Directel

Directel Holdings Limited
直通電訊控股有限公司

DIRECTEL HOLDINGS LIMITED

直 通 電 訊 控 股 有 限 公 司

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

THIRD QUARTERLY REPORT

2019

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

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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 2019 was approximately HK$187,727,000, representing an increase of approximately 3.7% as compared with the corresponding period in 2018.

- Loss attributable to shareholders of the Company for the nine months ended 30 September 2019 was approximately HK$17,925,000, while profit attributable to shareholders of the Company for the corresponding period in 2018 was approximately HK$2,397,000.

- The Board does not recommend the payment of any dividend for the nine months ended 30 September 2019.

UNAUDITED THIRD QUARTERLY RESULTS FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2019

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 2019 together with the unaudited comparative figures for the respective corresponding period in 2018 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		For the three months ended 30 September		For the nine months ended 30 September	
		2019	2018	**2019**	2018
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	Note	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
Revenue	4	**74,222**	66,350	**187,727**	181,072
Cost of sales		**(73,083)**	(61,380)	**(186,369)**	(162,924)
Gross profit		**1,139**	4,970	**1,358**	18,148
Other income	5(a)	**156**	36	**292**	298
Other net loss	5(b)	**(983)**	(429)	**(2,465)**	(1,208)
Administrative and other operating expenses		**(5,436)**	(4,998)	**(17,333)**	(13,806)
(Loss)/profit from operations		**(5,124)**	(421)	**(18,148)**	3,432
Finance costs	6	**(13)**	–	**(37)**	–
(Loss)/profit before taxation	6	**(5,137)**	(421)	**(18,185)**	3,432
Income tax credit/(expense)	7	**69**	–	**260**	(1,035)
(Loss)/profit for the period attributable to equity shareholders of the Company		**(5,068)**	(421)	**(17,925)**	2,397
Other comprehensive income for the period, net of income tax:					
Item that will 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)		**(312)**	(250)	**(867)**	515
Item that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of financial statements of overseas subsidiaries		**(616)**	(991)	**(665)**	(1,505)

	Note	For the three months ended 30 September		For the nine months ended 30 September	
		2019	2018	**2019**	2018
		HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
		(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Total comprehensive income for the period attributable to equity shareholders of the Company		**(5,996)**	(1,662)	**(19,457)**	1,407
(Loss)/earnings per share	9				
– Basic (HK cents)		**(0.14)**	(0.01)	**(0.53)**	0.08
– Diluted (HK cents)		**(0.14)**	(0.01)	**(0.53)**	0.07

The Group has initially applied IFRS 16 at 1 January 2019, using the modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

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 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 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 2018, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3.

The quarterly financial report contains condensed 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 2018 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 for the nine months ended 30 September 2019 is unaudited, but has been reviewed by the Company's audit committee.

3. CHANGES IN ACCOUNTING POLICIES

The International Accounting Standards Board has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this quarterly financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

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

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16, *Leases* *(Continued)*

(a) Changes in the accounting policies (Continued)

(i) New definition of a lease *(Continued)*

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment and transmission lines.

Where the contract contains lease components and non-lease components, the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16, ***Leases*** *(Continued)*

(a) Changes in the accounting policies *(Continued)*

(ii) Lessee accounting *(Continued)*

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16, ***Leases*** *(Continued)*

(b) Critical accounting judgement and sources of estimation uncertainty in applying the above accounting policies

Determining the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

(c) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) the Group elected not to apply the requirements of IFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of IFRS 16, i.e. where the lease term ends on or before 31 December 2019; and

(ii) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment).

3. CHANGES IN ACCOUNTING POLICIES *(Continued)*

IFRS 16, *Leases* *(Continued)*

(c) ***Transitional impact*** *(Continued)*

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 *HK$'000*
Operating lease commitments at 31 December 2018	2,919
Less: commitments relating to leases exempt from capitalisation:	
– short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(1,848)
	1,071
Less: total future interest expenses	(149)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	922

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

4. REVENUE

The principal activities of the Group are the telecommunications services and distribution business. Disaggregation of revenue from contracts with customers by products or service lines is as follows:

	For the three months ended 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Telecommunications services	**19,021**	26,877	**47,894**	86,650
Distribution business	**55,201**	39,473	**139,833**	94,422
	74,222	66,350	**187,727**	181,072

5. OTHER INCOME AND OTHER NET LOSS

	For the three months ended 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Other income				
Interest income on financial assets measured at amortised cost	**132**	30	**191**	183
Sundry income	**24**	6	**101**	115
	156	36	**292**	298
(b) Other net loss				
Net foreign exchange loss	**(183)**	(429)	**(165)**	(1,208)
Fair value change on contingent consideration	**(800)**	–	**(2,300)**	–
	(983)	(429)	**(2,465)**	(1,208)

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	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
(a) Finance costs:				
Interest on lease liabilities	**13**	–	**37**	–
(b) Staff costs:				
Salaries, wages and other benefits	**1,158**	1,243	**3,628**	3,359
Contributions to retirement benefit schemes	**75**	75	**236**	215
	1,233	1,318	**3,864**	3,574
(c) Other items:				
Amortisation of intangible assets	**609**	608	**1,826**	1,836
Depreciation				
– owned property, plant and equipment	**735**	707	**2,209**	2,124
– right-of-use assets	**83**	–	**248**	–
Impairment loss on trade receivables	**417**	–	**1,112**	–
Operating lease charges in respect of				
– rental of properties	**345**	368	**1,084**	1,104
– rental of transmission lines	**154**	337	**507**	870
Auditors' remuneration				
– audit services	**357**	297	**1,143**	905
– tax services	**3**	13	**8**	38
Cost of inventories	**53,940**	39,062	**136,801**	93,879
Licence charges	**182**	201	**703**	803
Repairs and maintenance	**421**	117	**1,306**	370

7. INCOME TAX CREDIT/(EXPENSE) IN THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)
Current tax				
– Hong Kong Profits Tax	**–**	–	**–**	–
– Overseas Tax	**–**	–	**–**	–
Deferred tax	**69**	–	**260**	(1,035)
	69	–	**260**	(1,035)

(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 the three months and the nine months ended 30 September 2019 is calculated at the rate of 16.5% (three months and nine months ended 30 September 2018: 16.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the three months and the nine months ended 30 September 2019 (2018: Nil) as the Group's operation in Hong Kong either had no assessable profit or had accumulated tax losses brought forward to offset estimated assessable profits for the period.

(ii) Overseas Tax

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

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2019 (nine months ended 30 September 2018: 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	
	2019	2018	**2019**	2018
	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	**(5,068)**	(421)	**(17,925)**	2,397

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

	For the three months ended 30 September		For the nine months ended 30 September	
	2019	2018	**2019**	2018
	Number of shares	Number of shares	**Number of shares**	Number of shares
	'000	*'000*	***'000***	*'000*
Issued ordinary shares at 1 January	**3,112,500**	3,112,500	**3,112,500**	3,112,500
Effect of unlisted warrants exercised	**585,000**	–	**287,143**	–
Weighted average number of ordinary shares at 30 September	**3,697,500**	3,112,500	**3,399,643**	3,112,500

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	
	2019	2018	**2019**	2018
	Number of shares	Number of shares	**Number of shares**	Number of shares
	'000	*'000*	***'000***	*'000*
Weighted average number of ordinary shares (basic)	**3,697,500**	3,112,500	**3,399,643**	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	**3,697,500**	3,112,500	**3,399,643**	3,342,388

Diluted loss per share was the same as basic loss per share for the three months and the nine months ended 30 September 2019 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 HK$'000 (Unaudited)	Share premium HK$'000 (Unaudited)	Warrant reserve HK$'000 (Unaudited)	Exchange reserve HK$'000 (Unaudited)	Fair value reserve (recycling) HK$'000 (Unaudited)	Fair value reserve (non-recycling) HK$'000 (Unaudited)	Retained profits HK$'000 (Unaudited)	Total equity HK$'000 (Unaudited)
Balance at 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
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
Balance at 30 September 2018	31,125	46,749	1,654	(1,370)	–	604	23,267	102,029
Balance at 1 January 2019	**31,125**	**46,749**	**1,654**	**(1,283)**	**-**	**722**	**19,092**	**98,059**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**(17,925)**	**(17,925)**
Other comprehensive income for the period	**-**	**-**	**-**	**(665)**	**-**	**(867)**	**-**	**(1,532)**
Total comprehensive income for the period	**-**	**-**	**-**	**(665)**	**-**	**(867)**	**(17,925)**	**(19,457)**
Shares issued under warrant subscription agreement	**5,850**	**27,768**	**(1,613)**	**-**	**-**	**-**	**-**	**32,005**
Unlisted warrants lapsed during the period	**-**	**-**	**(41)**	**-**	**-**	**-**	**41**	**-**
Balance at 30 September 2019	**36,975**	**74,517**	**-**	**(1,948)**	**-**	**(145)**	**1,208**	**110,607**

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.

11. COMPARATIVE FIGURES

The Company has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3. Comparative figures in respect of certain components in revenue and cost of sales have been reclassified to conform to the current period's presentation.

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 the distribution of its various 4G products. The Group has entered into distribution contracts with two distributors in 2017 which 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. The two contracts have been fulfilled in 2018, however, the Group was unable to secure new contracts with committed subscription with distributors for the nine months ended 30 September 2019 for the 4G products and similar 4G roaming products provided by other competitors can easily be found in the highly competitive mobile telecommunications industry.

As a result of the above, the revenue derived from the provision of telecommunications services decreased significantly by approximately 58.6% to approximately HK$17,191,000 for the nine months ended 30 September 2019 compared to approximately HK$41,554,000 for the corresponding period last year.

The Group is currently negotiating with the service providers to further reduce the unit cost of airtime and mobile data and thus the Group would be able to reduce the selling price of the 4G products to enhance competitiveness. The Group is now actively looking for distributors to develop overseas markets to enable overseas users who would like to enjoy mobile data services during their overseas travels at lower charges. The Group believes that various 4G product offerings 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 mobile telecommunications industry.

In the second quarter of 2018, the Group has diversified its business in Hong Kong to the distribution of mobile phones and electronic products. For the nine months ended 30 September 2019, the revenue generated from such distribution business which represents the sales proceeds of mobile phones and electronic products, net of returns and discounts, increased by approximately 1.5 times to approximately HK$72,241,000 when compared with approximately HK$28,791,000 for the corresponding period last year.

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.

*   *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.

In 2017, 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 includes 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. Various functions of mobile phones such as online shopping, mobile navigation, video watching and online games playing etc. lead to an 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, 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 users such as roaming day plan and video watching plan. For the nine months ended 30 September 2019, the revenue generated from the provision of mobile and data top-up services decreased by approximately 19.9% to approximately HK$28,999,000 when compared with approximately HK$36,204,000 for the corresponding period last year. The Directors believe that the demand of mobile data traffic will continuously make 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 phones 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 nine months ended 30 September 2019, the revenue generated from the distribution business which represents the sales proceeds of the mobile phones and electronic products, net of returns and discounts, decreased by approximately 29.7% to approximately HK$13,485,000 when compared with approximately HK$19,181,000 for the corresponding period last year.

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 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 nine months ended 30 September 2019, the revenue derived from the provision of telecommunications services decreased by approximately 81.2% to approximately HK$1,643,000 when compared with approximately HK$8,756,000 for the corresponding period last year. 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 nine months ended 30 September 2019, the revenue derived from the distribution of mobile and data top-up business increased by approximately 16.5% to approximately HK$54,107,000 when compared with approximately HK$46,450,000 for the corresponding period last year. The Directors are confident that the distribution 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 the unit cost of airtime and mobile data.

FINANCIAL REVIEW

For the nine months ended 30 September 2019, the revenue of the Group increased slightly to approximately HK$187,727,000 compared to approximately HK$181,072,000 for the corresponding period last year, representing an increase of approximately 3.7%. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK$47,894,000 and HK$139,833,000 respectively, representing 25.5% and 74.5% of the Group's revenue for the nine months ended 30 September 2019, respectively. The increase was mainly attributable to the significant increase of revenue generated from the distribution business in Hong Kong which was partially offset by the decrease in revenue generated from the provision of telecommunications services in Hong Kong.

The Group's cost of sales increased by approximately 14.4% to approximately HK$186,369,000 for the nine months ended 30 September 2019 compared to approximately HK$162,924,000 for the corresponding period last year. The increase was mainly attributable to the increase in cost of the distribution business.

For the nine months ended 30 September 2019, the gross profit of the Group decreased to approximately HK$1,358,000 compared to approximately HK$18,148,000 for the corresponding period last year, representing a decrease of approximately 92.5%. The decrease was mainly attributable to the significant decrease in revenue generated from the provision of telecommunications services in Hong Kong which in turn led to a gross loss of this segment for the nine months ended 30 September 2019 as a certain amount of the operating costs in this segment are fixed costs in nature.

The Group's other income for the nine months ended 30 September 2019 decreased slightly by approximately 2.0% to approximately HK$292,000 when compared with approximately HK$298,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of sundry income.

The Group's other net loss increased by approximately 104.1% to approximately HK$2,465,000 for the nine months ended 30 September 2019 compared to approximately HK$1,208,000 for the corresponding period last year. The increase of other net loss was mainly due to the increase in fair value change on contingent consideration payables amounted to approximately HK$2,300,000 for the acquisition of the Joint Top Group in September 2017 which was partially offset by the decrease in 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 2019 increased by approximately 25.5% to approximately HK$17,333,000 when compared to approximately HK$13,806,000 for the corresponding period last year. The increase was primarily due to the impairment loss on trade receivables and the increase in professional fees, staff costs and repair and maintenance fees.

The Group's finance costs for the nine months ended 30 September 2019 was approximately HK$37,000. No finance costs incurred for the nine months ended 30 September 2018. The incurrence of finance costs was mainly due to the interest on lease liabilities recognised upon the initial adoption of IFRS 16 on 1 January 2019.

The Group recorded income tax credit of approximately HK$260,000 for the nine months ended 30 September 2019 while the Group's income tax expense for the nine months ended 30 September 2018 was approximately HK$1,035,000. Such income tax credit was mainly attributable to the decrease of deferred tax liabilities provided for the property, plant and equipment of the Group.

The Group recorded a loss attributable to equity shareholders of the Company for the nine months ended 30 September 2019 of approximately HK$17,925,000 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 loss was mainly attributable to (i) the significant decrease in revenue generated from the provision of telecommunications services in Hong Kong; (ii) the increase in fair value change on contingent consideration payables; (iii) the impairment loss on trade receivables; and (iv) the increase in administrative and operating expenses especially in professional fees, staff costs and repair and maintenance fees.

OTHER INFORMATION

Update on the use of proceeds from the placing of the shares of the Company completed on 2 June 2010 ("IPO Proceeds")

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

The IPO Proceeds were approximately HK$69.2 million, amongst which approximately HK$61.0 million had been utilised up to 30 September 2019. 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 2019 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 30 September 2019** *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	12.6
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	9.3
Total	69.2	69.2	61.0

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$0.2 million (representing approximately 2.4% of the unutilised IPO Proceeds of approximately HK$8.2 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 2019, approximately HK$12.6 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. 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$7.8 million has been paid up to 30 September 2019 and the remaining approximately HK$0.2 million is expected to be paid in the fourth quarter 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 2019, approximately HK$4.3 million out of approximately HK$12.3 million of the changed use of IPO Proceeds allocated to the 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.

The remaining unutilised IPO Proceeds of approximately HK$8.2 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

Other than the contingent consideration payables of approximately HK$35,733,000, as at the date of this report, a performance bond of HK$200,000 was given by a bank in favour of the Office of the Communications Authority ("OFCA") 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.

PLEDGE OF ASSETS

As at 30 September 2019, bank deposits of HK$200,000 (2018: HK$200,000) were pledged for the issuance of a performance bond by a bank to a subsidiary in the Group.

DIVIDENDS

The Board does not recommend the payment of any dividend for the nine months ended 30 September 2019 (nine months ended 30 September 2018: 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). On 14 May 2019, two existing holders of Warrants, as transferors, transferred an aggregate of 155,000,000 Warrants to one existing holder of Warrants and one body corporate, as transferees, at a total consideration of HK$1,550,000 (at HK$0.01 per Warrant). On 20 May 2019, 195,000,000 Warrants had been exercised for a total cash consideration, before expenses, of approximately HK$32,117,000 and the Company issued an aggregate of 585,000,000 new ordinary shares of a par value of HK$0.01 each upon the exercise of the Warrants. The outstanding 5,000,000 Warrants were lapsed on 28 May 2019.

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 2019, 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)*	56.49%
	Beneficial owner	101,250,000	2.74%
Mr. Pang Kwok Chau	Beneficial owner	30,000,000	0.81%
Mr. Wong Kin Wa	Beneficial owner	30,000,000	0.81%

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 2019, 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 2019, 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	56.49%
Ms. Kwok King Wa	Interest of controlled corporation	2,088,750,000 *(Note 1)*	56.49%
	Interest of spouse	101,250,000 *(Note 2)*	2.74%

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 2019, 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 369,750,000 shares, representing 10% of the shares of the Company in issue as at 30 September 2019. 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 2019, and as at 30 September 2019, 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 2019.

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 2019, 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 2019, 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 nine months ended 30 September 2019. 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.

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 31 December 2018. 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 December 2018. 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 2019. 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 2019 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, 11 November 2019

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.