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 2019

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 2019 was approximately HK$244,823,000, representing a decrease of approximately 4.5% as compared with 2018.
- Loss attributable to shareholders of the Company for the year ended 31 December 2019 was approximately HK$59,076,000, representing an increase of approximately 32.2 times when compared with 2018.
- Basic and diluted loss per ordinary share for the year ended 31 December 2019 was 1.70 HK cents respectively as compared with basic and diluted loss of 0.06 HK cents respectively for year ended 31 December 2018.
- The Board does not recommend the payment of a final dividend for the year ended 31 December 2019.

ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019 together with the comparative figures for the year ended 31 December 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	**2019**	2018
			(Note)
		HK\$'000	*HK\$'000*
Revenue	*4, 5*	**244,823**	256,279
Cost of sales		**(243,584)**	(235,009)
Gross profit		**1,239**	21,270
Other income	*6(a)*	**406**	374
Other net loss	*6(b)*	**(2,626)**	(4,285)
Administrative and other operating expenses		**(57,784)**	(19,294)
Loss from operations		**(58,765)**	(1,935)
Finance costs	*7(a)*	**(51)**	–
Loss before taxation	*7*	**(58,816)**	(1,935)
Income tax (expense)/credit	*8(a)*	**(260)**	157
Loss for the year attributable to equity shareholders of the Company		**(59,076)**	(1,778)
Other comprehensive income for the year			
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)		**(867)**	633
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(519)**	(1,418)
Total comprehensive income for the year attributable to equity shareholders of the Company		**(60,462)**	(2,563)
Loss per share	*10*		
– Basic		**(1.70) cents**	(0.06) cents
– Diluted		**(1.70) cents**	(0.06) cents

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 HK$'000	2018 (Note) HK$'000
Non-current assets			
Property, plant and equipment	*11*	**9,523**	11,739
Goodwill	*14*	**5,942**	34,003
Intangible assets	*13*	**–**	4,869
Other non-current financial assets	*15*	**1,872**	2,739
Deferred tax assets		**1,142**	1,783
Total non-current assets		**18,479**	55,133
Current assets			
Inventories	*16*	**2,483**	3,522
Trade receivables	*17*	**28,378**	55,358
Other receivables, deposits and prepayments	*17*	**9,649**	14,309
Pledged bank deposits	*18*	**200**	200
Cash and cash equivalents	*18*	**56,625**	15,711
Total current assets		**97,335**	89,100
Current liabilities			
Payables and accruals and contract liabilities	*19*	**7,443**	10,972
Lease liabilities	*20*	**567**	–
Taxation payable		**11**	–
Total current liabilities		**8,021**	10,972
Net current assets		**89,314**	78,128
Total assets less current liabilities		**107,793**	133,261
Non-current liabilities			
Contingent consideration payables	*12(a)*	**36,127**	33,433
Lease liabilities	*20*	**687**	–
Deferred tax liabilities		**1,377**	1,769
Total non-current liabilities		**38,191**	35,202
Net assets		**69,602**	98,059
Capital and reserves			
Share capital		**36,975**	31,125
Share premium		**74,517**	46,749
Warrant reserve		**–**	1,654
Exchange reserve		**(1,802)**	(1,283)
Fair value reserve		**(145)**	722
(Accumulated losses)/retained profits		**(39,943)**	19,092
Total equity		**69,602**	98,059

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital *HK$'000*	Share premium *HK$'000*	Warrant reserve *HK$'000*	Exchange reserve *HK$'000*	Fair value reserve (non-recycling) *HK$'000*	Retained profits/ (accumulated losses) *(note)* *HK$'000*	Total equity *HK$'000*
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 and 1 January 2019	31,125	46,749	1,654	(1,283)	722	19,092	98,059
Changes in equity for 2019:							
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(59,076)**	**(59,076)**
Other comprehensive income	**–**	**–**	**–**	**(519)**	**(867)**	**–**	**(1,386)**
Total comprehensive income	**–**	**–**	**–**	**(519)**	**(867)**	**(59,076)**	**(60,462)**
Shares issued under warrant subscription agreement	**5,850**	**27,768**	**(1,613)**	**–**	**–**	**–**	**32,005**
Unlisted warrants lapsed during the year	**–**	**–**	**(41)**	**–**	**–**	**41**	**–**
Balance at 31 December 2019	**36,975**	**74,517**	**–**	**(1,802)**	**(145)**	**(39,943)**	**69,602**

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

NOTES TO THE FINANCIAL STATEMENTS

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 annual results set out in this announcement do not constitute the Group's financial statements for the year ended 31 December 2019 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 2019 comprise the Company and its subsidiaries (together referred to as the "Group").

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 new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

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. 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.

IFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

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) 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.

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.

(b) ***Lessee accounting and transitional impact***

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 which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to properties and transmission lines as disclosed in note 21(b).

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. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 5.875% per annum.

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).

The following table reconciles the operating lease commitments as disclosed in note 21(b) 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. 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:

	2019	2018
	HK$'000	*HK$'000*
Telecommunications services	**61,723**	105,130
Distribution business	**183,100**	151,149
	244,823	256,279

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:

	2019	2018
	HK$'000	*HK$'000*
Customer A – distribution business	**70,379**	67,335
Customer B – distribution business	**28,678**	–

(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, unallocated corporate expenses and finance costs.

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 2019 and 2018 is set out below.

	2019		
	Telecommunications services	**Distribution business**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
Disaggregated by timing of revenue recognition			
Point in time	–	**183,100**	**183,100**
Over time	**61,723**	–	**61,723**
Revenue from external customers	**61,723**	**183,100**	**244,823**
Reportable segment revenue and consolidated revenue	**61,723**	**183,100**	**244,823**
Reportable segment profit	**(2,724)**	**3,963**	**1,239**
Other income			**406**
Other net loss			**(2,626)**
Unallocated corporate expenses			**(57,784)**
Finance costs			**(51)**
Consolidated loss before taxation			**(58,816)**

	2018		
	Telecommunications services *(Note)* *HK$'000*	Distribution business *(Note)* *HK$'000*	Total *(Note)* *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)

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

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**	
	2019	2018	**2019**	2018 *(Note)*
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**119,333**	109,659	**9,484**	11,706
Mainland China	**54,480**	73,454	**–**	27
Singapore	**71,010**	73,166	**39**	6
	244,823	256,279	**9,523**	11,739

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

6 OTHER INCOME AND OTHER NET LOSS

	2019	2018
	HK$'000	*HK$'000*
(a) Other income		
Interest income on financial assets measured at amortised cost	**322**	198
Sundry income	**84**	176
	406	374
(b) Other net loss		
Net foreign exchange gain/(loss)	**68**	(1,294)
Fair value change on contingent consideration	**(2,694)**	(2,991)
	(2,626)	(4,285)

7 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

(a) Finance costs

	2019	2018
		(Note)
	HK$'000	*HK$'000*
Interest on lease liabilities	**51**	–

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

(b) Staff costs

	2019	2018
	HK$'000	*HK$'000*
Salaries, wages and other benefits	**4,805**	4,689
Contributions to defined contribution retirement plan	**320**	218
	5,125	4,907

(c) Other items

	2019	2018
	HK$'000	*HK$'000*
Amortisation of intangible assets	**2,435**	2,445
Depreciation*		
– owned property, plant and equipment*	**2,926**	2,849
– right-of-use assets*	**420**	–
Loss allowance of trade receivables	**3,547**	218
Impairment losses on prepayments	**2,026**	–
Impairment losses on property, plant and equipment	**590**	–
Impairment losses on intangible assets	**2,434**	–
Impairment losses on goodwill	**28,061**	–
Lease charges for leases previously classified as operating leases under IAS 17* in respect of		
– rental of properties	**–**	1,522
– rental of transmission lines	**–**	1,167
Auditors' remuneration		
– audit services	**1,318**	1,255
– tax services	**10**	10
– other services	**5**	5
Cost of inventories	**179,517**	149,879
Licence charges	**854**	1,015
Repair and maintenance	**1,697**	1,008

* The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

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:

	2019	2018
	HK$'000	*HK$'000*
Current tax – outside Hong Kong	**11**	(10)
Deferred tax	**249**	(147)
	260	(157)

(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 2019 is calculated at 16.5% (2018: 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 2019 (2018: Nil) as the Group's operations in Hong Kong sustained a loss for taxation purpose during the year, while it had tax losses brought forward to offset estimated assessable profits in prior year.

(ii) Tax outside Hong Kong

Taxation for subsidiaries outside Hong Kong is charged at the appropriate 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 2019 (2018: 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:

	2019	2018
	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	**(59,076)**	(1,778)

Weighted average number of ordinary shares (Basic and diluted)

	2019	2018
	Number of shares	Number of shares
	'000	*'000*
Issued ordinary shares at 1 January	**3,112,500**	3,112,500
Effect of unlisted warrants exercised	**362,219**	–
Weighted average number of ordinary shares at 31 December	**3,474,719**	3,112,500

Diluted loss per share was the same as basic loss per share for the year ended 31 December 2019 as there were no dilutive potential ordinary shares during the year.

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

11 PROPERTY, PLANT AND EQUIPMENT

	Properties leased for own use *HK$'000*	Furniture and fixtures *HK$'000*	Leasehold improvements *HK$'000*	Facilities equipment *HK$'000*	Office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:							
At 1 January 2018	–	402	1,860	31,374	592	2,637	36,865
Additions	–	–	–	1,262	43	–	1,305
At 31 December 2018	**–**	**402**	**1,860**	**32,636**	**635**	**2,637**	**38,170**
Impact on initial application of IFRS 16 ***(Note)***	**555**	**–**	**–**	**367**	**–**	**–**	**922**
Adjusted balance at 1 January 2019	**555**	**402**	**1,860**	**33,003**	**635**	**2,637**	**39,092**
Additions	**163**	**–**	**–**	**620**	**15**	**–**	**798**
At 31 December 2019	**718**	**402**	**1,860**	**33,623**	**650**	**2,637**	**39,890**
Accumulated depreciation and impairment losses:							
At 1 January 2018	–	171	775	19,877	513	2,246	23,582
Charge for the year	–	79	372	2,215	32	151	2,849
At 31 December 2018 and 1 January 2019	**–**	**250**	**1,147**	**22,092**	**545**	**2,397**	**26,431**
Charge for the year	**118**	**79**	**372**	**2,597**	**28**	**152**	**3,346**
Impairment losses ***(notes 7(c) and 14(b))***	**566**	**–**	**–**	**–**	**24**	**–**	**590**
At 31 December 2019	**684**	**329**	**1,519**	**24,689**	**597**	**2,549**	**30,367**
Net book value:							
At 31 December 2019	**34**	**73**	**341**	**8,934**	**53**	**88**	**9,523**
At 31 December 2018	–	152	713	10,544	90	240	11,739

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. See note 3.

Right-of-use assets

The analysis of the net book value of right-of-use assets by class of underlying asset is as follows:

	Notes	**31 December 2019** ***HK$'000***	1 January 2019 *HK$'000*
Properties leased for own use, carried at depreciated cost	*(i)*	**34**	555
Facilities equipment, carried at depreciated cost	*(ii)*	**627**	367
		661	922

The analysis of expense items in relation to leases recognised in profit or loss is as follows:

	2019	2018
		(Note)
	HK$'000	*HK$'000*
Depreciation charge of right-of-use assets by class of underlying asset:		
– Properties leased for own use	**118**	–
– Facilities equipment	**302**	–
	420	–
Interest on lease liabilities *(note 7(a))*	**51**	–
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019		
– rental of properties	**1,495**	–
– rental of transmission line	**657**	–
Total minimum lease payments for leases previously classified as operating leases under IAS 17		
– rental of properties	**–**	1,522
– rental of transmission lines	**–**	1,167

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 3.

During the year, additions to right-of-use assets were HK$725,000. This amount primarily related to the capitalised lease payments payable under new tenancy agreements.

(i) Properties leased for own use

The Group has obtained the right to use properties as its offices through tenancy agreements. The leases typically run for an initial period of one to two years.

(ii) Facilities equipment

The Group leases transmission lines under leases for an initial period of one to three years. None of the leases includes variable lease payments.

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. The goodwill of HK$28,061,000 arising from the acquisition was attributable to the synergy from the established distribution network and sales channels of GZDT to penetrate into the PRC market through the distribution of the Group's SIM cards.

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 2021 (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 2019 and 2018. The fair value of the contingent consideration payables was approximately HK$36,127,000 (2018: approximately HK$33,433,000) as at 31 December 2019.

(b) Acquisition of South Data Communication Pte. Ltd.

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. Ltd. ("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 goodwill of HK$5,942,000 arising from the acquisition was attributable to the synergy from the established distribution network and sales channels of South Data to penetrate into Singapore market through the distribution of the Group's mobile and data top-up e-vouchers.

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 2021 (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 2018 and 2019.

* *For identification only*

13 INTANGIBLE ASSETS

	Customer contracts *HK$'000*
Cost:	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	8,062
Accumulated amortisation and impairment losses:	
At 1 January 2018	748
Charge for the year	2,445
At 31 December 2018 and 1 January 2019	3,193
Impairment losses *(notes 7(c) and 14(b))*	2,434
Charge for the year	2,435
At 31 December 2019	8,062
Net book value:	
At 31 December 2019	–
At 31 December 2018	4,869

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 2018, 31 December 2018, 1 January 2019 and 31 December 2019	34,003
Accumulated impairment losses:	
At 1 January 2018 and 31 December 2018	–
Impairment loss *(note 7(c))*	28,061
At 31 December 2019	28,061
Carrying amount:	
At 31 December 2019	5,942
At 31 December 2018	34,003

(a) Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the Group's group of cash-generating units ("CGU") identified according to the countries of operation as follows:

	2019	2018
	HK$'000	*HK$'000*
Telecommunications services and distribution business – Mainland China	–	28,061
Telecommunications services and distribution business – Singapore	5,942	5,942
	5,942	34,003

(b) Impairment loss

During the year ended 31 December 2019, the subsidiary of the Group in the PRC has been loss-making under difficult market condition. This represented an indications that the non-financial assets of the subsidiary may be impaired. The Group assessed the recoverable amounts of the related CGU in Mainland China to be HK$Nil. As a result, an impairment loss of approximately HK$31,085,000 was recognised and allocated to reduce the carrying amount of goodwill, intangible assets and property, plant and equipment by approximately HK$28,061,000, HK$2,434,000 and HK$590,000 respectively.

15 OTHER NON-CURRENT FINANCIAL ASSETS

	2019	2018
	HK$'000	*HK$'000*
Equity securities designated at FVOCI (non-recycling) *(Note)*		
– Listed in Hong Kong	1,872	2,739

Note: 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 (2018: HK$Nil).

16 INVENTORIES

	2019	2018
	HK$'000	*HK$'000*
SIM cards	1,009	1,104
Recharge and top-up vouchers	2	86
Mobile phone and electronic products	1,472	2,332
	2,483	3,522

17 RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2019	2018
	HK$'000	*HK$'000*
Trade receivables	**32,143**	55,576
Less: loss allowance	**(3,765)**	(218)
	28,378	55,358
Other receivables, deposits and prepayments	**9,649**	14,309
	38,027	69,667

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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**12,436**	20,900
Over 1 month but within 3 months	**7,189**	16,093
Over 3 months but within 6 months	**2,573**	10,201
Over 6 months but within 12 months	**6,180**	8,164
	28,378	55,358

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 (2018: three to six 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

	2019	2018
	HK$'000	*HK$'000*
Deposits with banks	**25,476**	1,366
Cash at banks and other financial institutions	**31,153**	14,448
Cash on hand	**196**	97
	56,825	15,911
Less: pledged bank deposits *(note)*	**(200)**	(200)
Cash and cash equivalents in the consolidated statement of financial position	**56,625**	15,711

Note: Bank deposits of HK$200,000 (2018: HK$200,000) were pledged for the issuance of a performance bond by a bank (note 22).

19 PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

	2019	2018
	HK$'000	*HK$'000*
Trade payables		
– amounts due to related parties	**–**	14
– amounts due to third parties	**2,165**	5,822
	2,165	5,836
Other payables and accruals		
– accrued charges and deposits	**4,017**	4,250
Contract liabilities		
Telecommunications services		
– advance payments	**1,261**	886
	7,443	10,972

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

(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:

	2019	2018
	HK$'000	*HK$'000*
Within 1 month	**1,193**	1,927
Over 1 month but within 3 months	**951**	1,554
Over 3 months but within 12 months	**7**	2,355
Over 12 months	**14**	–
	2,165	5,836

(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

	2019	2018
	HK$'000	*HK$'000*
Balance at 1 January	**886**	1,156
Decrease due to the recognition of revenue for contract liabilities at the beginning of the year	**(886)**	(1,156)
Increase due to cash received during the year	**3,436**	48,336
Decrease due to the recognition of revenue for cash received during the year	**(2,175)**	(47,450)
Balance at 31 December	**1,261**	886

20 LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to IFRS 16:

	31 December 2019		1 January 2019 *(Note)*	
	Present value of the minimum lease payments	**Total minimum lease payments**	Present value of the minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within 1 year	**567**	**619**	307	351
After 1 year but within 2 years	**308**	**338**	171	200
After 2 years but within 5 years	**235**	**282**	214	273
After 5 years	**144**	**150**	230	247
	687	**770**	615	720
	1,254	**1,389**	922	1,071
Less: total future interest expenses		**(135)**		(149)
Present value of lease liabilities		**1,254**		922

Note: The Group has initially applied IFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under IAS 17. Comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to IFRS 16 are set out in note 3.

21 COMMITMENTS

(a) Capital commitments outstanding at 31 December 2019 not provided for in the financial statements were as follows:

	2019	2018
	HK$'000	*HK$'000*
Contracted for	–	1,141

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

	Properties	Transmission lines
	HK$'000	*HK$'000*
Within 1 year	1,341	841
After 1 year but within 5 years	359	131
After 5 years	247	–
	1,947	972

The Group is the lessee in respect of a number of properties and transmission lines held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the consolidated statement of financial position in accordance with the policies set out in note 3, and the details regarding the Group's future lease payments are disclosed in note 20.

22 CONTINGENT LIABILITY

Other than the contingent consideration payables as disclosed in note 12(a), as at 31 December 2019, 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.

23 COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

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 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 year ended 31 December 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. Moreover, the reducing number of overseas tourists travelling to Hong Kong due to the social unrest in the second half of 2019, particularly the substantial decrease in the number of the Mainland tourists, has placed a heavy strike to the tourism and retail industry and the sales of the Group's 4G roaming products were also adversely affected accordingly.

As a result of the above, the revenue derived from the provision of telecommunications services decreased significantly by approximately 53.8% to approximately HK$22,668,000 for the year ended 31 December 2019 compared to approximately HK$49,063,000 for the last corresponding year.

As the sentiment of social unrest in Hong Kong is easing, the number of tourists also starts to rise again gradually. Nevertheless, against the backdrop of the outbreak of novel coronavirus pneumonia in Mainland China since January 2020 and a rising number of infected cases continued to be confirmed in many other countries around the world, more countries have begun calling on their nationals to reduce their visits to those countries or regions with severe epidemics, as well as placing restrictions on the entry of tourists. The abovementioned has led the suffering tourism to get worsen and some travel agencies are thereby exposed to financial difficulties or risk of bankruptcy. Under the climate of dropping in the number of tourists from both Mainland China and overseas, the sales of the Group's 4G roaming products have been therefore adversely affected. The Group will reinforce its cost control and provide extended credit periods to its distributors while staying alert to and proactively respond to different special situations.

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 year ended 31 December 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 59.5% to approximately HK$96,665,000 when compared with approximately HK$60,596,000 for the last corresponding year.

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 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 the 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 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 year ended 31 December 2019, the revenue generated from the provision of mobile and data top-up services decreased by approximately 17.4% to approximately HK$38,298,000 when compared with approximately HK$46,388,000 for the last corresponding year. The decrease was primary due to the increased basis mobile data traffic in the monthly plan provided by the 3 major mobile network operators in the PRC, as a result of which the demand of additional mobile data traffic decreased. The Directors believe that the demand of mobile data traffic will be increased after the launch of 5th generation mobile network in the PRC and therefore the revenue generated from mobile and data top-up services will continuously make contribution to the Group's overall revenue in the coming years.

* For identification only

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 year ended 31 December 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 40.1% to approximately HK$16,104,000 when compared with approximately HK$26,904,000 for the corresponding period last year. The decrease was mainly attributable to the tightened credit policy accompanied with the choosing of distributors with higher credit rating to reduce credit risk. The Company ceased business with some distributors during the credit review process and therefore revenue decreased. The process had been completed and the Directors expect the revenue will be increased in the coming years by distributing more mobile phones and electronic products to distributors with higher credit rating.

The goodwill of HK$28,061,000 arising from the PRC Acquisition was attributable to the synergy from the established distribution network and sales channels of GZDT to penetrate into the PRC market through the distribution of the Group's SIM cards. During the year ended 31 December 2019, GZDT has been loss-making under difficult market condition. This represented an indication that the non-financial assets of GZDT may be impaired. For the purposes of impairment testing, the net carrying amount of the goodwill has been allocated to the cash generating unit relating to the PRC Acquisition (the "CGU in the PRC"). The recoverable amounts of the CGU in the PRC are determined from value in use calculations. The key assumptions for the value in use calculations are those in relation to the discount rates, growth rates and gross profit margin during the year. For details, please refer to note 14 to the financial statements. Due to the adverse change of market condition which has made negative impact on the businesses operation of GZDT and the fact that the actual performance of GZDT in 2019 did not meet the expectation and the business forecast, the Directors are of the view that the goodwill could not be recovered from the CGU in the PRC. Therefore the goodwill arising from the PRC Acquisition of approximately HK$28,061,000 was fully impaired during the year. For the same reason, the intangible assets in the carrying amount of approximately HK$2,434,000 arising from the customer contracts in the PRC Acquisition was fully impaired for the year as well. At the same time, the assets arising from the right-of-use of property, plant and equipment was fully impaired in the amount of approximately HK$590,000 during the year.

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 distribution channel of the Group's products 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

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. 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 1,000 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 2019, the revenue derived from the distribution of mobile and data top-up business increased by approximately 10.5% to approximately HK$70,331,000 when compared with approximately HK$63,649,000 for the corresponding period last year. On the other hand, South Data has entered into contracts with several distributors in 2018 for the pre-paid telecommunications business. For the year ended 31 December 2019, the revenue derived from the provision of telecommunications services decreased by approximately 92.9% to approximately HK$679,000 when compared with approximately HK$9,517,000 for the last corresponding year. The decrease was mainly attributable to the gradually withdrawal of this business during 2019 in order to concentrate on the expansion of distribution of mobile and data top-up business by reallocation of our resources in Singapore. 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 continuously negotiating with the service providers to further reduce the unit cost of airtime and mobile data.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2019, the revenue of the Group decreased to approximately HK$244,823,000 compared to approximately HK$256,279,000 for the last corresponding year, representing a decrease of approximately 4.5%. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK$61,723,000 and HK$183,100,000 respectively, representing approximately 25.2% and 74.8% of the Group's revenue for the year ended 31 December 2019, respectively. The decrease was mainly attributable to the significant decrease in (1) the revenue generated from the provision of telecommunications services in Hong Kong; and (2) the revenue generated from the distribution business in the PRC, which was partially offset by the significant increase of revenue generated from the distribution business in Hong Kong.

Cost of Sales

The Group's cost of sales increased by approximately 3.6% to approximately HK$243,584,000 for the year ended 31 December 2019 compared to approximately HK$235,009,000 for the last corresponding year. The increase was mainly attributable to the increase in cost of the distribution business.

Gross Profit

The gross profit of the Group for the year ended 31 December 2019 decreased by approximately 94.2% to approximately HK$1,239,000 when compared to approximately HK$21,270,000 for the last corresponding year. 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 as (i) a certain amount of the operating costs in this segment are fixed costs in nature; and (ii) the increase in the cost relating to our additional promotion activities in 2019, such as discount to distributors and free usage promotion to ultimate users.

Other Income

The Group's other income for the year ended 31 December 2019 increased by approximately 8.6% to approximately HK$406,000 when compared with approximately HK$374,000 for the last corresponding year. The increase was mainly attributable to the increase of interest income.

Other Net Loss

The Group's other net loss decreased by approximately 38.7% to approximately HK$2,626,000 for the year ended 31 December 2019 compared to approximately HK$4,285,000 for the corresponding period last year. The decrease of other net loss was mainly due to the decrease in foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars and Renminbi during the year.

Administrative and Other Operating Expenses

The Group's administrative and other operating expenses for the year ended 31 December 2019 increased by approximately 2.0 times to approximately HK$57,784,000 when compared to approximately HK$19,294,000 for the last corresponding year. The increase was primarily due to (i) the impairment losses on goodwill, intangible assets and property, plant and equipment of approximately HK$31,085,000 of the Joint Top Group; (ii) a substantial increase in loss allowance of trade receivables and impairment losses on prepayments to approximately HK$5,573,000 for the year ended 31 December 2019 compared to approximately HK$218,000 for the last corresponding year; and (iii) an increase in maintenance fees to approximately HK$1,697,000 when compared with approximately HK$1,008,000 for the last corresponding year.

Finance Costs

The Group's finance costs for the year ended 31 December 2019 was approximately HK$51,000. No finance costs incurred for the year ended 31 December 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.

Income Tax (Expense)/Credit

The Group recorded income tax credit of approximately HK$157,000 for the year ended 31 December 2018 while the Group's income tax expense for the year ended 31 December 2019 was approximately HK$260,000. Such income tax expense was mainly attributable to the reversal of tax losses recognised in prior years.

Loss Attributable to Shareholders

The Group recorded a loss attributable to equity shareholders of the Company for the year ended 31 December 2019 of approximately HK$59,076,000, representing an increase of approximately 32.2 times when compared with approximately HK$1,778,000 for the last corresponding year. The loss was mainly attributable to (i) the impairment losses on goodwill, intangible assets and property, plant and equipment of the Joint Top Group; (ii) an increase in fair value change on contingent consideration payables for the acquisition of the Joint Top Group; (iii) a substantial increase in loss allowance of trade receivables and impairment losses on prepayments; (iv) a 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; and (v) an increase in maintenance fees.

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$61.2 million had been utilised up to 31 December 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 31 December 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 31 December 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	12.8
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	61.2

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.

The remaining unutilised changed use of IPO Proceeds of approximately HK$8.0 million allocated to development and implementation of RF-SIM business plans in Hong Kong and Macau have been placed as interest bearing deposits in banks. Based on the information currently available and the Board's estimation of the future market condition, the Company is not intended to utilise the unutilised IPO Proceeds in the forthcoming 6 months.

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

Up to 31 December 2019, 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.

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 2019, 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 2019, total equity attributable to equity holders of the Company amounted to approximately HK$69,602,000 (as at 31 December 2018: approximately HK$98,059,000).

As of 31 December 2019, 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 3,697,500,000 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 2019, the Group had net current assets of approximately HK$89,314,000 (as at 31 December 2018: approximately HK$78,128,000), including cash and cash equivalents of approximately HK$56,625,000 (as at 31 December 2018: approximately HK$15,711,000). The current ratio was 12.1 as at 31 December 2019, higher than 8.1 as at 31 December 2018.

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, the management monitors the related foreign currency risk exposure closely and will consider hedging significant foreign currency risk exposure should the need arises. As at 31 December 2019, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 31 December 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.

CONTINGENT LIABILITY

Other than the contingent consideration payables of HK$36,127,000, 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.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had no capital commitments contracted for but not provided in the consolidated financial statements (2018: approximately HK$1,141,000).

STAFF AND REMUNERATION POLICY

As at 31 December 2019, the Group had 22 employees (2018: 23 employees). Among them, 10 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 2019 (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"). The Warrants entitled the Subscriber to subscribe in cash for in aggregate of 200,000,000 shares in the Company at the subscription price of HK$0.1648 per new share (subject to anti-dilutive adjustment) for a period of 60 months commencing from the date of issue of the Warrants. On 29 May 2014, the conditions set out in the Warrant Subscription Agreement have been fulfilled and completion of the Warrant Subscriptions took place. The net proceeds from the Warrant Subscriptions (after expenses of approximately HK$346,000) were approximately HK$1,654,000. Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company on 3 June 2015, a specific mandate was given to the directors of the Company to allot and issue new Shares (subject to adjustment) upon exercise of subscription rights attaching to the Warrants. On 23 June 2015, the Company completed a bonus issue on the basis of two bonus shares for every one held by the existing shareholders ("Bonus Issue"). As a result of the Bonus Issue, 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 shall be adjusted from HK$0.1648 to HK$0.0549 and from 200,000,000 Shares to 600,000,000 Shares respectively. 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.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from Monday, 11 May 2020 to Thursday, 14 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Friday, 8 May 2020.

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

As at 31 December 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)*

Note: New Everich is owned as to 54% and 46% by Mr. Li Kin Shing and Ms. Kwok King Wa respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 100% interests in New Everich under the SFO.

Save as disclosed above, as at 31 December 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 31 December 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%
Golden Brand Holdings Limited	Beneficial owner	330,000,000	8.92%
Mr. Bai Zhifeng	Interest of controlled corporation	330,000,000 *(Note 3)*	8.92%

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.

(3) The 330,000,000 shares are owned by Golden Brand Holdings Limited which is wholly owned by Mr. Bai Zhifeng.

Save as disclosed above, as at 31 December 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.

COMPETING INTERESTS

During the year ended 31 December 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 year ended 31 December 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.

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 31 December 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 year, and as at 31 December 2019, there was no outstanding share option under the Share Option Scheme.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in this announcement, during the year ended 31 December 2019, 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.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the year ended 31 December 2019, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

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 2019, 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.

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 2019 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 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 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 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.

During the year of 2019, 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 2019 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, 25 March 2020

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.