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)

FIRST QUARTERLY REPORT

2021

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.

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 three months ended 31 March 2021 was approximately HK$36,498,000, representing a decrease of approximately 34.8% as compared with the corresponding period in 2020.
- Loss attributable to shareholders of the Company for the three months ended 31 March 2021 was approximately HK$3,692,000, representing a decrease of approximately 59.9% as compared with the corresponding period in 2020.
- The Board does not recommend the payment of any dividend for the three months ended 31 March 2021.

UNAUDITED FIRST QUARTERLY RESULTS FOR THE THREE MONTHS ENDED 31 MARCH 2021

The board of Directors (the “Board”) of the Company hereby announces the unaudited consolidated results of the Company and its subsidiaries (together referred to as the “Group”) for the three months ended 31 March 2021 together with the unaudited comparative figures for the corresponding period in 2020 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Note	For the three months ended 31 March **2021** *HK$'000* **(Unaudited)**	2020 *HK$'000* (Unaudited)
Revenue	4	**36,498**	55,971
Cost of sales		**(35,928)**	(55,675)
Gross profit		**570**	296
Other income	5(a)	**10**	133
Other net loss	5(b)	**(162)**	(1,532)
Administrative and other operating expenses		**(4,155)**	(8,138)
Loss from operations		**(3,737)**	(9,241)
Finance costs	6(a)	**(18)**	(17)
Loss before taxation	6	**(3,755)**	(9,258)
Income tax credit	7	**63**	55
Loss for the period attributable to equity shareholders of the Company		**(3,692)**	(9,203)
Other comprehensive income for the period, net of income tax:			
Item that will not be reclassified subsequently to profit or loss:			
Equity securities at fair value through other comprehensive income – net movement in the fair value reserve (non-recycling)		**200**	(6)
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(74)**	(29)
Total comprehensive income for the period attributable to equity shareholders of the Company		**(3,566)**	(9,238)
Loss per share	9		(restated)
– Basic and diluted (HK cents)		**(2.00)**	(4.98)

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

NOTES TO THE UNAUDITED CONSOLIDATED QUARTERLY FINANCIAL REPORT

1. BACKGROUND OF THE COMPANY

Directel Holdings Limited (the "Company") was incorporated in the Cayman Islands on 28 July 2009 as an exempted company with limited liability under the Companies Law of the Cayman Islands. Its principal place of business in Hong Kong is at Office Nos. 1, 2, 14 and 15, 37th Floor, Hong Kong Plaza, No. 188 Connaught Road West, Hong Kong and its registered office is at Windward 3, Regatta Office Park, PO Box 1350, Grand Cayman KY1-1108, Cayman Islands.

The Company and its subsidiaries are principally engaged in the provision of telecommunications services and distribution business.

2. BASIS OF PREPARATION

The quarterly financial report has been prepared in compliance with the applicable disclosure provisions of Chapter 18 of the Rules Governing the Listing of Securities on GEM of the Stock Exchange and in accordance with substantially the same accounting policies adopted in the Group's audited financial statements set out in the annual report for the year ended 31 December 2020, except for the accounting policy changes that are expected to be reflected in the 2021 annual financial statements. Details of these changes in accounting policies are set out in Note 3.

The quarterly financial report contains condensed consolidated first quarterly statement of profit or loss and other comprehensive income and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the financial performance of the Group since the 2020 annual financial statements. The consolidated quarterly financial report and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The quarterly financial report for the three months ended 31 March 2021 is unaudited, but has been reviewed by the Company's audit committee.

3. CHANGES IN ACCOUNTING POLICIES

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

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

4. REVENUE

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

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Telecommunications services	**3,976**	13,115
Distribution business	**32,522**	42,856
	36,498	55,971

5. OTHER INCOME AND OTHER NET LOSS

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
(a) Other income		
Interest income on financial assets measured at amortised cost	**9**	126
Sundry income	**1**	7
	10	133
(b) Other net loss		
Net foreign exchange loss	**(162)**	(562)
Fair value change on contingent consideration	**–**	(970)
	(162)	(1,532)

6. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

		For the three months ended 31 March	
		2021	2020
		HK$'000	*HK$'000*
		(Unaudited)	(Unaudited)
(a)	**Finance costs:**		
	Interest on lease liabilities	**18**	17
(b)	**Staff costs:**		
	Salaries, wages and other benefits	**1,212**	1,129
	Contributions to retirement benefit schemes	**42**	56
		1,254	1,185
(c)	**Other items:**		
	Depreciation		
	– owned property, plant and equipment	**391**	600
	– right-of-use assets	**213**	146
	Impairment losses on trade receivables	**–**	4,097
	Auditors' remuneration		
	– audit services	**271**	302
	Cost of inventories	**31,809**	42,183
	Licence charges	**308**	349
	Repair and maintenance	**264**	316

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

	For the three months ended 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Deferred tax	**63**	55

(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 ended 31 March 2021 is calculated at the rate of 16.5% (2020: 16.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the three months ended 31 March 2021 (2020: Nil) as the Group's operations in Hong Kong either had no assessable profits 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.

8. DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2021 (three months ended 31 March 2020: Nil).

9. 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 31 March	
	2021	2020
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss for the period attributable to the ordinary equity shareholders of the Company for the purpose of basic and diluted loss per share	**(3,692)**	(9,203)

Weighted average number of ordinary shares (Basic and diluted)

	For the three months ended 31 March	
	2021	2020
	Number of shares	Number of Shares (restated)
Issued ordinary shares at 1 January and 31 March	**184,875,000**	184,875,000
Weighted average number of ordinary shares at 31 March	**184,875,000**	184,875,000

The calculation of the basic and diluted loss per share was based on the loss for the period attributable to the equity shareholders of the Company of approximately HK$3,692,000 (2020: approximately HK$9,203,000), and the weighted average number of 184,875,000 ordinary shares (2020 (restated): 184,875,000 ordinary shares) in issue during the period.

Diluted loss per share was the same as basic loss per share for the three months ended 31 March 2021 and 2020 as there were no dilutive potential ordinary shares during the period.

The weighted average number of ordinary shares for the purpose of basic and diluted loss per share has been adjusted for share consolidation on 20 January 2021. Comparative figures have also been restated on the basis that the share consolidation had been effective in prior periods. For further information, please refer to the Company's announcement dated 11 December 2020, the Company's circular dated 31 December 2020 and the Company's announcement dated 18 January 2021.

10. CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the three months ended 31 March 2021

	Share capital *HK$'000* (Unaudited)	Share premium *HK$'000* (Unaudited)	Exchange reserve *HK$'000* (Unaudited)	Fair value reserve (non-recycling) *HK$'000* (Unaudited)	Accumulated losses *HK$'000* (Unaudited)	Total equity *HK$'000* (Unaudited)
Balance at 1 January 2020	36,975	74,517	(1,802)	(145)	(39,943)	69,602
Loss for the period	–	–	–	–	(9,203)	(9,203)
Other comprehensive income for the period	–	–	(29)	(6)	–	(35)
Total comprehensive income for the period	–	–	(29)	(6)	(9,203)	(9,238)
Balance at 31 March 2020	36,975	74,517	(1,831)	(151)	(49,146)	60,364
Balance at 1 January 2021	**36,975**	**74,517**	**(723)**	**(298)**	**(40,611)**	**69,860**
Loss for the period	**–**	**–**	**–**	**–**	**(3,692)**	**(3,692)**
Other comprehensive income for the period	**–**	**–**	**(74)**	**200**	**–**	**126**
Total comprehensive income for the period	**–**	**–**	**(74)**	**200**	**(3,692)**	**(3,566)**
Balance at 31 March 2021	**36,975**	**74,517**	**(797)**	**(98)**	**(44,303)**	**66,294**

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 actively contacting distributors for the distribution of various pre-paid products offered by the Group. However, the Group was unable to secure new contracts with committed subscription from distributors for the three months ended 31 March 2021 for the pre-paid products offered by the Group and similar pre-paid roaming products provided by other competitors can easily be found in the highly competitive mobile telecommunications industry. As the backdrop of increase in confirmed cases of novel coronavirus (the "COVID-19") pandemic globally since the beginning of 2020, countries around the world have adopted sweeping measures to stem the spread of the COVID-19 including but are not limited to full lockdowns, 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. All these measures have led to decrease in overseas tourists or no access for them to travel to Hong Kong, particularly a significant decrease in tourists from the Mainland China, and heavily stricken the tourist industry and the retail industry, while some travel agencies are thereby exposed to financial difficulties or risk of bankruptcy. As a result of the plunge in the number of tourists from Mainland China and overseas, the sales of the Group's pre-paid roaming products have been therefore adversely affected.

The revenue derived from the provision of telecommunications services significantly decreased by approximately 83.3% to approximately HK$389,000 for the three months ended 31 March 2021 compared to approximately HK$2,325,000 for the last corresponding period.

The Group has reinforced 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 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 three months ended 31 March 2021, the revenue generated from such distribution business which represents the sales proceeds of mobile phones and electronic products, net of returns and discounts, decreased by approximately 22.3% to approximately HK$19,341,000 when compared with approximately HK$24,876,000 for the last corresponding period. The Group will continue to commit more resources and identify different suppliers to increase its offerings of mobile phones and electronic products, and to expand the source of revenue and enhance business performance.

Business in the PRC

The Group 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. Rigid isolation and quarantine measures and travel restrictions have been implemented by the PRC to address the COVID-19 pandemic, and market participants of the mobile top-up industry are affected to a different extent, in particular, due to safety concerns on COVID-19, operation of physical stores are temporarily suspended, reducing the transaction volume of offline channels, and coupled with intense competition within the industry, mobile and data top-up services sector of the PRC has been facing persistent challenges. For the three months ended 31 March 2021, the revenue generated from the provision of mobile and data top-up services decreased by approximately 66.9% to approximately HK$3,570,000 when compared with approximately HK$10,775,000 for the corresponding period last year. As a result of the intense competition within the industry and low profit margin, and coupled with an increase in data traffic included in a monthly fee package by mobile network operators in the PRC while the extra traffic fee beyond the package has been reduced, the amount of top-up by the mobile users in addition to the original monthly fee package through the top-up services provided by the Group has been decreased. The Group is seeking direct purchase of top-up services from mobile network operators instead of via intermediate distributors so as to increase discount rate, revenue and gross profit. The Directors believe that with the COVID-19 pandemic easing and under control in the PRC, and the increasing demand for mobile data traffic owing to the greater popularity of the 5th generation mobile network in the PRC, the revenue generated from mobile and data top-up services will contribute to and further strengthen the Group's overall revenue in the future.

GZDT also engaged in the distribution of mobile phones and electronic products. For the three months ended 31 March 2021, 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 54.7% to approximately HK$674,000 when compared with approximately HK$1,488,000 for the corresponding period last year. The decrease was mainly attributable to the cancellation or reduction in purchase of the mobile and electronic products by our customers as a result of the outbreak of the COVID-19 since the early 2020. Besides, individual distributors defaulted repayments due to deteriorating operation environment, resulting in a necessary impairment losses on trade receivables in this respect by the Group in 2020. In order to reduce credit risks, the Group has adopted stricter standards on credit risks to examine and evaluate the capability of customers for satisfaction of debt.

GZDT will continue to leverage on its relationship established and connections with the telecommunication services/equipment agents/distributors to exploit the mobile phones and electronic products distribution business. In addition to identifying other competent suppliers in different provinces of the PRC to enter into mobile phones and electronic products supply contracts, GZDT can also sell the most popular mobile phones and electronic products with competitive prices to distributors. Meanwhile, GZDT is in active negotiation with other distributors in the PRC and overseas in respect of further potential business collaborations.

Business in Singapore

In September 2017, the Group completed an acquisition of South Data Communication Pte. Ltd. ("South Data") (the "Singapore Acquisition"), a company incorporated in Singapore, which is principally engaged in the provision of telecommunications services and distribution business in Singapore. In respect of the distribution business, South Data has 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. Such commitment was fulfilled in 2020. For the three months ended 31 March 2021, the revenue derived from the distribution of mobile and data top-up business decreased by approximately 24.2% to approximately HK$12,507,000 when compared with approximately HK$16,492,000 for the corresponding period last year. 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 foothold in the expansion of telecommunications market to other Asia Pacific territories.

Outlook

Since the development of COVID-19 pandemic remains uncertain, it is still unable to exclude the possibility that the pandemic will cause further impact on the Group's operating results, and the business environment of the Group will continue to be full of challenges. With the COVID-19 pandemic easing and under control in the PRC, 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 regulators in the PRC 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.

Outbreak of the COVID-19 pandemic has affected the Group's negotiations for new projects and delayed the progress of the existing projects of the Group. The Group will stay alert to the development and status of the COVID-19 pandemic, continue to assess its impact on the financial condition and operating results of the Group and take necessary actions to maintain operations stability.

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.

The Group will accelerate modification of the mode of business development, facilitate collaborative connection of the business segments with other business to create new synergy. With MaaS as the core, the Group will expand from traditional telecommunications services into the broader and higher value information services in order to widen the development capacity of information service.

FINANCIAL REVIEW

For the three months ended 31 March 2021, the revenue of the Group decreased to approximately HK$36,498,000 compared to approximately HK$55,971,000 for the corresponding period last year, representing a decrease of approximately 34.8%. Revenue from the provision of telecommunications services and distribution business accounted for approximately HK$3,976,000 and HK$32,522,000 respectively, representing approximately 10.9% and 89.1% of the Group's revenue for the three months ended 31 March 2021, respectively. The decrease was mainly attributable to the decrease in revenue generated from the provision of telecommunications services and the distribution business.

The Group's cost of sales decreased by approximately 35.5% to approximately HK$35,928,000 for the three months ended 31 March 2021 compared to approximately HK$55,675,000 for the corresponding period last year. The decrease in cost of sales was generally 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.

The Group's gross profit increased by approximately 92.6% to approximately HK$570,000 for the three months ended 31 March 2021 compared to approximately HK$296,000 for the three months ended 31 March 2020. The increase was mainly attributable to the slightly improved gross profit margin for the distribution business.

The Group's other income for the three months ended 31 March 2021 decreased by approximately 92.5% to approximately HK$10,000 when compared with approximately HK$133,000 for the corresponding period last year. The decrease was mainly attributable to the decrease of interest income from bank deposits.

The Group's other net loss for the three months ended 31 March 2021 decreased by approximately 89.4% to approximately HK$162,000 when compared with approximately HK$1,532,000 for the corresponding period last year. The decrease was mainly due to (i) the decrease of foreign exchange loss to approximately HK$162,000 for the three months ended 31 March 2021 when compared with approximately HK$562,000 for the corresponding period last year arising from the movements in the exchange rate between Hong Kong dollars, Renminbi and Singapore dollars; and (ii) no fair value change on contingent consideration payables for the three months ended 31 March 2021 for the acquisition of Joint Top Investments Limited ("Joint Top") when compared with approximately HK$970,000 for the corresponding period last year.

The Group's administrative and other operating expenses for the three months ended 31 March 2021 decreased by approximately 48.9% to approximately HK$4,155,000 when compared to approximately HK$8,138,000 for the corresponding period last year. The decrease was primarily due to no impairment losses on trade receivables has been made for the three months ended 31 March 2021 when compared with approximately HK$4,097,000 for the corresponding period last year.

The Group's finance costs for the three months ended 31 March 2021 increased by approximately 5.9% to approximately HK$18,000 when compared with approximately HK$17,000 for the corresponding period last year. The increase was attributable to the increase in interest on lease liabilities.

The Group's income tax credit for the three months ended 31 March 2021 increased by approximately 14.5% to approximately HK$63,000 when compared with approximately HK$55,000 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 three months ended 31 March 2021 of approximately HK$3,692,000, representing a decrease of approximately 59.9% when compared with approximately HK$9,203,000 for the last corresponding period. The decrease was mainly attributable to (i) the significant decrease in impairment losses on trade receivables; and (ii) no fair value change on contingent consideration payables for the acquisition of Joint Top.

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 March 2021. 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 March 2021 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 March 2021 *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 March 2021, 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.

CONTINGENT LIABILITIES

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 the Services-Based Operator Licence. The Group has pledged bank deposits for the above performance bond. The Directors do not consider it probable that a claim will be made against the Group.

PLEDGE OF ASSETS

As at 31 March 2021, bank deposits of HK$200,000 (2020: HK$200,000) were pledged for the issuance of a performance bond by a bank to a subsidiary in the Group.

DIVIDENDS

The Board does not recommend the payment of any dividend for the three months ended 31 March 2021 (three months ended 31 March 2020: Nil).

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

As at 31 March 2021, 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 provisions 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	104,437,500 *(Note)*	56.49%
	Beneficial owner	5,062,500	2.74%
Mr. Pang Kwok Chau	Beneficial owner	1,500,000	0.81%
Mr. Wong Kin Wa	Beneficial owner	1,500,000	0.81%

Note: The 104,437,500 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 104,437,500 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 31 March 2021, 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 March 2021, 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	104,437,500	56.49%
Ms. Kwok King Wa	Interest of controlled corporation	104,437,500 *(Note 1)*	56.49%
	Interest of spouse	5,062,500 *(Note 2)*	2.74%
Golden Brand Holdings Limited	Beneficial owner	16,500,000	8.92%
Mr. Bai Zhifeng	Interest of controlled corporation	16,500,000 *(Note 3)*	8.92%

Notes:

(1) The 104,437,500 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 104,437,500 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 5,062,500 shares under the SFO.

(3) The 16,500,000 shares are owned by Golden Brand Holdings Limited which is wholly owned by Mr. Bai Zhifeng.

Save as disclosed above, as at 31 March 2021 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 18,487,500 shares, representing 10% of the shares of the Company in issue as at 31 March 2021. 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 three months ended 31 March 2021, and as at 31 March 2021, there was no outstanding share option 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 three months ended 31 March 2021.

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 three months ended 31 March 2021, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any share of the Company.

COMPETING INTERESTS

During the three months ended 31 March 2021, 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") are directly wholly-owned by Mr. Li Kin Shing. Therefore, the Sunward Group are the associates of Mr. Li Kin Shing under the GEM Listing Rules. 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. 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 the 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 comments 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 three months ended 31 March 2021. 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 systems 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 three months ended 31 March 2021 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 May 2021

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.