



Directel Holdings Limited
直通電訊控股有限公司

DIRECTEL HOLDINGS LIMITED

直通電訊控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 8337)

INTERIM REPORT

2020

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.

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

HIGHLIGHTS

- Revenue for the six months ended 30 June 2020 was approximately HK\$108,516,000, representing a decrease of approximately 4.4% as compared with the corresponding period in 2019.
- Loss attributable to shareholders of the Company for the six months ended 30 June 2020 was approximately HK\$16,682,000, representing an increase of approximately 29.8% as compared with the corresponding period in 2019.
- The Board does not recommend the payment of any dividend for the six months ended 30 June 2020.

UNAUDITED INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The board of Directors (the “Board”) of the Company hereby announces the unaudited consolidated financial statements of the Company and its subsidiaries (together referred to as the “Group”) for the three months and the six months ended 30 June 2020 together with the unaudited comparative figures for the respective corresponding period in 2019 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the three months ended 30 June		For the six months ended 30 June	
		2020	2019	2020	2019
		<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)	<i>HK\$'000</i> (Unaudited)
Revenue	5,6	52,545	56,188	108,516	113,505
Cost of sales		<u>(51,347)</u>	<u>(55,606)</u>	<u>(107,022)</u>	<u>(113,286)</u>
Gross profit		1,198	582	1,494	219
Other income	7(a)	344	127	477	136
Other net loss	7(b)	(743)	(804)	(2,275)	(1,482)
Administrative and other operating expenses		<u>(8,348)</u>	<u>(6,659)</u>	<u>(16,486)</u>	<u>(11,897)</u>
Loss from operations		(7,549)	(6,754)	(16,790)	(13,024)
Finance costs	8(a)	<u>(21)</u>	<u>(24)</u>	<u>(38)</u>	<u>(24)</u>
Loss before taxation	8	(7,570)	(6,778)	(16,828)	(13,048)
Income tax credit	9	<u>91</u>	<u>191</u>	<u>146</u>	<u>191</u>
Loss for the period attributable to equity shareholders of the Company		(7,479)	(6,587)	(16,682)	(12,857)
Other comprehensive income for the period, net of income tax:					
<i>Item that will not be reclassified subsequently to profit or loss:</i>					
Equity securities at fair value through other comprehensive income – net movement in the fair value reserve (non-recycling)		(84)	19	(90)	(555)
<i>Item that may be reclassified subsequently to profit or loss:</i>					
Exchange differences on translation of financial statements of overseas subsidiaries		<u>(332)</u>	<u>(86)</u>	<u>(361)</u>	<u>(49)</u>
Total comprehensive income for the period attributable to equity shareholders of the Company		<u>(7,895)</u>	<u>(6,654)</u>	<u>(17,133)</u>	<u>(13,461)</u>
Loss per share	11				
– Basic (HK cents)		(0.20)	(0.19)	(0.45)	(0.40)
– Diluted (HK cents)		<u>(0.20)</u>	<u>(0.19)</u>	<u>(0.45)</u>	<u>(0.40)</u>

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

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Non-current assets			
	12	8,760	9,523
Property, plant and equipment			
		5,942	5,942
Goodwill			
	13	1,782	1,872
Other non-current financial assets			
		1,142	1,142
Deferred tax assets			
Total non-current assets		17,626	18,479
Current assets			
	14	3,375	2,483
Inventories			
	15	27,431	28,378
Trade receivables			
	15	9,252	9,649
Other receivables, deposits and prepayments			
	16	200	200
Pledged bank deposits			
	16	39,781	56,625
Cash and cash equivalents			
Total current assets		80,039	97,335
Current liabilities			
		38,027	–
Contingent consideration payables			
	17	4,356	7,443
Payables and accruals and contract liabilities			
		865	567
Lease liabilities			
		7	11
Taxation payable			
Total current liabilities		43,255	8,021
Net current assets		36,784	89,314
Total assets less current liabilities		54,410	107,793

	As at	As at
	30 June	31 December
	2020	2019
	HK\$'000	HK\$'000
Note	(Unaudited)	(Audited)
Non-current liabilities		
Contingent consideration payables	–	36,127
Lease liabilities	710	687
Deferred tax liabilities	1,231	1,377
	<u>1,941</u>	<u>1,377</u>
Total non-current liabilities	<u>1,941</u>	<u>38,191</u>
Net assets	<u>52,469</u>	<u>69,602</u>
Capital and reserves		
Share capital	18 36,975	36,975
Share premium	74,517	74,517
Exchange reserve	(2,163)	(1,802)
Fair value reserve	(235)	(145)
Accumulated losses	(56,625)	(39,943)
	<u>52,469</u>	<u>69,602</u>
Total equity	<u>52,469</u>	<u>69,602</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital <i>HK\$'000</i> (Unaudited)	Share premium <i>HK\$'000</i> (Unaudited)	Warrant reserve <i>HK\$'000</i> (Unaudited)	Exchange reserve <i>HK\$'000</i> (Unaudited)	Fair value reserve (non-recycling) <i>HK\$'000</i> (Unaudited)	Retained profits/ (accumulated losses) <i>HK\$'000</i> (Unaudited)	Total equity <i>HK\$'000</i> (Unaudited)
Balance at							
1 January 2019	31,125	46,749	1,654	(1,283)	722	19,092	98,059
Loss for the period	-	-	-	-	-	(12,857)	(12,857)
Other comprehensive income for the period	-	-	-	(49)	(555)	-	(604)
Total comprehensive income for the period	-	-	-	(49)	(555)	(12,857)	(13,461)
Shares issued under warrant subscription agreement (note 18)	5,850	27,768	(1,613)	-	-	-	32,005
Unlisted warrants lapsed during the period	-	-	(41)	-	-	41	-
Balance at							
30 June 2019	<u>36,975</u>	<u>74,517</u>	<u>-</u>	<u>(1,332)</u>	<u>167</u>	<u>6,276</u>	<u>116,603</u>
Balance at							
1 January 2020	36,975	74,517	-	(1,802)	(145)	(39,943)	69,602
Loss for the period	-	-	-	-	-	(16,682)	(16,682)
Other comprehensive income for the period	-	-	-	(361)	(90)	-	(451)
Total comprehensive income for the period	-	-	-	(361)	(90)	(16,682)	(17,133)
Balance at 30 June 2020	<u>36,975</u>	<u>74,517</u>	<u>-</u>	<u>(2,163)</u>	<u>(235)</u>	<u>(56,625)</u>	<u>52,469</u>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

		For the six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
Note		(Unaudited)	(Unaudited)
	Net cash (used in)/generated from operating activities	(16,209)	2,506
	Net cash generated from/(used in) investing activities	199	(3)
	Net cash (used in)/generated from financing activities	(473)	32,005
	Net (decrease)/increase in cash and cash equivalents	(16,483)	34,508
16	Cash and cash equivalents at 1 January	56,625	15,711
	Effect of foreign exchange rate changes	(361)	(49)
16	Cash and cash equivalents at 30 June	<u>39,781</u>	<u>50,170</u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

Directel Holdings Limited (the “Company”) was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law 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 interim financial report of the Group has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on GEM of the Stock Exchange, including compliance with International Accounting Standard (“IAS”) 34, *Interim Financial Reporting*, issued by the International Accounting Standards Board (“IASB”). It was authorised for issue on 11 August 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”).

2. BASIS OF PREPARATION *(continued)*

The interim financial report for the six months ended 30 June 2020 is unaudited, but has been reviewed by the Company's audit committee.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's statutory annual consolidated financial statements for that financial year but is derived from those financial statements. 2019 annual report is available at the Company's registered office. The Company's auditor has reported on those financial statements. The auditor's report was unqualified.

3. CHANGES IN ACCOUNTING POLICIES

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

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

4. SEGMENT REPORTING

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

5. 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 6.

Disaggregation of revenue

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

	For the three months ended 30 June		For the six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Telecommunications services	9,506	15,994	22,621	28,873
Distribution business	43,039	40,194	85,895	84,632
	<u>52,545</u>	<u>56,188</u>	<u>108,516</u>	<u>113,505</u>

Disaggregation of revenue from contracts with customers by the timing of revenue recognition and by geographic markets is disclosed in notes 6(a) and 6(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 for each of the periods are as follows:

	For the three months ended 30 June		For the six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Customer A – distribution business	19,801	18,243	36,292	34,609
Customer B – distribution business	–	7,583	–	16,570
Customer C – distribution business	–	6,239	–	14,769
Customer D – distribution business	<u>10,499</u>	<u>–</u>	<u>20,986</u>	<u>–</u>

6. 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 (loss)/profits do not include other income, other net loss, finance costs and unallocated corporate expenses.

Disaggregation of revenue from contracts with customers by the timing of revenue recognition, as well as information regarding the Group’s reportable segments as provided to the Group’s most senior executive management for the purpose of resource allocation and assessment of segment performance for the six months ended 30 June 2020 and 2019 is set out below.

6. SEGMENT INFORMATION *(continued)*

(a) Segment results *(continued)*

	For the six months ended 30 June 2020		
	Telecommunications services <i>HK\$'000</i> (Unaudited)	Distribution business <i>HK\$'000</i> (Unaudited)	Total <i>HK\$'000</i> (Unaudited)
Disaggregated by timing of revenue recognition			
Point in time	–	85,895	85,895
Over time	22,621	–	22,621
Revenue from external customers	<u>22,621</u>	<u>85,895</u>	<u>108,516</u>
Reportable segment revenue and consolidated revenue	<u>22,621</u>	<u>85,895</u>	<u>108,516</u>
Reportable segment (loss)/profit	(80)	1,574	1,494
Other income			477
Other net loss			(2,275)
Finance costs			(38)
Unallocated corporate expenses			<u>(16,486)</u>
Consolidated loss before taxation			<u><u>(16,828)</u></u>

6. SEGMENT INFORMATION *(continued)*

(a) Segment results *(continued)*

	For the six months ended 30 June 2019		
	Telecommunications services	Distribution business	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)
Disaggregated by timing of revenue recognition			
Point in time	–	84,632	84,632
Over time	28,873	–	28,873
Revenue from external customers	<u>28,873</u>	<u>84,632</u>	<u>113,505</u>
Reportable segment revenue and consolidated revenue	<u>28,873</u>	<u>84,632</u>	<u>113,505</u>
Reportable segment (loss)/profit	(1,803)	2,022	219
Other income			136
Other net loss			(1,482)
Finance costs			(24)
Unallocated corporate expenses			<u>(11,897)</u>
Consolidated loss before taxation			<u><u>(13,048)</u></u>

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.

6. SEGMENT INFORMATION *(continued)*

(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. 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	
	For the six months ended 30 June		As at 30 June	As at 31 December
	2020	2019	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Hong Kong	49,426	48,875	8,745	9,484
Mainland China	22,798	28,378	–	–
Singapore	36,292	36,252	15	39
	<u>108,516</u>	<u>113,505</u>	<u>8,760</u>	<u>9,523</u>

7. OTHER INCOME AND OTHER NET LOSS

	For the three months ended 30 June		For the six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
(a) Other income				
Interest income on financial assets measured at amortised cost	73	57	199	59
Sundry income	<u>271</u>	<u>70</u>	<u>278</u>	<u>77</u>
	<u>344</u>	<u>127</u>	<u>477</u>	<u>136</u>
(b) Other net loss				
Net foreign exchange gain/ (loss)	187	(54)	(375)	18
Fair value change on contingent consideration (note 19(i))	<u>(930)</u>	<u>(750)</u>	<u>(1,900)</u>	<u>(1,500)</u>
	<u>(743)</u>	<u>(804)</u>	<u>(2,275)</u>	<u>(1,482)</u>

8. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	For the three months ended 30 June		For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
(a) Finance costs:				
Interest on lease liabilities	<u>21</u>	<u>24</u>	<u>38</u>	<u>24</u>
(b) Staff costs:				
Salaries, wages and other benefits	1,072	1,244	2,201	2,470
Contributions to retirement benefit schemes	<u>48</u>	<u>84</u>	<u>104</u>	<u>161</u>
	<u>1,120</u>	<u>1,328</u>	<u>2,305</u>	<u>2,631</u>
(c) Other items:				
Amortisation of intangible assets	–	608	–	1,217
Depreciation				
– owned property, plant and equipment	561	737	1,161	1,474
– right-of-use assets	210	165	356	165
Impairment loss of trade receivables	3,823	695	7,920	695
Expenses relating to short-term leases				
– rental of properties	328	344	657	739
– rental of transmission lines	28	83	123	353
Auditors' remuneration				
– audit services	272	430	574	786
– tax services	5	5	5	5
Cost of inventories	43,138	39,437	85,321	82,861
Licence charges	188	184	537	521
Repairs and maintenance	<u>314</u>	<u>550</u>	<u>630</u>	<u>885</u>

9. INCOME TAX CREDIT IN THE CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	For the three months ended 30 June		For the six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Deferred tax	<u>91</u>	<u>191</u>	<u>146</u>	<u>191</u>

(i) Hong Kong Profits Tax

The Company's Hong Kong subsidiaries are subject to Hong Kong Profits Tax. In addition, whilst the Company and Elitel Limited, a direct wholly-owned subsidiary of the Company, are incorporated in the Cayman Islands, they are considered as having a presence in Hong Kong for tax purpose since they are primarily managed and controlled in Hong Kong. Accordingly, they are subject to tax on an entity basis on income arising in or derived from Hong Kong. The provision for Hong Kong Profits Tax for the three months and the six months ended 30 June 2020 is calculated at the rate of 16.5% (three months and six months ended 30 June 2019: 16.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the three months and the six months ended 30 June 2020 (2019: Nil) as the Group's operations in Hong Kong either had no assessable profit or had tax losses brought forward to offset estimated assessable profits for the period.

(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.

10. DIVIDENDS

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2020. No interim dividend was paid in respect of the six months ended 30 June 2019.

11. 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:

	For the three months ended 30 June		For the six months ended 30 June	
	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)	2020 HK\$'000 (Unaudited)	2019 HK\$'000 (Unaudited)
Loss for the period attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted loss per share	<u>(7,479)</u>	<u>(6,587)</u>	<u>(16,682)</u>	<u>(12,857)</u>

Weighted average number of ordinary shares (Basic and diluted)

	For the three months ended 30 June		For the six months ended 30 June	
	2020 Number of shares '000	2019 Number of shares '000	2020 Number of shares '000	2019 Number of shares '000
Issued ordinary shares at 1 January	3,697,500	3,112,500	3,697,500	3,112,500
Effect of unlisted warrants exercised	<u>–</u>	<u>270,000</u>	<u>–</u>	<u>135,746</u>
Weighted average number of ordinary shares at 30 June	<u>3,697,500</u>	<u>3,382,500</u>	<u>3,697,500</u>	<u>3,248,246</u>

Diluted loss per share was the same as basic loss per share for the three months and the six months ended 30 June 2020 as there were no dilutive potential ordinary shares during the period.

Diluted loss per share was the same as basic loss per share for the three months and the six months ended 30 June 2019 as the potential ordinary shares under the unlisted warrants had anti-dilutive effects on the basic loss per share.

12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the six months ended 30 June 2020, the Group has not acquired items of property, plant and equipment (six months ended 30 June 2019: approximately HK\$60,000).

During the six months ended 30 June 2020, the Group entered into a number of lease agreements for use of properties and transmission lines, and therefore recognised the additions to right-of-use assets of approximately HK\$754,000 (six months ended 30 June 2019: approximately HK\$182,000).

13. OTHER NON-CURRENT FINANCIAL ASSETS

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Equity securities designated at FVOCI (non-recycling)		
– Listed in Hong Kong	<u>1,782</u>	<u>1,872</u>

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 People's Republic of China (the "PRC"). The Group designated the listed equity securities as measured in FVOCI (non-recycling), as the investments are held for strategic purposes. No dividends were received on these investments for the six months ended 30 June 2020 (2019: Nil).

14. INVENTORIES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
SIM cards	1,487	1,009
Recharge and top-up vouchers	663	2
Mobile phones and electronic products	<u>1,225</u>	<u>1,472</u>
	<u>3,375</u>	<u>2,483</u>

15. RECEIVABLES, DEPOSITS AND PREPAYMENTS

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade receivables		
– amounts due from third parties	39,116	32,143
Less: loss allowance	(11,685)	(3,765)
	<u>27,431</u>	<u>28,378</u>
Other receivables, deposits and prepayments		
– other receivables	1,220	1,256
– deposits and prepayments	8,032	8,393
	<u>9,252</u>	<u>9,649</u>
	<u>36,683</u>	<u>38,027</u>

All of the other trade and other receivables are expected to be recovered or recognised as expenses 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:

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within 1 month	9,791	12,436
Over 1 month but within 3 months	9,083	7,189
Over 3 months but within 6 months	1,805	2,573
Over 6 months but within 12 months	6,752	6,180
	<u>27,431</u>	<u>28,378</u>

15. RECEIVABLES, DEPOSITS AND PREPAYMENTS *(continued)*

Ageing analysis *(continued)*

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 (2019: 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.

16. PLEDGED BANK DEPOSITS AND CASH AND CASH EQUIVALENTS

	As at 30 June 2020 <i>HK\$'000</i> (Unaudited)	As at 31 December 2019 <i>HK\$'000</i> (Audited)
Deposits with banks	20,679	25,476
Cash at banks and other financial institutions	19,166	31,153
Cash on hand	136	196
	<u>39,981</u>	<u>56,825</u>
Less: pledged bank deposits <i>(note)</i>	<u>(200)</u>	<u>(200)</u>
Cash and cash equivalents in the condensed consolidated statement of financial position and the condensed consolidated statement of cash flows	<u><u>39,781</u></u>	<u><u>56,625</u></u>

Note: Bank deposits of HK\$200,000 (31 December 2019: HK\$200,000) were pledged for the issuance of a performance bond by a bank.

17. PAYABLES AND ACCRUALS AND CONTRACT LIABILITIES

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Trade payables		
– amounts due to third parties	786	2,165
Other payables and accruals		
– accrued charges and deposits	2,663	4,017
Contracts liabilities		
Telecommunications services		
– advance payments	<u>907</u>	<u>1,261</u>
	<u>4,356</u>	<u>7,443</u>

Trade and other payables are expected to be settled within one year or are repayable on demand.

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

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Within 1 month	98	1,193
Over 1 month but within 3 months	647	951
Over 3 months but within 12 months	28	7
Over 12 months	<u>13</u>	<u>14</u>
	<u>786</u>	<u>2,165</u>

18. SHARE CAPITAL

	As at 30 June 2020		As at 31 December 2019	
	Number of shares	Nominal value <i>HK\$'000</i>	Number of shares	Nominal value <i>HK\$'000</i>
	(Unaudited)	(Unaudited)	(Audited)	(Audited)
Authorised:				
At beginning and end of period/year	<u>10,000,000,000</u>	<u>100,000</u>	<u>10,000,000,000</u>	<u>100,000</u>
Issued and fully paid:				
At beginning of period/year	3,697,500,000	36,975	3,112,500,000	31,125
Shares issued under warrant subscription agreement	—	—	585,000,000	5,850
At end of period/year	<u>3,697,500,000</u>	<u>36,975</u>	<u>3,697,500,000</u>	<u>36,975</u>

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

19. FAIR VALUE MEASUREMENT

(i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value measurements as at 30 June 2020 categorised into			
	Fair value at 30 June 2020 HK\$'000 (Unaudited)	Level 1 HK\$'000 (Unaudited)	Level 2 HK\$'000 (Unaudited)	Level 3 HK\$'000 (Unaudited)
Recurring fair value measurements				
<i>Assets:</i>				
Non-trading listed securities	1,782	1,782	–	–
<i>Liabilities:</i>				
Contingent consideration payables	<u>38,027</u>	<u>–</u>	<u>–</u>	<u>38,027</u>

19. FAIR VALUE MEASUREMENT *(continued)*

(i) Financial assets and liabilities measured at fair value *(continued)*

Fair value hierarchy (continued)

Fair value at 31 December 2019 <i>HK\$'000</i> (Audited)	Fair value measurements as at 31 December 2019 categorised into		
	Level 1 <i>HK\$'000</i> (Audited)	Level 2 <i>HK\$'000</i> (Audited)	Level 3 <i>HK\$'000</i> (Audited)
Recurring fair value measurements			
<i>Assets:</i>			
Non-trading listed securities	1,872	1,872	-
<i>Liabilities:</i>			
Contingent consideration payables	<u>36,127</u>	<u>-</u>	<u>36,127</u>

During the six months ended 30 June 2020 and the year ended 31 December 2019, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

The fair value of the contingent consideration relating to the acquisition of subsidiaries is determined using discounted cash flows, based on the expected payment and the latest financial forecast of the acquired subsidiaries and other relevant information.

19. FAIR VALUE MEASUREMENT *(continued)*

(i) Financial assets and liabilities measured at fair value *(continued)*

Information about Level 3 fair value measurements (continued)

The movement during the period/year in the balance of Level 3 fair value measurement is as follows:

	As at 30 June 2020 HK\$'000 (Unaudited)	As at 31 December 2019 HK\$'000 (Audited)
Contingent consideration		
At beginning of period/year	36,127	33,433
Fair value change on contingent consideration <i>(note 7(b))</i>	<u>1,900</u>	<u>2,694</u>
At end of period/year	<u>38,027</u>	<u>36,127</u>

The fair value change on contingent consideration is included in "Other net loss" in the condensed consolidated statement of profit or loss and other comprehensive income for liability held at the end of the reporting period.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 30 June 2020 and 31 December 2019.

20. COMMITMENTS

As at 30 June 2020, the Group had no capital commitments contracted for but not provided in the interim financial report (31 December 2019: Nil).

21. MATERIAL RELATED PARTY TRANSACTIONS

(a) Relationship between the Group and related parties

(i) *Controlling shareholders of the Group*

- Li Kin Shing
- Kwok King Wa

(ii) *Subject to common control from controlling shareholders*

- China Elite Information Technology Ltd.
- Directel Limited
- Fastary Limited
- Sunward Telecom Limited (incorporated in the BVI)
- Sunward Telecom Limited (incorporated in the Cayman Islands)
- Talent Group (International) Limited
- Talent Information Engineering Co. Limited
- Target Link Enterprises Limited
- Xiamen Elite Electric Co., Ltd.
- 廣州國聯智慧信息技術有限公司

21. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(b) Transactions

The Group entered into the following material related party transactions:

	For the three months ended 30 June		For the six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Continuing after the Listing				
Services rendered (i)	195	214	390	428
Rental of properties (ii)	249	249	498	498

Notes:

- (i) Services rendered by related parties related to data processing and billing management services, built-in-secretarial and customer hotline services and development and maintenance of the Company's website, on-line platform and mobile application.
- (ii) The Group has leased certain properties under operating lease from a related party at an aggregate monthly rental of HK\$83,000 for the period from 1 January 2020 to 31 December 2020.

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

21. MATERIAL RELATED PARTY TRANSACTIONS *(continued)*

(c) Key management personnel remuneration

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

	For the three months ended 30 June		For the six months ended 30 June	
	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)	2020 <i>HK\$'000</i> (Unaudited)	2019 <i>HK\$'000</i> (Unaudited)
Short-term employee benefits	536	533	1,072	1,057
Contributions to retirement benefit schemes	17	16	33	33
	<u>553</u>	<u>549</u>	<u>1,105</u>	<u>1,090</u>

Total remuneration is included in "staff costs" (note 8(b)).

22. CONTINGENT LIABILITIES

Other than the contingent consideration payables of approximately HK\$38,027,000 for the acquisition of Joint Top Group on 8 September 2017, as at 30 June 2020, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Business in Hong Kong

The Group is a mobile virtual network operator (“MVNO”) which is principally engaged in the provision of mobile telecommunications services and telecommunications value-added services. The Group does not have its own telecommunications network infrastructure and its business mainly involves the trading of the airtime and mobile data sourced from several mobile network operators (“MNOs”) in and outside Hong Kong and subsequently sold the airtime and mobile data through different channels and in various forms to users and dealers. The Group also provides telesales dealership services and other services.

The Group continued its marketing efforts in promoting its telecommunications services and is currently actively contacting distributors for the distribution of its various pre-paid products. However, the Group was unable to secure new contracts with committed subscription with distributors for the six months ended 30 June 2020 for the pre-paid products and similar pre-paid roaming products provided by other competitors can easily be found in the highly competitive mobile telecommunications industry. The reducing number of overseas tourists travelling to Hong Kong due to the social unrest starting from the second half of 2019 and the outbreak of novel coronavirus pneumonia (the “COVID-19”) since January 2020, 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 pre-paid roaming products were also adversely affected accordingly.

The revenue derived from the provision of telecommunications services decrease by approximately 58.9% to approximately HK\$2,784,000 for the six months ended 30 June 2020 compared to approximately HK\$6,766,000 for the last corresponding period.

As the backdrop of the outbreak of COVID-19 in Mainland China since January 2020 and more cases of COVID-19 are confirmed worldwide, countries around the world are increasingly adopting sweeping measures to stem the spread of the COVID-19 including but are not limited to full lockdowns, shutting down airports, compulsory quarantine for persons travelling into their countries, limitation of opening hours for businesses, as well as imposing travel 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 pre-paid 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 pre-paid 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 pre-paid 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.

The Group has diversified its business in Hong Kong to the distribution of mobile phones and electronic products which became one of the main revenue stream in Hong Kong. For the six months ended 30 June 2020, 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 10.8% to approximately HK\$46,642,000 when compared with approximately HK\$42,109,000 for the last corresponding period.

Business in the PRC

The Company engaged in the provision of mobile and data top-up services, and mobile phones and electronic products distribution business in the PRC through its indirect wholly-owned subsidiary, Guangzhou Directel Telecommunications Limited* 廣州直通電訊有限公司("GZDT").

* For identification only

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 six months ended 30 June 2020, the revenue generated from the provision of mobile and data top-up services decrease slightly by approximately 3.0% to approximately HK\$19,806,000 when compared with approximately HK\$20,421,000 for the last corresponding period. The Directors believe that the demand of mobile data traffic will be increased continuously with the greater popularity of the 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.

Leveraging its established relations, GZDT also engaged in the distribution of mobile phones and electronic products. 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 six months ended 30 June 2020, 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 62.6% to approximately HK\$2,961,000 when compared with approximately HK\$7,914,000 for the corresponding period last year. The decrease was mainly attributable to the delay or cancellation in purchase of the mobile and electronic products by our customers as a result of the outbreak of the COVID-19 in the early 2020.

In addition, our potential project of distribution of post-paid telecommunications products (including fixed line and mobile telecommunications products) in the PRC supplied by a major PRC telecommunications operator had been suspended indefinitely due to, among others, the adverse market environment caused by the outbreak of COVID-19 since January 2020.

Business in Singapore

The Company engaged in the provision of telecommunications services and distribution business in Singapore through its indirect wholly-owned subsidiary, South Data Communication Pte. Ltd. ("South Data"). 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 six months ended 30 June 2020, the revenue derived from the distribution of mobile and data top-up business increased by approximately 4.9% to approximately HK\$36,292,000 when compared with approximately HK\$34,609,000 for the corresponding period last year. On the other hand, no revenue had been derived from the provision of telecommunications services for the six months ended 30 June 2020 when compared with approximately HK\$1,643,000 for the corresponding period last year. The decrease was attributable to the withdrawal of this business starting from the second quarter of 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 of mobile and data top-up business would improve the Group's business performance and operation and act as a milestone in the expansion of telecommunications market to other Asia Pacific territories.

OUTLOOK

Since the development of COVID-19 outbreak remains uncertain, it is still unable to exclude the possibility that the outbreak will cause further impact on the Group's operating results. Meanwhile, the COVID-19 outbreak in China is showing a positive and improving trend. All industries have vigorously pushed for resumption of production and work, and the authorities have launched several policies that benefit the increase in consumption as well as consumers and manufacturers. Financial departments have strengthened fiscal and taxation support for manufacturing enterprises. In view of the above factors, the Group still remains a cautious positive attitude towards the medium to long-term business development.

The Company is 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

For the six months ended 30 June 2020, the revenue of the Group decreased to approximately HK\$108,516,000 compared to approximately HK\$113,505,000 for the corresponding period last year, representing a decrease of approximately 4.4%. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK\$22,621,000 and HK\$85,895,000 respectively, representing 20.8% and 79.2% of the Group's revenue for the six months ended 30 June 2020, respectively. The decrease was mainly attributable to the decrease in revenue generated from the provision of telecommunications services and the distribution of mobile phones and electronic products business which was partially offset by the increase in revenue generated from the distribution of mobile and data top-up business.

The Group's cost of sales decreased by approximately 5.5% to approximately HK\$107,022,000 for the six months ended 30 June 2020 compared to approximately HK\$113,286,000 for the corresponding period last year. The decrease in cost was in line with the respective changes regarding the revenue derived from the provision of telecommunications services, the distribution of mobile phones and electronics products business and the distribution of mobile and data top-up business.

For the six months ended 30 June 2020, the gross profit of the Group increased to approximately HK\$1,494,000 compared to approximately HK\$219,000 for the corresponding period last year, representing an increase of approximately 5.8 times. The increase was mainly attributable to the improved gross profit margin for the provision of telecommunications services in Hong Kong due to the reduced unit cost and usage of mobile data by the mobile users.

The Group's other income for the six months ended 30 June 2020 increased by approximately 2.5 times to approximately HK\$477,000 when compared with approximately HK\$136,000 for the corresponding period last year. The increase was mainly attributable to the increase of interest income from bank deposits and sundry income.

The Group's other net loss for the six months ended 30 June 2020 increased by approximately 53.5% to approximately HK\$2,275,000 when compared with approximately HK\$1,482,000 for the corresponding period last year. The increase was mainly due to (i) the incurrence of foreign exchange loss of approximately HK\$375,000 for the six months ended 30 June 2020 when compared with the foreign exchange gain of approximately HK\$18,000 for the corresponding period last year arising from the movements in the exchange rate between Hong Kong dollars, Renminbi and Singapore dollars; and (ii) the increase in fair value change on contingent consideration payables amounted to approximately HK\$1,900,000 for the acquisition of Joint Top Group when compared with approximately HK\$1,500,000 for the corresponding period last year.

The Group's administrative and other operating expenses for the six months ended 30 June 2020 increased by approximately 38.6% to approximately HK\$16,486,000 when compared to approximately HK\$11,897,000 for the corresponding period last year. The increase was primarily due to the increase in impairment loss of trade receivables of approximately HK\$7,920,000 for the six months ended 30 June 2020 when compared with approximately HK\$695,000 for the corresponding period last year.

The Group's finance costs for the six months ended 30 June 2020 increased by approximately 58.3% to approximately HK\$38,000 when compared to approximately HK\$24,000 for the corresponding period last year. The increase of finance costs was attributable to the increase in interest on lease liabilities recognised upon the adoption of IFRS 16.

The Group's income tax credit for the six months ended 30 June 2020 decreased by approximately 23.6% to approximately HK\$146,000 when compared to approximately HK\$191,000 for the corresponding period last year. The income tax credit was attributable to the decrease of deferred tax liabilities provided for the property, plant and equipment of the Group.

The Group recorded a loss attributable to equity shareholders of the Company for the six months ended 30 June 2020 of approximately HK\$16,682,000, representing an increase of approximately 29.8% when compared with approximately HK\$12,857,000 for the last corresponding period. The increase was mainly attributable to (i) the significant increase in impairment loss of trade receivables; (ii) the increase in fair value change on contingent consideration payables for the acquisition of Joint Top Group; and (iii) the foreign exchange loss arising from the movements in the exchange rate between Hong Kong dollars, Renminbi and Singapore dollars during the period.

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 30 June 2020. As disclosed in the announcement of the Company dated 12 September 2018, the Directors had resolved to change part of the use of the unutilised net proceeds from the Placing. Therefore, the breakdown of the Company's actual use of the IPO Proceeds up to 30 June 2020 is as follows:

	Proposed use of the IPO Proceeds as disclosed in the prospectus of the Company dated 28 May 2010 (the "Prospectus") <i>HK\$ million</i>	Resolved change of use of the IPO Proceeds as disclosed in the announcement dated 12 September 2018 (the "Announcement") <i>HK\$ million</i>	Actual use of the IPO Proceeds from the date of listing to 30 June 2020 <i>HK\$ million</i> (unaudited)
Expansion of the business of mobile phone services in Macau, Taiwan and other Asia Pacific territories	22.7	22.7	22.7
Upgrading of the Group's telecommunications equipment for compatible with the mobile network operated by the Group's service providers in Hong Kong and the PRC	20.8	12.8	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 (<i>Note</i>)	–	12.1	12.1
Working capital	6.8	9.3	9.3
Total	<u>69.2</u>	<u>69.2</u>	<u>61.2</u>

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 30 June 2020, 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 report, the Board confirmed that there is no plan to change the resolved change of the use of IPO Proceeds as disclosed in the announcement of the Company dated 12 September 2018. If there is any change to the resolved change of the use of IPO Proceeds, announcement will be published by the Company in accordance with the GEM Listing Rules.

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 30 June 2020, 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 30 June 2020, total equity attributable to equity holders of the Company amounted to approximately HK\$52,469,000 (31 December 2019: approximately HK\$69,602,000). As of 30 June 2020, 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 ("Share"), 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 30 June 2020, the Group had net current assets of approximately HK\$36,784,000 (31 December 2019: approximately HK\$89,314,000), including cash and cash equivalents of approximately HK\$39,781,000 (31 December 2019: approximately HK\$56,625,000). The current ratio was 1.9 as at 30 June 2020, lower than 12.1 as at 31 December 2019.

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 arise. As at 30 June 2020, the Group did not have any derivatives for hedging against the exchange rate risk.

PLEDGE OF ASSETS

As at 30 June 2020, bank deposits of HK\$200,000 (31 December 2019: HK\$200,000) were pledged for the issuance of a performance bond by a bank to a subsidiary in the Group.

CONTINGENT LIABILITIES

Other than the contingent consideration payables of approximately HK\$38,027,000 for the acquisition of Joint Top Group on 8 September 2017, as at the date of this report, a performance bond of HK\$200,000 was given by a bank in favour of the Office of the Communications Authority (“OFCA”) as security for the due performance and observance of the Group’s obligation under Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond. The Directors do not consider it probable that a claim will be made against the Group.

MATERIAL ACQUISITION, DISPOSAL OR SIGNIFICANT INVESTMENT

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

CAPITAL COMMITMENTS

As at 30 June 2020, the Group had no capital commitments contracted for but not provided in the condensed consolidated financial statements (31 December 2019: Nil).

SEGMENT REPORTING

In accordance with IFRS 8, Operating Segments, 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 Group has identified two reportable segments which are telecommunications services and distribution business. Details of the segment reporting are set out in note 6 to the unaudited financial report.

STAFF AND REMUNERATION POLICY

As at 30 June 2020, the Group had 22 employees (31 December 2019: 22 employees). Among them, 9 employees worked in Hong Kong, 12 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 any dividend for the six months ended 30 June 2020 (six months ended 30 June 2019: Nil).

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

As at 30 June 2020, 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 <i>(Note)</i>	56.49%
	Beneficial owner	101,250,000	2.74%
Mr. Pang Kwok Chau	Beneficial owner	30,000,000	0.81%
Mr. Wong Kin Wa	Beneficial owner	30,000,000	0.81%

Note: The 2,088,750,000 shares are owned by New Everich Holdings Limited ("New Everich") which is owned by Mr. Li Kin Shing and Ms. Kwok King Wa as to 54% and 46%, respectively. Mr. Li Kin Shing is the spouse of Ms. Kwok King Wa. Accordingly, Mr. Li Kin Shing is deemed to be interested in the 2,088,750,000 shares under the SFO.

(ii) **Long position in New Everich, an associated corporation of the Company:**

Name of Director	Nature of Interest/Capacity	Approximate Percentage of Shareholding
Mr. Li Kin Shing	Beneficial owner	100.00%

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

Save as disclosed above, as at 30 June 2020, none of the Directors nor the chief executives of the Company had any interests or short positions in any shares, underlying shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 of the GEM Listing Rules.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2020, 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 <i>(Note 1)</i>	56.49%
	Interest of spouse	101,250,000 <i>(Note 2)</i>	2.74%
Golden Brand Holdings Limited	Beneficial owner	330,000,000	8.92%
Mr. Bai Zhifeng	Interest of controlled corporation	330,000,000 <i>(Note 3)</i>	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 30 June 2020, so far as it is known to the Directors, there was no other person (other than the Directors or chief executive of the Company) with interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

The maximum number of shares which may be issued upon exercise of all options granted and to be granted under the Share Option Scheme is 369,750,000 shares, representing 10% of the shares of the Company in issue as at 30 June 2020. The maximum number of shares issuable under share options granted to each eligible participant in the Share Option Scheme (including both exercised and outstanding options) within any 12-month period is limited to 1% of the shares of the Company in issue. Any grant or further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting. A grant of share options under the Share Option Scheme to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is subject to approval in advance by the independent non-executive directors (excluding any independent non-executive director who is the grantee of the Option). In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares issued and to be issued, upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding), to such person in the 12-month period up to and including the date of the grant in excess of 0.1% of the shares of the Company in issue and with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK\$5 million, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of offer upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determined by the directors, save that such a period shall not be more than 10 years from the date of offer of the share options and subject to the provisions for early termination as set out in the Share Option Scheme. There is no requirement of a minimum period for which an option must be held before it can be exercised.

The exercise price of the share options shall be not less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; (ii) the average Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of offer; and (iii) the nominal value of a share of the Company on the date of offer.

The Company did not grant or cancel any options under the Share Option Scheme any time during the six months ended 30 June 2020, and as at 30 June 2020, no option has been granted under the Share Option Scheme.

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has committed to maintaining high standards of corporate governance to protect the interests of the shareholders of the Company. In the opinion of the Directors, the Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 15 to the GEM Listing Rules during the six months ended 30 June 2020.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the six months ended 30 June 2020, 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 licensee of the operation rights of RF-SIM in markets other than the PRC (including 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.

Sunward Telecom Limited (“Sunward Telecom”) and its wholly-owned subsidiaries (collectively, the “Sunward Group”) were 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. 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 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. The Directors further confirm that the services provided by Directel Limited are in territories other than the PRC, Hong Kong and Macau, the services provided by the Sunward Group concentrate on the application of the RF-SIM intellectual property rights in the PRC, and services provided by the Group regarding the operation rights of RF-SIM intellectual property rights are solely in Hong Kong and Macau. Nevertheless, Mr. Li Kin Shing, Ms. Kwok King Wa and Directel Limited (as Covenantors) executed a deed of non-competition undertaking in favour of the Company on 24 May 2010 pursuant to which the Covenantors have undertaken to the Company inter alia, that (i) the Covenantors shall not, directly or indirectly, engage in, invest in, participate in, or attempt to participate in, whether on his/her/its own account or with each other or in conjunction with or on behalf of any person or company, any business which will or may compete with the RF-SIM business of the Group in Hong Kong and Macau; and (ii) in the event the Covenantors or their associates were given any business opportunities that is or may involve in direct or indirect competition with the business of the Group, the Covenantors shall assist the Company in obtaining such business opportunities in the terms being offered to the Covenantors, or more favourable terms being acceptable to the Company.

AUDIT COMMITTEE

The Company has established an audit committee (“Audit Committee”) on 20 May 2010 with written terms of reference in compliance with the GEM Listing Rules. The primary duties of the Audit Committee are to review the Company’s annual report and consolidated financial statements, half-yearly report and quarterly reports and to provide advice and comment thereon to the Board. The Audit Committee (on behalf of the Board) oversees management in the design, implementation and monitoring of the financial reporting, risk management and internal control systems and the management has provided a confirmation to the Audit Committee (and the Board) on the effectiveness of these systems for the six months ended 30 June 2020. The Company has conducted review of its risk management and internal control systems periodically and has convened meeting periodically to discuss the financial, operational and risk management control. The Audit Committee is of the view that the risk management and internal control system implemented by the Group during the period under review had been valid and adequate.

The Audit Committee consists of the three independent non-executive Directors, namely, Ms. Lee Man Yee, Maggie, Mr. Chen Xue Dao and Mr. Liu Kejun. Ms. Lee Man Yee, Maggie is the chairman of the Audit Committee. The Group's unaudited results for the six months ended 30 June 2020 have been reviewed by the Audit Committee. The Audit Committee was of the opinion that such results complied with the applicable accounting standards and that adequate disclosures had been made.

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

Hong Kong, 11 August 2020

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