZDT has engaged in the provision of mobile and data top-up services 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 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 year ended 31 December 2018, the revenue generated from the provision of mobile and data top-up services increased by approximately 2.8 times to approximately HK$46,388,000 when compared with approximately HK$12,229,000 for the period after the date of completion of the acquisition to 31 December 2017. 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 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 electronic products 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 co-operation.

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 electronic products in aggregate of not less than RMB50 million throughout the period ending 31 December 2020. For the year ended 31 December 2018, the revenue generated from the distribution business which represents the sales proceeds of the mobile phone and electronic products, net of returns and discounts, increased by approximately 92.5% to approximately HK$26,905,000 when compared with approximately HK$13,976,000 for the period after the date of completion of the acquisition to 31 December 2017.

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.

* For identification only

***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 became 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 in 2018 for the pre-paid telecommunications business. For the year ended 31 December 2018, the revenue derived from the provision of telecommunications services was approximately HK$9,517,000. 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 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 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 year ended 31 December 2018, the revenue derived from the distribution of mobile and data top-up business increased by approximately 2.6 times to approximately HK$63,649,000 when compared with approximately HK$17,839,000 for the last corresponding 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

### Revenue

For the year ended 31 December 2018, the revenue of the Group increased to approximately HK$256,279,000 compared to approximately HK$59,096,000 for the last corresponding year, representing an increase of approximately 3.3 times. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK$105,130,000 and HK$151,149,000 respectively, representing approximately 41.0% and 59.0% of the Group's revenue for the year ended 31 December 2018, respectively. The increase was mainly attributable to the revenue generated from the provision of telecommunications services and 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 new 4G service in the fourth quarter of 2017.

### Cost of Sales

The Group's cost of sales increased by approximately 3.3 times to approximately HK$235,009,000 for the year ended 31 December 2018 compared to approximately HK$54,208,000 for the last corresponding 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.

### Gross Profit

The gross profit of the Group for the year ended 31 December 2018 increased by approximately 3.4 times to approximately HK$21,270,000 when compared to approximately HK$4,888,000 for the last corresponding year and the gross profit margin remained the same of 8.3% for the year ended 31 December 2018 when compared to the last corresponding year. The increase in gross profit was mainly attributable to (i) the increase of revenue from the provision of telecommunications services and the reduction of the minimum requirement of the monthly purchase amount adopted by the MNOs and (ii) the gross profit contributed from the new distribution business by the acquisition of the wholly owned subsidiaries in September 2017.

### Other Income

The Group's other income for the year ended 31 December 2018 decreased by approximately 62.0% to approximately HK$374,000 when compared with approximately HK$984,000 for the last corresponding year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

**Other Net (Loss)/Income**

For the year ended 31 December 2017, the Group recorded other net income of approximately HK$944,000 while for the year ended 31 December 2018, the Group incurred other net loss of approximately HK$4,285,000. 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 year and the increase in fair value change on contingent consideration payables amounted to approximately HK$2,991,000 for the acquisition of Joint Top Group in September 2017.

**Administrative and Other Operating Expenses**

The Group's administrative and other operating expenses for the year ended 31 December 2018 increased by approximately 40.1% to approximately HK$19,294,000 when compared to approximately HK$13,775,000 for the last corresponding 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.

**Income Tax Credit**

The Group's income tax credit for the year ended 31 December 2018 decreased by approximately 78.7% to approximately HK$157,000 when compared to approximately HK$737,000 for the last corresponding year. The decrease was mainly attributable to the reduced recognition of unutilised tax losses during the year.

**Loss Attributable to Shareholders**

The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2018 of approximately HK$1,778,000, representing a decrease of approximately 71.4% when compared with approximately HK$6,222,000 for the last corresponding year. Excluding the effect of the increase in fair value change on contingent consideration payables amounted to approximately HK$2,991,000 for the acquisition of Joint Top Group in September 2017, the Group recorded a profit of approximately HK$1,213,000 for the year ended 31 December 2018 which was primarily attributable to (i) the increase in revenue from the provision of telecommunications services and distribution businesses arising from the acquisition of the subsidiaries in the PRC and Singapore in September 2017; and (ii) the profit generated from the increase of telecommunications services rendered due to the introduction of the 4G services in October 2017.

## 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$59.5 million had been utilised up to 31 December 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 31 December 2018 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* | **Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 12 September 2018 (the "Announcement")** *HK$ million* | **Actual use of the IPO Proceeds from the date of listing to 31 December 2018** *HK$ million (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 | 11.9 |
| 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 (Note) | — | 12.1 | 12.1 |
| Working capital | 6.8 | 9.3 | 8.5 |
| Total | 69.2 | 69.2 | 59.5 |

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$1.7 million (representing approximately 17.5% of the unutilised IPO Proceeds of approximately HK$9.7 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 31 December 2018, approximately HK$11.9 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$7.1 million has been paid up to 31 December 2018 and the remaining HK$0.9 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 31 December 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. Working capital***

The remaining HK$0.8 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 first quarter of 2019.

The remaining unutilised IPO Proceeds of approximately HK$9.7 million have been placed as interest bearing deposits in banks. As at the date of this announcement, 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.

## CAPITAL STRUCTURE

The Group adopts a sound financial policy, and the cash surplus is deposited with the banks to facilitate extra expenditure or investment. As at 31 December 2018, the Group had no outstanding loan or borrowing, and the gearing ratio (being ratio of total long term borrowings to equity) was therefore inapplicable. As at 31 December 2018, total equity attributable to equity holders of the Company amounted to approximately HK$98,059,000 (as at 31 December 2017: approximately HK$100,622,000).

As of 31 December 2018, the Company had an authorised share capital of HK$100,000,000 divided into 10,000,000,000 shares of a par value of HK$0.01 each ("Shares"), of which 3,112,500,000 Shares were issued.

## LIQUIDITY AND FINANCIAL RESOURCES

The Group normally finances its operations with internally generated cash flows and capital contribution from shareholders. As at 31 December 2018, the Group had net current assets of approximately HK$78,128,000 (as at 31 December 2017: approximately HK$74,164,000), including cash and cash equivalents of approximately HK$15,711,000 (as at 31 December 2017: approximately HK$58,169,000). The current ratio was 8.1 as at 31 December 2018, lower than 8.7 as at 31 December 2017.

## 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"), Singapore dollars ("SGD") and United States dollars ("US$"). The Group currently does not have hedging policy in respect of the foreign currency risk. However, management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arise. As at 31 December 2018, the Group did not have any derivatives for hedging against the exchange rate risk.

## PLEDGE OF ASSETS

As at 31 December 2018, bank deposits of HK$200,000 (2017: Nil) were pledged for the issuance of a performance bond by a bank to a subsidiary in the Group.

## CONTINGENT LIABILITY

Other than the contingent consideration payable of HK$33,433,000, as at the date of this announcement, a performance bond of HK$200,000 was given by a bank in favour of the Office of the Communications Authority as security for the due performance and observance of the Group's obligation under Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond. The directors do not consider it probable that a claim will be made against the Group.

## MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

The Group did not have any material acquisition, disposal of subsidiaries or affiliated companies or significant investment during the year under review.

Save for the above, the Group did not have any material acquisition, disposals of subsidiaries or affiliated companies or significant investment during the year under review.

## CAPITAL COMMITMENTS

As at 31 December 2018, the Group had commitments contracted for but not provided in the consolidated financial statements in respect of injection of share capital in a subsidiary and the purchase of softwares and hadrwares amounting to approximately HK$1,141,000 (2017: approximately HK$779,000).

## STAFF AND REMUNERATION POLICY

As at 31 December 2018, the Group had 23 employees (2017: 18 employees). Among them, 11 employees worked in Hong Kong, 11 employees worked in the PRC and 1 employee worked in Singapore. 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. The Group also offers various staff welfare, including medical insurance, share option scheme, housing fund and social insurance. It believes that employees are the most valuable assets of the Group.

## DIVIDENDS

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

## CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 6 May 2019 to Thursday, 9 May 2019, both days inclusive. In order to ascertain the members' entitlement to the attendance of the forthcoming annual general meeting of the Company, all share transfers documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, namely Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 3 May 2019.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this announcement, during the year ended 31 December 2018 there was no rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the Directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

## SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 311,250,000 shares, representing 10% of the shares of the Company in issue as at 31 December 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 year, and as at 31 December 2018 there was no outstanding share option under the Share Option Scheme.

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. During the year ended 31 December 2018 the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 15 to the GEM Listing Rules.

## CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2018 neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

## COMPETING INTERESTS

During the year ended 31 December 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.

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.

Prior to 29 November 2018, Sunward Telecom Limited ("Sunward Telecom") and its wholly-owned subsidiaries (collectively, the "Sunward Group") were wholly-owned by International Elite Ltd., a company incorporated in the Cayman Islands and a listed company on the Main Board of the Stock Exchange (Stock Code: 1328), in which Mr. Li Kin Shing and Ms. Kwok King Wa were its controlling shareholders. Since 29 November 2018, the Sunward Group had been directly wholly-owned by Mr. Li Kin Shing. According to the GEM Listing Rules, the Sunward Group were the associates of Mr. Li Kin Shing and Ms. Kwok King Wa for the year ended 31 December 2018. 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 the Sunward Group, 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.

## SCOPE OF WORK OF AUDITOR

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

## AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The 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 Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Liu Kejun. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee.

The primary duties of the Audit Committee are to review the Company's annual report and consolidated financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee (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 year ended 31 December 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.

During the year of 2018, the audit committee has (i) reviewed the quarterly and half-yearly results; (ii) reviewed the accounting policies adopted by the Group and issues related to accounting practice; (iii) met with external auditors to discuss on issues arising from the audit and financial reporting matters and reviewed the relationship with the external auditors by reference to the work performed by the auditors, their fees and terms of engagement; and (iv) assisted the Board to evaluate on the effectiveness of financial reporting procedure and internal control.

The Group's audited results for the year ended 31 December 2018 have been reviewed by the Audit Committee and which was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 27 March 2019

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

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